

Global Developments in Financial Management and Accountability

Presentation by Richard Maggs to
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Scope of presentation

- A reflection on financial management models
- Main elements and organisations involved in Financial Management
- Different models in operation
- Main developments globally
- What this all means

Financial management models

- Reflect three key factors:
 - Historical development
 - Legal development
 - Administrative development
- Consider the impact of two people:
 - King John I of England who signed Magna Carta relinquishing the power of the king to a parliament of barons beginning the process of Parliamentary sovereignty in the Anglo- Saxon World.
 - Napoleon Bonaparte – who developed the administrative and legal “code Napoleon” which was exported throughout the French empire
- In effect, the two grand models of financial management are simply a reflection of historical growth.
- However no one country is completely similar to any other in terms of the management of public finances

Two basic models....

Anglo Saxon

- High level budget
- Focus on accounting officers
- Internal audit of internal controls
- External audit linked to Parliament

Francophone

- Detailed budgetary control
- Focus on budget holders
- Pre authorisation of transactions
- External audit linked to Judiciary

...and a Russian variant

Many elements of Francophone model:

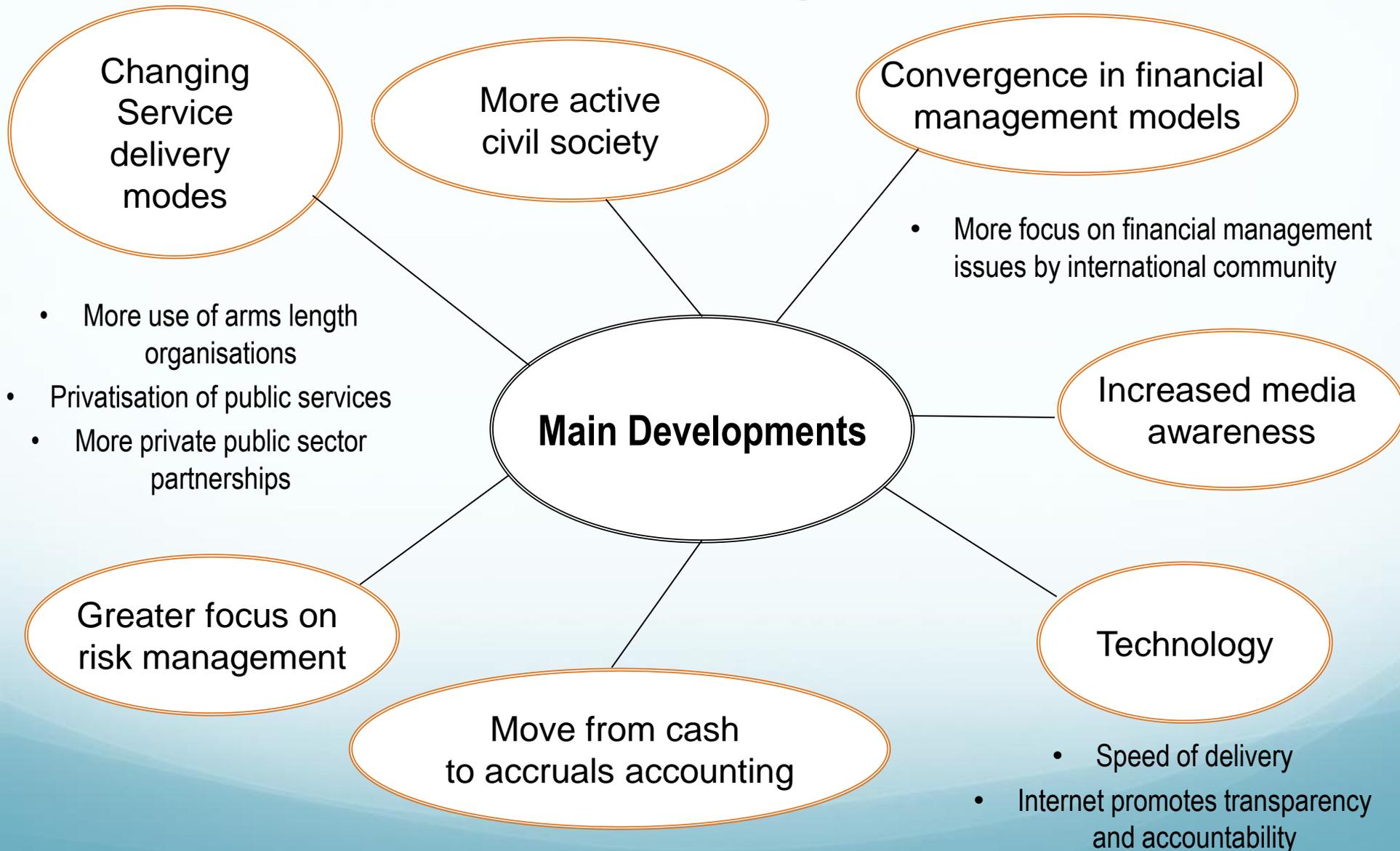
- Detailed budget
- Courts of Accounts
- Others?

Some key additions:

- A highly centralised and powerful financial inspection function to carry out ex post reviews of legality of expenditure made
- Others?

... also exported widely to other countries.

