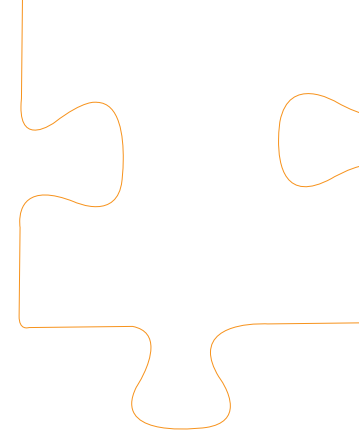




Improving Financial Management In The Public Sector

# THE EIGHT KEY ELEMENTS OF PFM SUCCESS





## About CAPA

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The Confederation of Asian and Pacific Accountants (CAPA) is recognised by the global accountancy profession, represented by the International Federation of Accountants (IFAC), as a regional organisation representing national accountancy organisations in Asia Pacific.

The mission of CAPA is to develop, coordinate and advance the accountancy profession in the region by: contributing to the formation and development of sustainable accounting organisations; facilitating relationships and sharing knowledge; promoting high-quality financial reporting; influencing the development of public sector financial management; influencing the development of efficient and effective capital markets; promoting the value of accountants; and providing input to, and supporting the global profession in, matters of public interest.

## About PSFMC

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The Public Sector Financial Management Committee (PSFMC) of CAPA is focused on the development of high-quality financial management in the public sector by identifying, developing and sharing relevant knowledge and guidance. Importantly, this includes the promotion of high-quality financial and performance management reporting and assurance involving relevant international standards on accounting and auditing.

This publication has been prepared by the PSFMC to further these objectives. An electronic copy may be downloaded from the CAPA website at: [www.capa.com.my](http://www.capa.com.my). Any comments on this publication should be directed to the CAPA Secretariat: [admin@capa.com.my](mailto:admin@capa.com.my).





# CONTENTS

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Why Public Financial Management?	6
The Eight Key Elements of PFM Success	7
The Role of the Accountancy Profession	9
Dialogue with Governments: Suggested Approach	10
Questions to Assist in Dialogue with Governments	11
PFM Reform: Suggested Approach	19
<i>Appendix 1:</i> Position Statement - Improving Public Sector Financial Management	21
<i>Appendix 2:</i> Example Template - Assessing and Monitoring Development Opportunities	22
Reference Material	24



# WHY PUBLIC FINANCIAL MANAGEMENT?

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Governments are responsible to their citizens and taxpayers for implementing effective systems of public financial management and for utilising those systems to safeguard, and ultimately enhance, a country's economic sovereignty.

**T**he effective management of public finances – known as public financial management (PFM) – is fundamental to the development and growth of individual economies. As populations increase, as resources become scarcer or as economies grow more complex, the importance of PFM rises.

One reason PFM is so essential is that the tax-paying citizens of any country expect their public finances to be well-managed. They expect them to be allocated effectively, used to deliver quality services, and to provide a secure and stable environment in which society may exist and prosper. They also expect finances to be collected and expended fairly and according to the law, with surpluses, deficits and debt levels understood and in control.

Additionally, the private and public sectors are highly inter-dependent and must have confidence in each other if they are to work together to grow cities and nations. This kind of confidence requires government accountability and transparency in both decision-making and reporting.

When such expectations are not met – when confidence is lost – it can have significant consequences. Foreign investment may become difficult to attain, the cost of public debt may rise and donor funds may be harder to attract. This type of fallout can, in turn, reduce employment and economic growth, affecting the standard of living for many citizens. In the worst case, it can eventually lead to significant unemployment or poverty, accompanied by social unrest.

Governments are responsible to their citizens and taxpayers for implementing effective systems of public financial management and for utilising those systems to safeguard, and ultimately enhance, a country's economic sovereignty.

# THE EIGHT KEY ELEMENTS OF PFM SUCCESS

**W**e have found that eight key elements are necessary to create a comprehensive and coherent system of PFM. Please note that these eight key elements do not purport to establish best practice or to be a detailed checklist specifying exactly which elements should be in place. They simply aim to stimulate a dialogue that, in turn, may establish the most appropriate choices for different circumstances.



