

# Managerial Accountability in Budget Execution

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# Outline

- Context – objectives of PFM Systems
- Managerial Accountability in Context
  - Trends in public sector reform
  - EC PIFC
- Managerial Accountability Defined
- Related terms and concepts
- Disabling factors
- Survey results and observations
- Concluding remarks

# Objectives of PFM and Budgeting

## Three-level PFM Framework

- Macroeconomic discipline
- Strategic allocation of resources
- Technical efficiency

Source: Public Expenditure Handbook World Bank (1998)

## Three functions of Government and budgeting

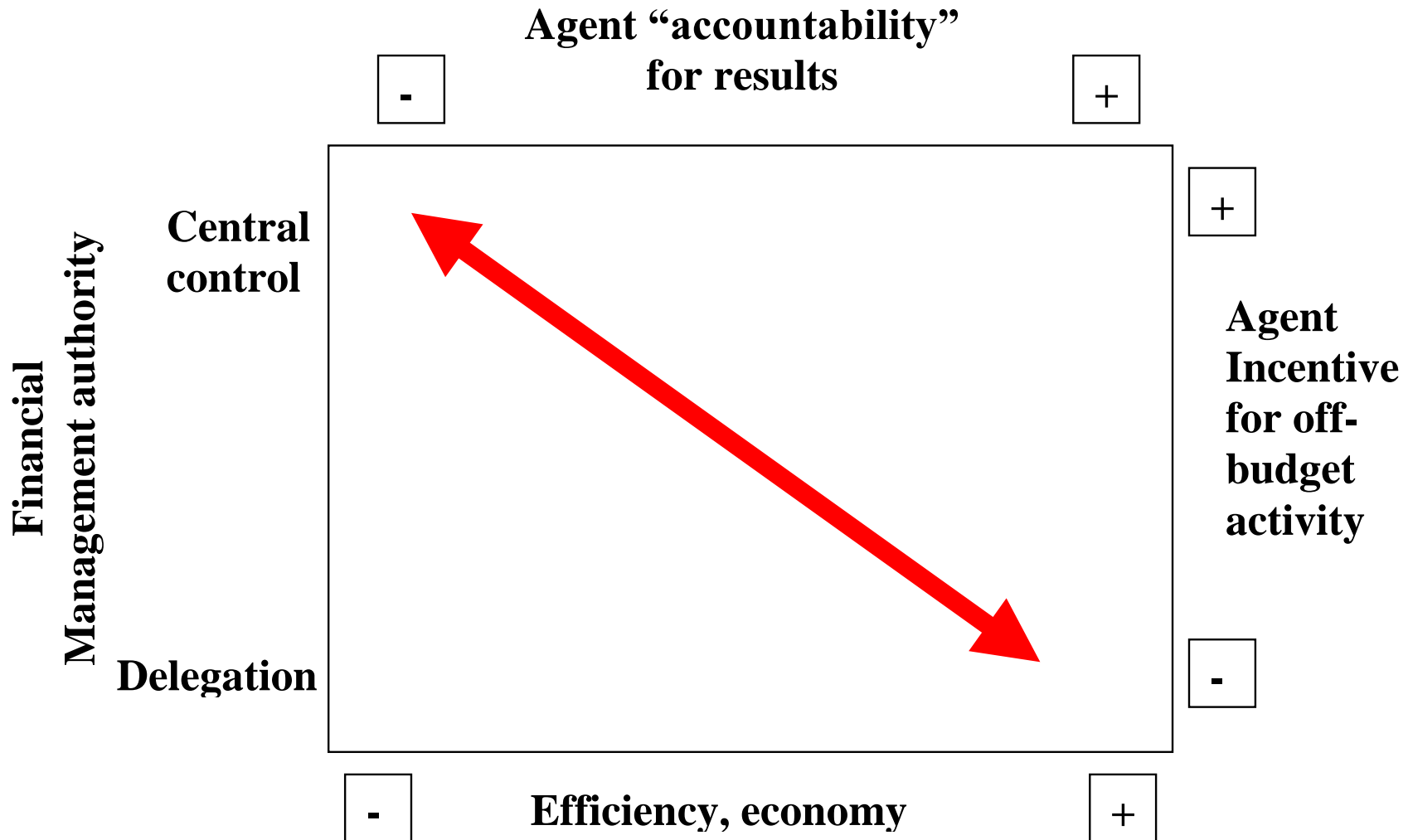
- Strategic Planning
- Management Control
- Operational Control