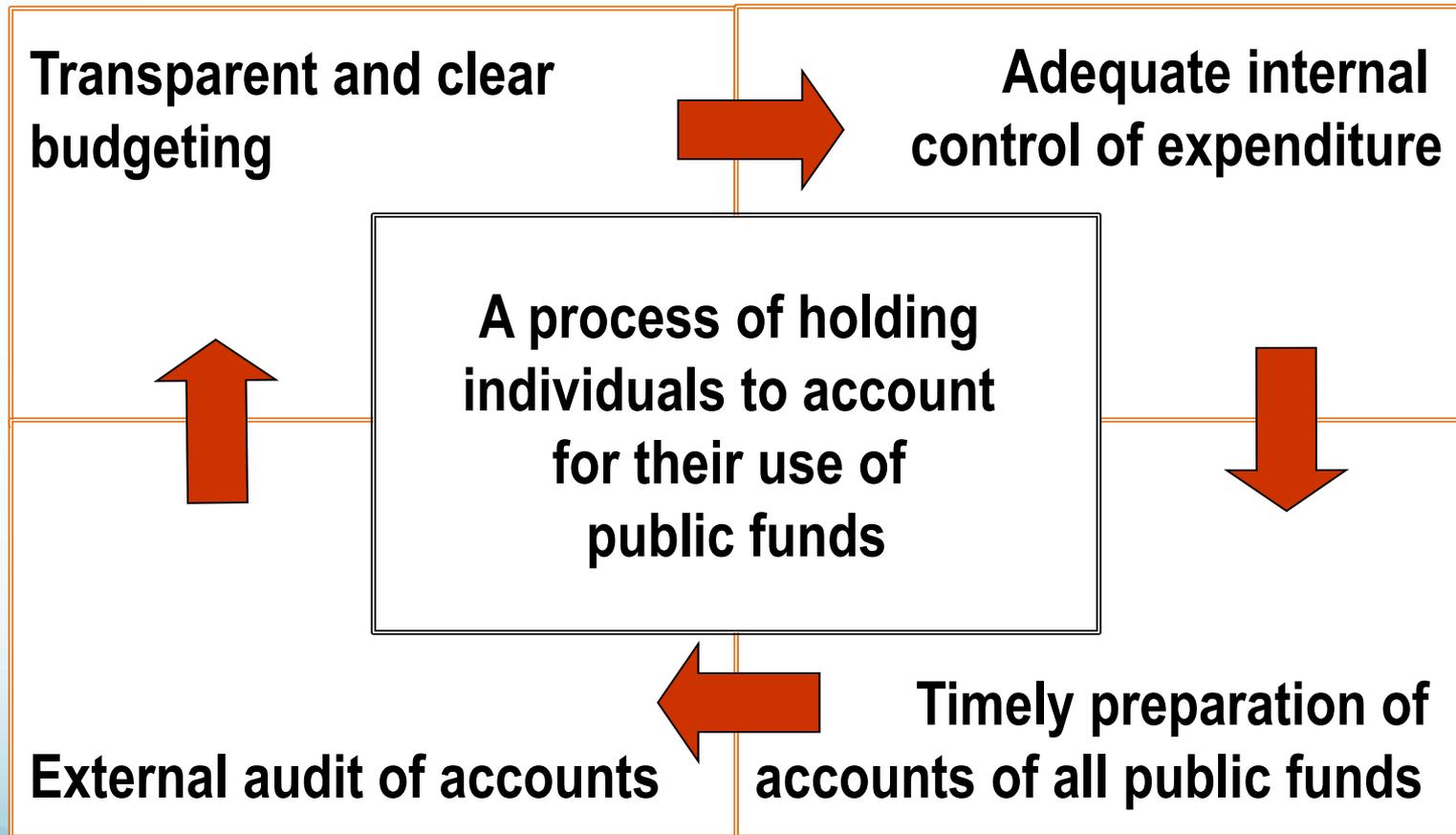
Main Developments



Convergence of approaches

- There has been a general coming together of the two main models of financial control
- A key driver has been the accession criteria for EU membership which promoted PIFC
- Another factor was the spectacular failure of financial control in the European Commission itself when it operated under the francophone model

Key elements of sound financial management



Roles and responsibilities – the key players

Setting the budget and holding people to account for how it is spent

Parliament

Determining the accounting and internal control standards

Finance Ministry/CHU

Providing assurance to Departments on internal controls

Internal Audit

Conducting ex-post audit of the financial statements and Performance Audits

Supreme Audit Institution

Prosecutions in cases of fraud, corruption or mismanagement

The Legal System

Where does financial inspection fit?

- There are no generally accepted standards that provide for financial inspection/control as part of a financial management structure that includes an internal audit function
- It is not part of EU PIFC model
- Financial inspection may best be considered as an element of internal control (e.g. links to COSO monitoring)
- The major problem conceptually concerns centralised financial inspection as this cuts across the accountability of budget holders for the way they manage the resources provided to them

Note The Financial inspection model in France is fundamentally different to the financial inspection/control function in (e.g.) Moldova

Different internal audit models

Centralised internal audit units

Decentralised internal audit units

**Inspector Generals
– with own legal structure**

Grouped internal audits

Different levels of Parliamentary Scrutiny

Finance and Budget Committee(s)

Finance and Accounts Committee(s)

Key messages ?

- There is pressure on all Governments to change
 - The public finance arena is dynamic and is constantly evolving
 - Past success is not a guarantee of future existence
- There is a greater focus on the way the public sector uses all its resources particularly its assets and the change in accounting is a fundamental driver of change elsewhere.
- Financial management structures must be “fit for purpose for the country concerned”.
- There is no single right way to organise a country’s financial management process but there must be a coherent concept underpinning the structure chosen