Depending on the stage of PFM development in any given jurisdiction, the focus may be on some elements rather than others. Additionally, certain elements may be considered as a prerequisite to other elements and certain elements may be regarded as more significant than others in achieving success. The more important elements will vary from jurisdiction to jurisdiction, reflecting each jurisdiction's unique history, circumstances and culture. Accordingly, in the introductory stages each element must be deemed important. We also note that in jurisdictions with limited PFM systems, a more comprehensive process of reform will be necessary than in others.



## Description of the Eight Key Elements

### The Climate for Reform

The first element of PFM success is necessarily the widespread recognition and acknowledgement that change is required, along with a commitment from key stakeholders to effect the necessary reforms.

### Governance - The Legal and Institutional Framework

The second essential element of PFM success is that of a well-defined legal and regulatory framework: one that facilitates the implementation of efficient and effective public-service arrangements. Appropriate institutions must be in place, as well as a set of recognised codes, standards and practices.

### Governance - The Values System

The public entrusts taxpayer funds to the government and expects them to be used appropriately. Yet the appropriate attitudes and behaviours are not always culturally embedded. The third key to PFM success is therefore an open, honest and responsible approach to the way services are planned, executed and reported, which signifies a strong intent to work in the public interest.

### Capacity and Capability

The fourth key to PFM success is ensuring that the appropriate resources are available to support the application of each aspect of PFM, particularly in terms of people and systems. “Without the necessary systems and skilled personnel to implement them, no PFM reform process can be successful”.<sup>1</sup>

### Fiscal and Policy Framework

“The main output of PFM systems is the budget, through which public policies are financed.”<sup>2</sup> A credible budget is essential, reflecting the expected financial impact of the government’s policies and its use of resources. As a result, the fifth element of PFM success is that of a clearly defined and comprehensive fiscal and policy framework.

### Performance Management

The sixth key element is the successful implementation of the budget, both in macro terms and at the organisational level. The budget must be well managed, monitored and reported to achieve the anticipated outcomes, with three things – value for money, the efficient and effective delivery of services, and financial compliance – acting as overriding performance principles.

### Reporting

Empirical evidence is emerging that highlights the positive relationship between the degree of fiscal transparency and measures of fiscal sustainability. Not surprisingly, then, appropriate, transparent reporting against planned outcomes is the seventh key element of PFM success, helping governments be accountable for their fiscal actions.

### Scrutiny and Assurance

Reported information must be reliable, whether for purposes of transparency, accountability or decision making. It must also be capable of withstanding scrutiny from different levels and forms of review. As a result, the eighth key element of PFM success is that of subjecting information to effective scrutiny and assurance, thus generating confidence in its veracity. Confidence is further enhanced by subjecting this information to external, independent audit.

<sup>1</sup> Section 2.5, “Guidelines for PFM Reform”, Commonwealth Secretariat, 2005

<sup>2</sup> Background Paper 2: The Core PFM Functions and PEFA Performance Indicators, Daniel Tommasi, January 2013.

# THE ROLE OF THE ACCOUNTANCY PROFESSION

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The accountancy profession is committed to protecting the public interest and encouraging accountability and transparency from governments around the world. The involvement of professional accountancy organisations is vital to the implementation of the eight key elements of PFM success.

**W**e find that successful economies tend to have one feature in common: a strong relationship between the government and the accountancy profession. On the one hand, the accountancy profession is committed to protecting the public interest and encouraging accountability and transparency from governments around the world. And on the other, it has a number of significant roles to play in PFM, whether as advisor to governments or as designer, implementer, executer, reporter, reviewer or assurer. In fact, the involvement of professional accountancy organisations is vital to the implementation of the eight key elements of PFM success.

It is therefore essential that a dialogue exist between professional accountancy organisations (PAOs) and governments. Holding such a dialogue may not be always straightforward, of course. It may be that some members of government do not fully understand the importance of high-quality financial management, for example.

With this document, we aim to assist in those situations in which a better understanding of the existing PFM, as well as a discussion of possible improvements to the effectiveness of PFM systems, may be useful. We encourage subsequent action plans as well, including robust monitoring to ensure that outcomes are achieved.