Source: Planning and Control Systems: A Framework for Analysis.  
Robert Anthony (Boston, 1965)

# Control Approaches

	<u>Ex ante</u> (to commitment)	<u>Ex Poste</u>
<u>External</u> (to spending unit)	<ul style="list-style-type: none"> <li>•Centralized commitment control (transaction approval)</li> <li>•Allocations (commitment limits)</li> <li>•Warrants (cash limits)</li> <li>•Procurement procedures</li> <li>•Personnel/pay rules</li> <li>•“continuous auditing”</li> <li>•Disbursement rules</li> </ul>	<ul style="list-style-type: none"> <li>•Central internal audit</li> <li>•External audit</li> <li>•Regular reporting, management intervention</li> <li>•Quarterly close-outs</li> <li>•Cash rationing</li> <li>•Transparency</li> </ul>
<u>Internal</u>	<ul style="list-style-type: none"> <li>•Ministry or spending unit transaction approval</li> <li>•Procedures to minimize risk (internal controls)</li> <li>•Transparency</li> </ul>	<ul style="list-style-type: none"> <li>•Ministry internal audit</li> <li>•Performance management</li> </ul>

# General Tensions in Execution



# Simple Concept

- Spending unit managers are accountable for
  - Financial results
  - Non-financial performance
  - Following appropriate rules, procedures
  - Have authority and flexibility to make resource decisions (within limits) to achieve results

# Concept Definition

- *Clear assignment of responsibility* to the management of spending agents
  - *for operational policies, financial management, internal controls within their organizational unit*
    - Assuring organization uses resources to attain approved ends, through acceptable means
    - Frequently narrowed to focus on adequate financial management and control for planning, programming, budgeting, accounting, controlling, reporting, archiving, monitoring
- *Clear roles and authority of managers*
- *Transparency and sufficient enabling environment*
- Concept could be broadened to encompass organizational results

# EC PIFC

- Goals
  - Funds used for intended purpose
  - In accordance with economy, efficiency, effectiveness
- Means
  - Standard processes
  - Clear responsibility
  - Transparency
- Features
  - Management control
  - Internal audit
  - (External audit)

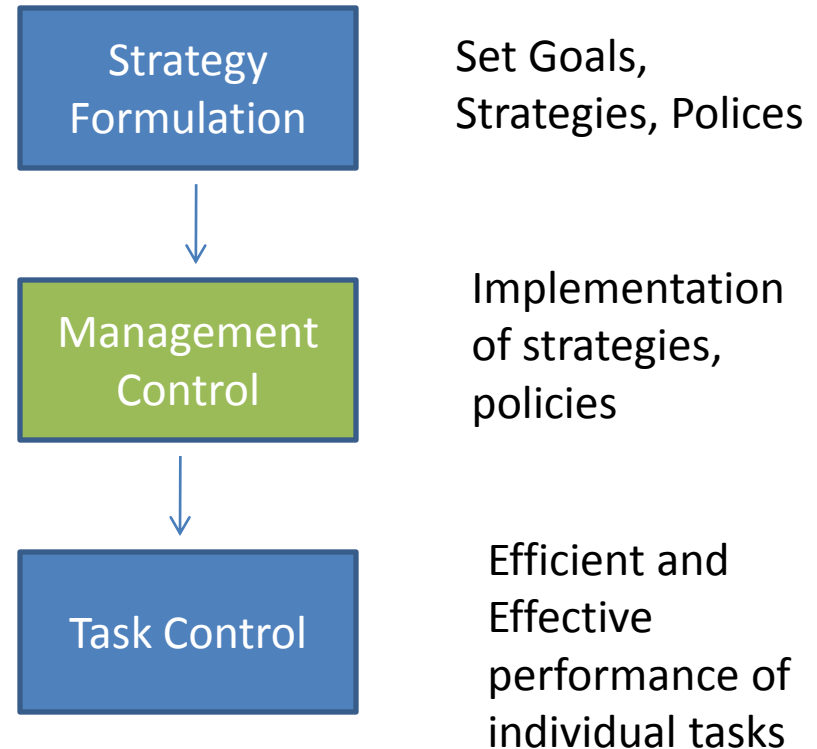


# Related Concepts

- Managerial accountability
- Managerial control
- Managerial authority or autonomy

# Management Control

- *Process by which managers influence other members of the organization to implement the organization's strategies*
- *Occurs within other functions, activities*
- *Encompasses financial and non-financial performance*