# DIALOGUE WITH GOVERNMENTS: SUGGESTED APPROACH

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**D**iscussions between PAOs and the relevant government entities may take place in several formats: broader-based roundtables, smaller group discussions, one-on-one meetings, or – most likely – some combination of the above. Each PAO should determine the most appropriate approach in the context of the region's cultural, business and professional norms.

Some important steps to take when planning and implementing this approach include:

## Scope

Identify the elements of PFM success to be covered in the dialogue. The choice of elements will reflect an initial understanding of the current environment based on assessments undertaken by other organisations (for example, World Bank, PEFA). If it is difficult to gain a clear understanding through these or other means, the initial dialogue may be used to establish an understanding of the current environment across all of the elements. In other situations, more targeted discussions may prove more effective.

## Audience

Identify the organisations and individuals to be involved in the dialogue. The key stakeholders will likely have deep knowledge and experience and be in a position to make or influence decisions. Consider choosing different audiences for different elements.

## Dialogue

Use the questions within each element to initiate discussions as appropriate. All the questions may not be relevant to the given circumstances and some may require tailoring. In addition, new or related questions should also be asked.

## Assessments

Find agreement on the current state of PFM. The assessment should be honest, open and clearly understood by all parties. Documenting the assessment may take a number of forms, ranging from a narrative understanding of what typically occurs to a comprehensive benchmarking assessment with a rating-style evaluation. No matter the approach, it will be important to emphasise that the purposes of the assessment are to identify improvement opportunities and development strategies, not to rank past or current performance and circumstances.

## Outcomes

Identify areas of opportunity for PFM improvement, then prioritise them based on their importance and potential contribution to more highly effective PFM. Develop strategies for addressing these opportunities, including detailed action plans with assigned responsibilities. Then follow up these important steps by managing and monitoring the agreed-upon action plans.

## Review

Where appropriate, undertake subsequent assessments of previous initiatives and consider further potential improvements.

# QUESTIONS TO ASSIST IN DIALOGUE WITH GOVERNMENTS

## 1. The Climate for Reform

The first element of PFM success is necessarily the widespread recognition and acknowledgement that change is required, along with a commitment from key stakeholders to effect the necessary reforms.

To determine if such conditions exist, we highly recommend researching and responding to each of the following fundamental questions.

### 1.1 Public Interest and Expectations

- To what extent are taxpayers demanding that more be achieved with the available resources?
- What fundamental concerns, if any, exist around transparency and accountability?
- Are any of the following seen by the public as an issue, and to what extent?
  - ✓ Neglect
  - ✓ Waste and inefficiency
  - ✓ Corruption

### 1.2 Economic and Social Drivers

- To what extent are national or international economic circumstances prompting action to address PFM issues or opportunities?
- Is financial-management reform a recognised means of reducing poverty and improving living standards? If so, how is this done?

### 1.3 Donor Interest and Expectations

- Are donors interested, and if so, in what ways are they engaged in reform?
- How well do existing PFM systems meet the expectations of donors – a typical prerequisite to maintaining or increasing partnering efforts?

*Further Resources: Section 2.5, "Guidelines for PFM Reform", Commonwealth Secretariat, 2005*

### 1.4 Political Will

- What evidence suggests that politicians will embrace high-quality PFM reform or required reforms and provide clear-cut support?
- To what extent is the political leadership and its commitment clear, constant and sustained?
- What mechanisms are in place to ensure that rulings and mandates come without political interference?

*Further Resources: Section 2.3, "Guidelines for PFM Reform", Commonwealth Secretariat, 2005*

### 1.5 Change Management Capabilities

- How can any reform process best be directed and managed?
- What capacity is available to enable this process, including dedicated and available systems and people?
- To what extent are the necessary links established with the private sector, academics and others?

*Further Resources: Section 2.5, "Guidelines for PFM Reform", Commonwealth Secretariat, 2005*



## 2. Governance – The Legal and Institutional Framework

The second essential element of PFM success is that of a well-defined legal and regulatory framework: one that facilitates the implementation of efficient and effective public-service arrangements. Appropriate institutions must be in place, as well as a set of recognised codes, standards and practices.

To ensure that such a framework exists, we recommend exploring each of the following questions.

### 2.1 Parliament and Legislation

- How skillful, experienced and financially aware are the elected members of parliament?
- How clearly defined are the roles of different levels of government, both national and local?
- Is there an extensive legal framework(s) in which the core PFM functions may operate?

### 2.2 Institutional Framework

- Is there an appropriate organisational structure, including ministries, central government organisations, Treasury, Central Bank, Auditor- General, etc.?
- To what extent are these institutions strong, independent and operating with clear mandates?
- How are links established with stakeholders in the non-government sector?

*Further Resources: Section 2.4, "Guidelines for PFM Reform", Commonwealth Secretariat, 2005*

### 2.3 Regulations

- To what extent are the appropriate accountability and transparency requirements prescribed in a law or regulation, such as a Public Accounts Act that deals with:
  - ✓ Reporting and Audit
  - ✓ Probity and Procurement
  - ✓ Anti-Fraud and Corruption Measures

### 2.4 Donor Requirements

- How are donors' governance requirements identified?
- Are these requirements appropriately addressed, to the satisfaction of donors?
- To what extent is multiple donor involvement coordinated and harmonised to avoid duplication and disruption?

### 2.5 Identification / Adoption / Implementation of Recognised Codes and Standards

- How are internationally recognised codes and standards perceived?  
We include:
  - ✓ IMF Code of Good Practices on Fiscal Transparency
  - ✓ International Public Sector Accounting Standards (IPSAS), cash or accrual
  - ✓ International Standards on Auditing or equivalent national or public-sector specific
  - ✓ Codes of Conduct
  - ✓ Anti-corruption requirements



## 3. Governance – The Values System

The public entrusts taxpayer funds to the government and expects them to be used appropriately. Yet the appropriate attitudes and behaviours are not always culturally embedded. The third key to PFM success is therefore an open, honest and responsible approach to the way services are planned, executed and reported, which signifies a strong intent to work in the public interest.

To determine the extent to which such attitudes and behaviours exist, we recommend looking at each of the following questions.

### 3.1 Transparency

- To what extent:
  - ✓ Are citizens consulted and kept informed?
  - ✓ Are planning and decision making conducted in an open environment?
  - ✓ Are decisions and outcomes made readily available?

### 3.2 Accountability

- What codes of conduct and performance expectations are established? Are these clear?
- Are performance and decision making open to assessment and scrutiny? To what degree?

### 3.3 Ethics

- Are ethics and integrity demonstrated beyond legal requirements?
- Do adequate mechanisms exist to ensure that activities and decisions are conducted with probity and in an objective manner?
- Do these mechanisms encourage and support the exposing of unethical behaviour, and if so, to what degree?
- To what extent is unethical behaviour confronted?

### 3.4 Corruption

- How strongly are the rules of law upheld?
- Is there evidence to suggest that honest behaviour is the general norm?
- What mechanisms exist to encourage and support the exposing of corrupt behaviour?
- How would corrupt behaviour be confronted, should it exist?



## 4. Capacity and Capability

The fourth key to PFM success is ensuring that the appropriate resources are available to support the application of each aspect of PFM, particularly in terms of people and systems. “Without the necessary systems and skilled personnel to implement them, no PFM reform process can be successful”.<sup>3</sup>

### 4.1 Human Resources

- Does the sector attract or have access to sufficient skilled personnel? Are they appropriately educated and motivated?
- Are these personnel adequately trained, developed and maintained?
- Do remuneration arrangements adequately support all of the above?
- To what extent is the government prepared to invest in educating its officials?

### 4.2 Information and Communication Technology Systems

- How accessible are the appropriate financial and performance systems?
- Is there an adequate investment in, or the commitment to invest in, the required systems?

### 4.3 Professional Accountancy Organisation (PAO)

- How would you describe the accountancy profession’s member bodies’ focus on, and support for, the public sector?
- To what extent are PFM skills incorporated into examination and training programs?
- How can PAOs play a pivotal role in providing, or assisting in, the training of professional accountants for the public sector?
- How can PAOs educate - and communicate to - politicians about PFM?