# Management Control

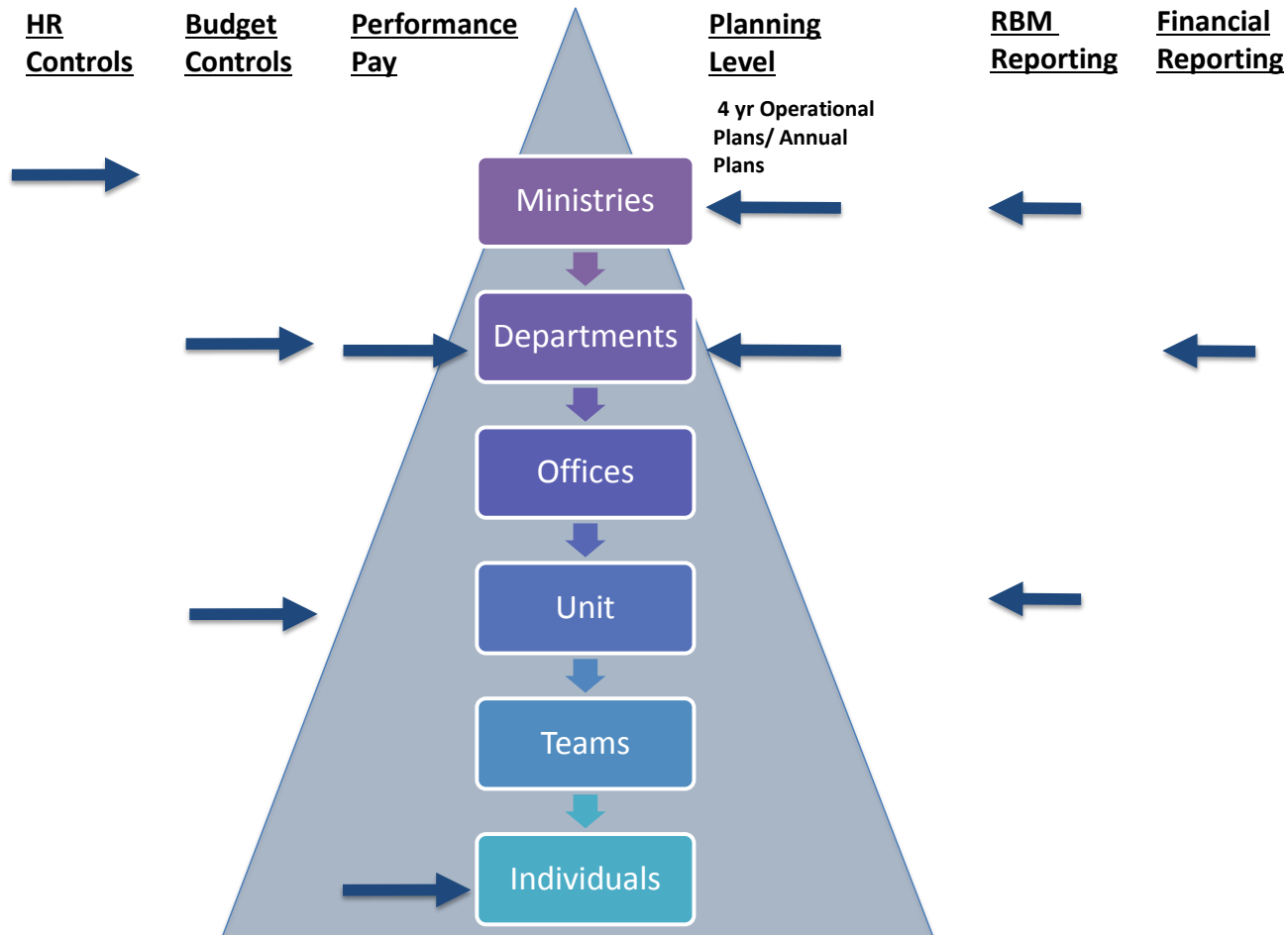
- Process involves
  - Communication of goals, expectations
  - Motivating subordinates
  - Evaluate performance
- Implementation of process entails
  - Setting objectives (planning)
  - Performance measurement
  - Performance evaluation
- Institutional processes supporting management control
  - Strategic Planning
  - Budget Preparation
  - Execution and evaluation