### 4.4 Leadership: Governing Body and Senior Management

- Does the public sector attract and retain talented leaders?
- To what extent does leadership display vision, thought leadership and clarity of direction?
- Are authorities and responsibilities made clear, and is performance regularly assessed?
- Is there evidence to suggest that leadership displays and encourages a high-performance culture?
- Do those who receive and have the ability to act on information understand the implications of that information?

*Further Resources: Principle E, “Good Governance in the Public Sector – Consultation Draft for an International Framework”, IFAC and CIPFA, June 2013*



<sup>3</sup> Section 2.5, “Guidelines for PFM Reform”, Commonwealth Secretariat, 2005

## 5. Fiscal and Policy Framework

“The main output of PFM systems is the budget, through which public policies are financed.”<sup>4</sup> A credible budget is essential, reflecting the expected financial impact of the government’s policies and its use of resources. As a result, the fifth element of PFM success is that of a clearly defined and comprehensive fiscal and policy framework.

### 5.1 Overall Framework

- How adequate is the legal framework for budgeting, as established in the constitution or law?
- Is the budgetary framework supported by lower level legislation or administrative policies? To what degree?
- Are parliamentary and executive relationships clearly defined?

*Further Resources: Part I, “Managing Public Expenditure, A Reference Book for Transition Countries”, OECD, 2001*

### 5.2 Policy Making

- Are adequate macro policies in place and are they comprehensively designed?
- Do these policies include appropriate and sustainable economic, social and environmental benefits?
- Are the policies fully budgeted, with multi-year forecasts, and is this sufficient?

### 5.3 Planning : The logical organisation of activities in order to achieve national objectives

- Do expectations align with available resources? Are they realistic?
- To what extent are reliable and accurate social and economic data available?

*Further Resources: Section 3.3, “Guidelines for PFM Reform”, Commonwealth Secretariat, 2005*

### 5.4 The Budget and Forecasts: The financial representation of the planning outcome

- What links exist between policy making and budget formulation?
- Is the scope of the budget well defined and are the relevant revenues and expenditures included, such as capital expenditures and borrowing costs?
- How transparent are the budget and the budgetary process?
- Does budgeting extend adequately into the medium and longer term, with recognition of projected costs and liabilities arising from social welfare and health responsibilities?

*Further Resources: Section 3.4, “Guidelines for PFM Reform”, Commonwealth Secretariat, 2005*

### 5.5 Outcome Focus

- How well defined are fiscal objectives and priorities?
- Is a comprehensive plan made available to Parliament?
- How clearly does the plan focus on outcomes versus inputs?
- How is expenditure-performance monitored?

### 5.6 Taxation and Revenue

- Does evidence suggest that the tax policy is appropriate for the country?
- Is the revenue base properly identified and are all public revenues captured?
- Are revenue services appropriately resourced and motivated to collect tax effectively?

*Further Resources: Section 3.1, “Guidelines for PFM Reform”, Commonwealth Secretariat, 2005*



## 6. Performance Management

The sixth key element is the successful implementation of the budget, both in macro terms and at the organisational level. The budget must be well managed, monitored and reported to achieve the anticipated outcomes, with three things – value for money, the efficient and effective delivery of services, and financial compliance – acting as overriding performance principles.

### 6.1 Non-Financial

- To what extent are expected budget outcomes defined and documented?
- Are appropriate performance indicators identified?
- Have adequate mechanisms been established for measuring and monitoring the effectiveness of service delivery?
- Are physical assets actively managed, and if so, to what degree?

### 6.2 Financial

- What financial regulations are in place and are they complied with?
- What measures are taken to ensure that transactions and commitments are fully identified and accounted for in a timely manner?
- What means are used to ensure that services are delivered efficiently and cost effectively, for example, procurement (see box)?

### 6.3 Managing Revenues and Costs

- What mechanisms provide central control over cash and borrowing?
- What processes are established for deficit and debt management?
- How are risk management and internal control administered over revenues and expenditures?

*Further Resources: Section 3.2, "Guidelines for PFM Reform", Commonwealth Secretariat, 2005*

### Procurement

Procurement is a key aspect of the fiscal framework and deserves separate consideration. The relevant section from the "Guidelines for PFM Reform", Commonwealth Secretariat, 2005 states:

***There should be clear rules about open and accountable procurement policies based on the following principles:***

- *A centralised procurement committee should be responsible for bringing an efficient and effective procurement system into the government. Procurement decisions based on this system should be delegated to the bodies responsible for funding the procurement.*
- *Procurement laws should be reviewed to meet best-practice criteria.*
- *Procurement guidelines must be put in place that are consistent with principles of transparency, fairness, openness and value for money.*
- *Sanctions must be implemented for non-compliance with regulations.*
- *There should be strictly scrutinised and accountable procurement procedures, such as those with regard to tender processes.*

## 7. Reporting

Empirical evidence is emerging that highlights the positive relationship between the degree of fiscal transparency and measures of fiscal sustainability. Not surprisingly, then, appropriate, transparent reporting against planned outcomes is the seventh key element of PFM success, helping governments be accountable for their fiscal actions.

### 7.1 Financial and Performance Reporting Framework

- To what extent are the format, frequency, timing and nature of reporting understood and appropriate?
- Does this reporting framework include internationally recognised financial (IPSAS), social and environmental reporting (integrated reporting)?
- Does the framework cover past, current and forecast budgets, as well as actual outcomes?
- Are the bases for actual and budget reporting consistent, and to what extent?
- What reporting challenges have been identified and addressed, such as asset and liability identification and measurement?

### 7.2 Transparent Reporting

- To what extent are the required levels for reporting defined, such as organisation, portfolio and sector?
- How are the needs of different audiences addressed?
- Is the information made publically available on a timely basis?
- What steps are taken to ensure the information is presented in a way that facilitates analysis and assessment?

*Further Resources: "Code of Good Practices on Fiscal Transparency", IMF, 2007*

### 7.3 Consolidation

- What entities have been identified for inclusion in whole-of-government reporting? Is this approach adequate?
- How well are government, public-sector and public services clearly defined and understood?

### 7.4 Compliance

- To what extent are reporting mechanisms in place to cover compliance with:
  - ✓ Laws and regulations?
  - ✓ Budget authorisations?
  - ✓ Probity requirements?
  - ✓ Tax administration?



## 8. Scrutiny and Assurance

Reported information must be reliable, whether for purposes of transparency, accountability or decision making. It must also be capable of withstanding scrutiny from different levels and forms of review. As a result, the eighth key element of PFM success is that of subjecting information to effective scrutiny and assurance, thus generating confidence in its veracity. Confidence is further enhanced by subjecting information to external, independent audit.

### 8.1 Parliament

- Is there adequate legislative scrutiny of the budget, accounts and audit reports? What form does this scrutiny take?
- Is a public accounts committee in place? How appropriate is its charter?

### 8.2 Central Agencies

- Is central oversight administered through a finance ministry, the treasury or other agencies?
- How adequate and effective is this oversight?
- Does the oversight incorporate feedback - leading, where required, to corrective action?

### 8.3 Entity Governance

- To what extent do the public sector organisations have all or a number of the following mechanisms in place:
  - ✓ Executive committees?
  - ✓ Review committees comprising management and external parties?
  - ✓ An appropriately resourced and positioned internal audit function?
  - ✓ Audit and risk committees - partially or fully independent from management?

### 8.4 Other External Oversight

- Are any donors effective in administering oversight? If so, how does this occur?
- Do any other organisations (the IMF, Transparency International, rating agencies) apply scrutiny? If so, how does this occur?
- Are media and civil-society organisations active? If so, in what way?

### 8.5 Supreme Audit Institution Roles (for example, financial, performance audit)

- How adequately resourced is the national government auditor?
- To what extent are appropriate independence arrangements, authorities and reporting lines established?
- What scope of practice has been established and to what extent does it include various types of audit, such as financial, performance and investigation, using internationally recognised auditing?