# Disabling factors

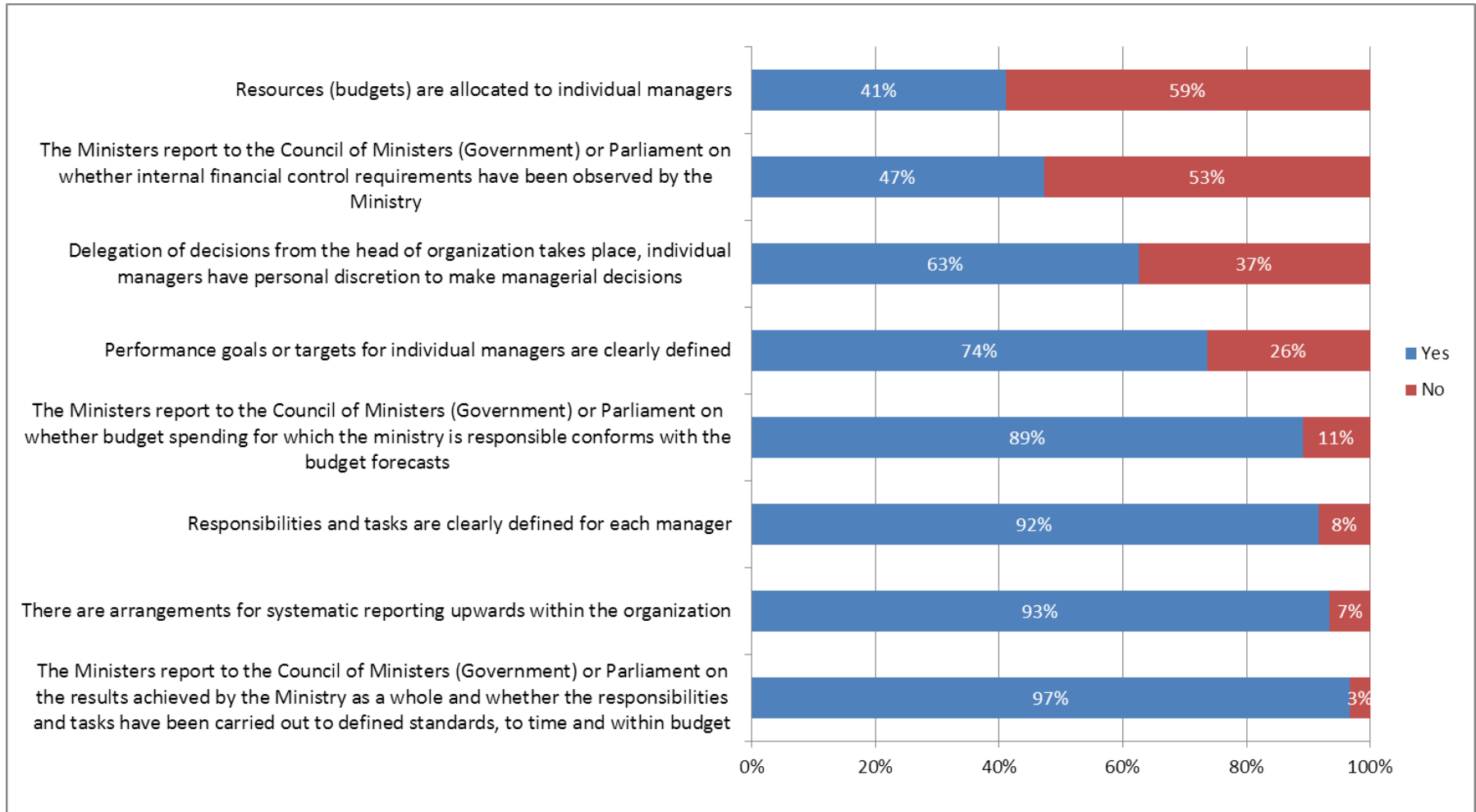
- Difficult to hold managers to account if
  - Unclear organizational structure, mandate
  - They were not involved in budget setting, planning, target setting
  - Performance metrics, targets change annually
  - Do not actually receive approved budget levels; no predictability in funds availability
  - Have no influence over procurement processes for their work
  - Have no influence or human resource management for their office (positions or employment)
  - Do not receive continuous or regular spending reports for their units
  - No regular management or performance and output reports
  - Have no flexibility or discretion in resource allocation
  - Have treasury/accounting systems on a cash basis, necessitating their own parallel commitment accounting
  - Managers selected for technical skills, not management ability
    - No managerial training, support system
  - Auditing focuses on compliance, which legislature and chief executive focus on performance results