# PFM REFORM: SUGGESTED APPROACH

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When beginning a PFM reform effort, an initial consideration will be that of defining the public sector. Many definitions exist and the scope of the public sector will vary across jurisdictions. Establishing a common understanding of the scope of the public sector in a given jurisdiction will therefore be an important starting point in any dialogue.<sup>5</sup>

The next consideration should be the sequencing of reform activities. In larger-scale PFM reform efforts, deep consideration has been given to the most appropriate approach. Recent work in this area proposes that “choice within broad reform categories should be country-specific, especially since all countries face different non-technical determinants external to PFM that are recognised... as critical to the success of reform.”<sup>6</sup> Accordingly, this document does not propose any particular sequence for reform, nor establish any sequence of priority. Dependent on circumstances and local conditions, the focus may be on any or all of the eight key elements.

Additionally, PFM reform should be home-grown and country-led. It will usually take place as part of an overall economic development strategy; however, in developing or emerging economies it may be supported by one or a number of donor agencies. Such donors provide ideas, skills and funds in a partnering arrangement that encourages local ownership. In more developed economies, lenders and credit agencies may play this role.

Reform must also be well managed.<sup>7</sup> It will first require access to appropriate skills, experience and best-practice materials, both in change management and PFM. Next, reform and the associated macro-economic policies will require access to solid statistical data. Finally, reform progress must be measured and monitored.

Next, successful reform will feature broad consultation with stakeholders and effective communication with citizens about its purpose and intent. Addressing wastage and inefficiency will be a key aspect.

We note that all policies and priorities should be realistic. Short, medium and long-term planning will be essential, extending beyond any electoral cycles. Political and institutional commitment will be needed to drive the behaviours that ensure that appropriate systems, processes and people are embedded within the public sector.

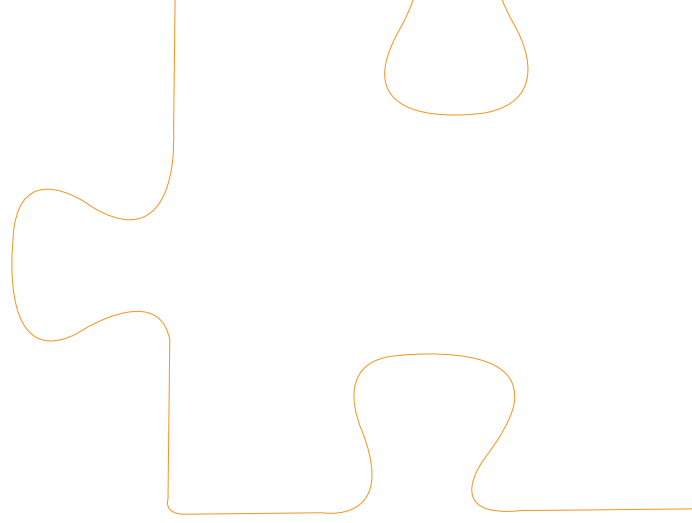
Lastly, having the right people will be crucial. The advancement of financial management in the public sector requires professional people with professional skills who are establishing professional careers in the sector. Professional accountancy organisations have a key role to play in making this happen.

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<sup>5</sup> Definitions and related matters are considered in “Setting high professional standards for public services around the world” ACCA, February 2013

<sup>6</sup> Good Practice Note on Sequencing PFM Reforms, Jack Diamond, January 2013

<sup>7</sup> See also Section 2.5, “Guidelines for PFM Reform”, Commonwealth Secretariat, 2005



## *Appendices*

## POSITION STATEMENT: Improving Public Sector Financial Management

The Confederation of Asian and Pacific Accountants (CAPA)<sup>8</sup> fully supports and encourages the convergence towards International Public Sector Accounting Standards (IPSAS) by all member countries in the Asia Pacific region to assist in the improvement of public sector financial management.

Users of financial reports produced by the private sector have, for many years, demanded and supported the development of globally accepted high-quality financial reporting standards. These users have included both regulators and central government agencies. This has resulted in an increasing number of countries adopting and implementing IFRS as the financial reporting norm for the private sector.

Concurrently, there is a growing international movement to improve financial reporting in the public sector. This has resulted in many countries initially adopting cash-based accounting, moving to a more sophisticated accrual basis for financial reporting and adopting and implementing accrual-based IPSAS.

Improving the quality of financial reporting in the public sector is viewed by CAPA as critical in addressing the huge risks, such as unexpected sovereign debt crisis situations, that may remain obscured when robust accounting and reporting techniques are not used in the public sector.

From a public interest perspective, the more effective monitoring of financial performance within public sector entities is critical. CAPA supports accrual-based financial reporting as the only means to provide the necessary high-quality, transparent reporting of public sector activities and positions.

Achievement of accrual-based accounting ensures that the same high standards of financial reporting are applied by both the private and public sectors of an economy – thus leading to better-informed decision making at both the micro and macro levels.

CAPA therefore calls for governments in the Asia Pacific region to fully recognise the need for robust financial systems and to lead changes in public sector accounting and reporting to support enhanced public sector financial management.

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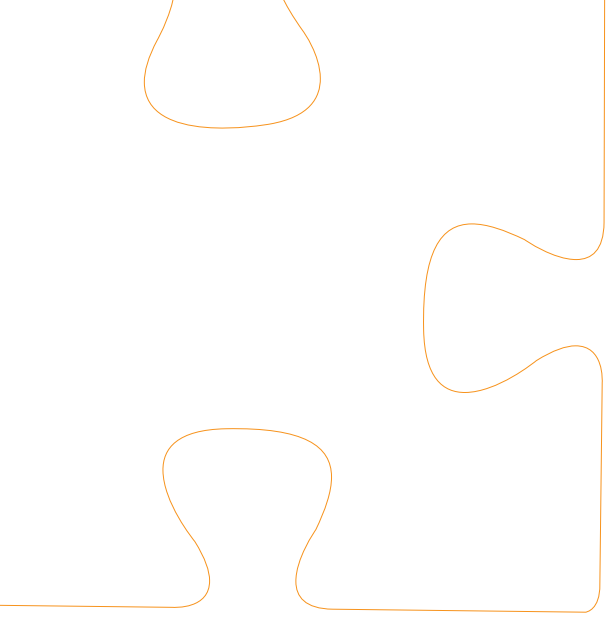
<sup>8</sup> The mission and objectives of the Confederation of Asian and Pacific Accountants (CAPA) include promoting the benefits of effective PFM and influencing the development of PFM. In 2011, CAPA issued a position statement focused on improving PFM, particularly through the implementation of high-quality accounting, reporting and auditing in the public sector. This publication is issued to further the important connection between the accountancy profession and the public sector.

Note: The Eight Key Elements of PFM Success will be periodically updated as necessary.

# EXAMPLE TEMPLATE: Assessing and Monitoring Development Opportunities

## The PFM Improvement Journey

Element	Assessment of Current State		Development			Post Development Review	
	Benchmark	Current Position	Strategy	Action Steps	Completed	Benchmark	Post Development Position





# REFERENCE MATERIAL

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This publication complements existing literature on the topic of public financial management (PFM). It makes use of the following material from organisations such as the IMF and the World Bank, and references to specific elements of these relevant documents are made throughout.

- ✓ Managing Public Expenditure, A Reference Book for Transition Countries, Organisation for Economic Co-operation and Development (OECD), 2001
- ✓ Guidelines for PFM Reform, Commonwealth Secretariat, August 2005
- ✓ Code of Good Practices on Fiscal Transparency, International Monetary Fund (IMF), 2007
- ✓ Public Financial Management Reform Literature Review, Department for International Development (DFID), January 2009
- ✓ Public Financial Management, A Whole System Approach, Chartered Institute of Public Finance & Accountancy (CIPFA), August 2010
- ✓ Improving Public Sector Financial Management in Developing Countries and Emerging Economies, ACCA, 2011
- ✓ Good Practice Note on Sequencing PFM Reforms, Jack Diamond, January 2013
- ✓ Background Paper 1: Sequencing PFM Reforms, Jack Diamond, January 2013
- ✓ Background Paper 2: The Core PFM Functions and PEFA Performance Indicators, Daniel Tommasi, January 2013
- ✓ Setting High Professional Standards for Public Services around the World, ACCA, February 2013
- ✓ Good Governance in the Public Sector – Consultation Draft for an International Framework, International Federation of Accountants (IFAC) and Chartered Institute of Public Finance & Accountancy (CIPFA), June 2013







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