*Generally, if there is tension between following rules and achieving results, system should be closely examined.*

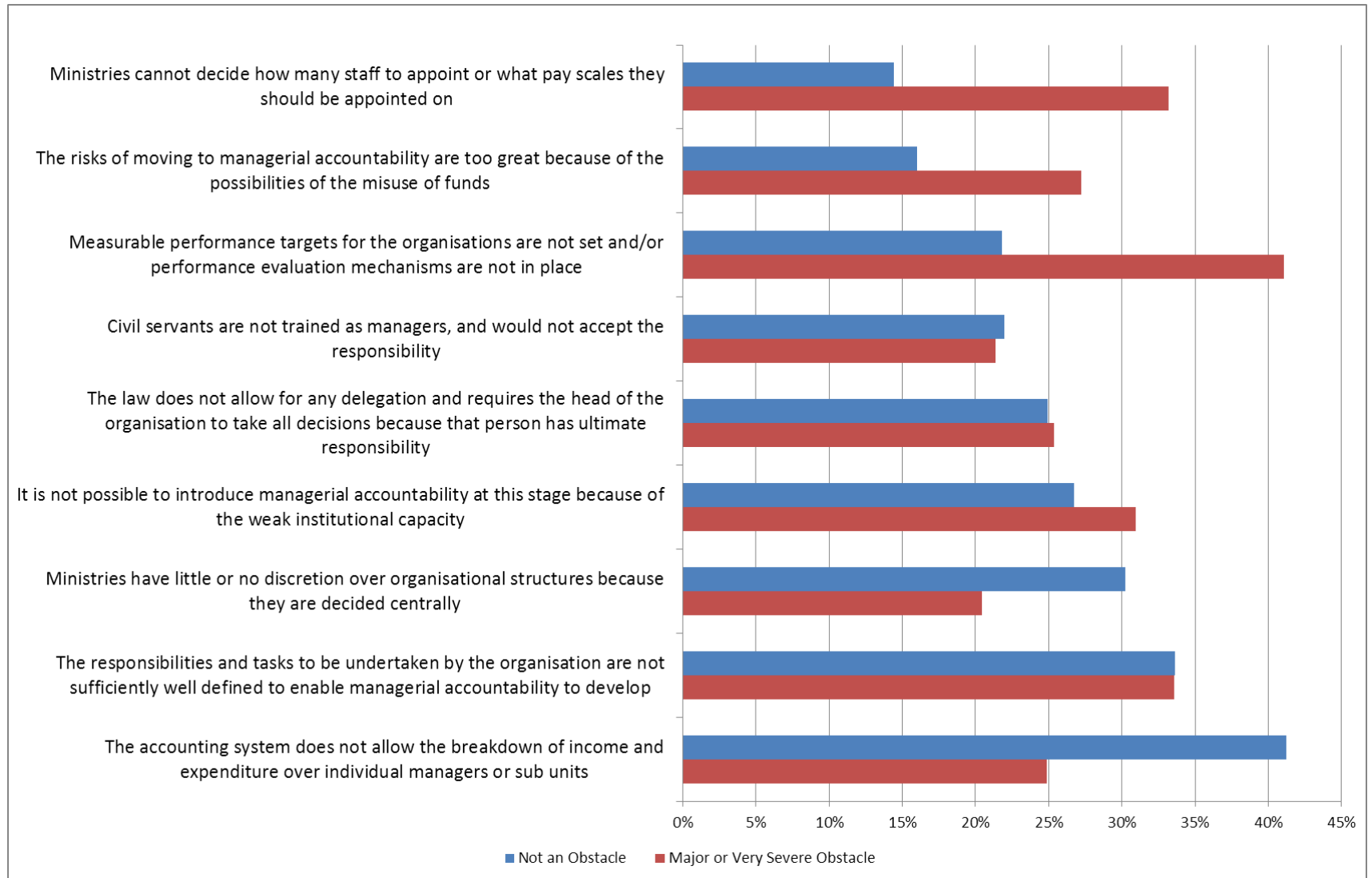
# Misalignment of Various Systems



# “Managerial Accountability” Survey Results

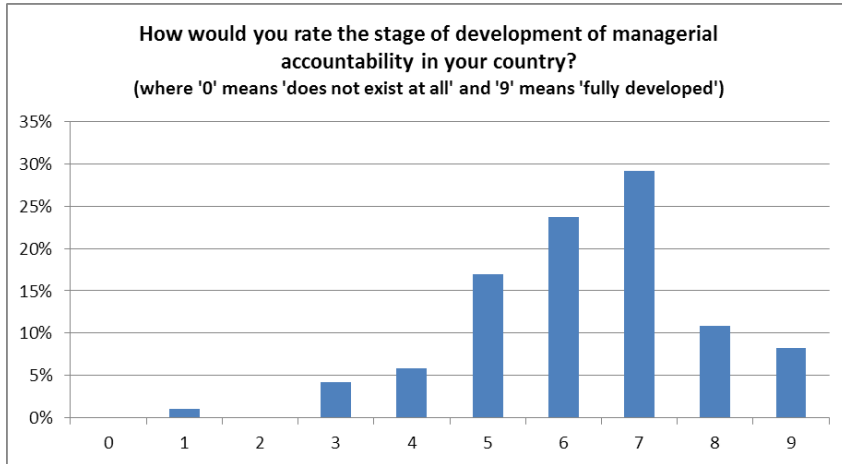


# Importance of Obstacles to Implementing Managerial Accountability

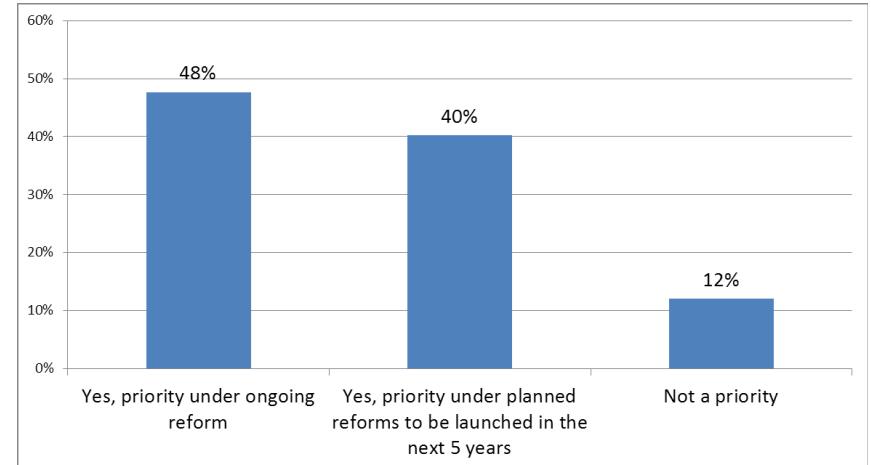


# Development of Managerial Accountability

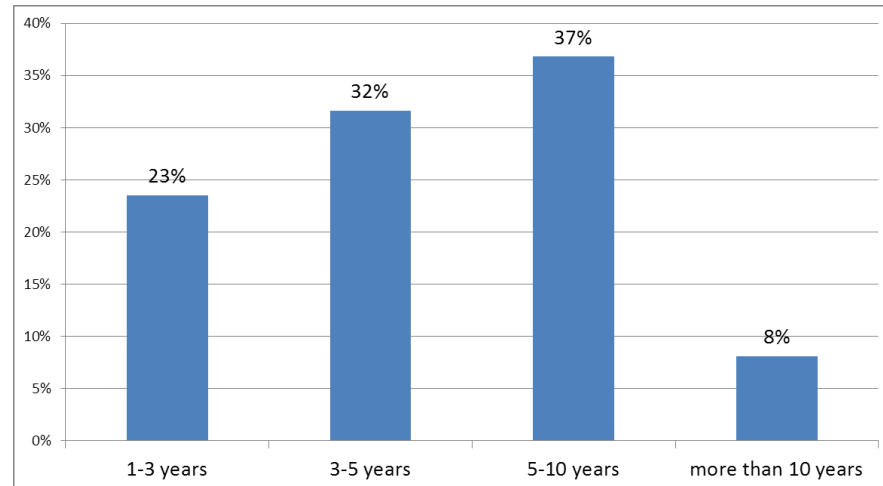
Where does it currently stand?



Is it a Priority Over the Next 5 Years?



How long until it is fully developed?





# Concluding remarks

- From survey
  - Appears to be misalignment of
    - authority, responsibility
    - support systems and responsibility
    - transparency and responsibility
  - Institutions weak, risk of misuse of funds high, therefore no move to managerial accountability
    - But, without clear expectations and authority, better support systems, institutions won't develop
      - And improving efficiency, effectiveness, economy will be limited
    - It is possible to build capacity and support systems, and gradually evolve, without losing control