17581

LATPS Occasional Paper Series

Number 18 - September 1, 1995

Integrated Financial Management in Latin America, as of 1995

Lynnette Asselin

Public Sector Modernization Division
Technical Department
Latin America and the Caribbean Region

LATPS Occasional Paper Series

Number 18 - September 1, 1995

Integrated Financial Management in Latin America, as of 1995

Lynnette Asselin

Public Sector Modernization Division
Technical Department
Latin America and the Caribbean Region

INTEGRATED FINANCIAL MANAGEMENT IN LATIN AMERICA

Table of Contents

Page No.

I. INTRODUCTION

1. The World Bank's concern for governance is driven by its mandate to promote sustainable economic and social development. There are two reasons for this:

> *"First, both history and the Bank's own experience show that good governance is central to creating and sustaining an enabling environment for development. Second, from the Bank's perspective, sound development management is inextricably linked with the efficacy of the investments that the Bank helps finance and thus with the Bank's goals: to assist countries in reducing poverty and increasing sustainable growth."*[1]

2. The capacity of the public sector to manage the economy and deliver public services is tied directly to the prospects for development. The Bank's concentration in this area has been to encourage governments to create the legal and institutional framework for transparency and competence in the conduct of public affairs and the management of economic development. Its concern with accountability, transparency and the rule of law is exclusive to their contribution to social and economic development, and to its fundamental objective of sustainable poverty reduction in the developing world.

3. Public sector management as the most viable of the four dimensions of governance (public sector management; accountability; legal framework for development; and, transparency and information), serves to assist governments with the resources and expertise necessary to improve the civil service, the government budget, the public investment program, accounting, auditing, and other financial management systems. Experience has shown that imperfect accountability has gone hand in hand with weak financial management institutional capacity.

4. **Financial accountability** demands a properly functioning government accounting system for effective budgetary control and cash management; an external audit system which reinforces expenditure control by exposure and sanctions against misspending and corruption; and mechanisms to review and act on the results of audits and to ensure that follow-up action is taken to remedy problems identified. Without a well-functioning system of financial accountability, governmental efficiency is poor, the probability of corruption increases greatly and the prospect of economic growth and development is impaired. The need for improved financial accountability is of particular relevance in countries where the Bank is providing substantial resources directly to governmental budgets, since problems encountered at the national level are generally symptomatic of similar financial accountability weaknesses throughout the state and local levels.

---

[1] World Bank, *Governance and Development* (Washington, D.C., 1992) p. 47.

5. The Bank's September 1992 Portfolio Management Task Force report on *Effective Implementation: Key to Development Impact*, included deteriorating country institutional environment as a contributing factor in the "borrowers' compliance with legal covenants - especially financial ones - remaining startlingly low."[2] The Bank's Financial Reporting and Auditing Task Force Report issued in July 1994, recognized that poor accounting standards in borrowing countries, lack of experienced staff, and "unduly burdensome" reporting requirements continued to result in inadequate monitoring and reporting. These problems have led to a great deal of concern by member countries regarding the effectiveness of the Bank's programs. Although the Bank has issued *Financial Reporting and Auditing of Projects Financed by The World Bank,*[3] and Operational Directives 10.60: *Accounting, Financial Reporting and Auditing* and 10.30: *Borrower Compliance with Audit Covenants,* the Task Force found that these requirements had not been fully followed probably due to limited oversight and inadequate accounting and auditing capability in many of the borrower nations. Although the directives outline the Bank's minimum standards for the accounting and auditing systems that borrowers should have established and maintained to ensure accountability for resources used to implement projects, much more effort was considered needed in assisting countries in individually developing those very systems that vary widely from country to country. Consequently as a result of the Task Force's recommendations the new *Financial Accounting, Reporting and Auditing Handbook* (FARAH) has recently been published and is available in English from LATPS. New operational directives are also being developed which will replace OP/BP 10.02: *Accocunting, Financial Reporting and Auditing.* This provision updates the Bank's accounting requirements for its task managers, borrower managment and finance staff.

6. Part of this problem stems from the fact that it was only in the second half of the twentieth century that financial management began to play a significant role in public administration. Prior to this period, government financial management activities were mainly limited to identifying deficits, and government budgeting was concerned only with balancing revenues and expenditures. Recognition that the government budget could be used as an instrument to influence the national economy caused more focus and attention on the role of financial management and its inter-related impact on the ability of a government to meet the demands for services within an environment of shrinking resources, growing inflationary pressures, and constant monetary devaluation. The existence of outside economic influences, in particular the growth of externally financed grants and loans, and the insatiable demand for more and more public services, ensured a larger than ever role for government. This resulted in highlighting both cash management and public debt management, as well as important elements in public sector financial management.

---

[2] World Bank, *Effective Implementation: Key to Development Impact.* October 2, 1992.

[3] World Bank, *Guidelines: Financial Reporting and Auditing of Projects Financed by the World Bank.* Copyright 1982, Eighth printing May 1993.

7. Nonetheless, very few countries succeeded in achieving the necessary cash management systems needed to deal with the new reality. Even in the developed and industrialized countries, only recently has the discussion of new and improved financial practices been initiated. In most developing countries, financial information is not available; is not prepared in a timely manner; is not reliable; and is not used to make key government decisions. Reorientation of the philosophy of public administration toward the important of financial information is required.

8. A financial focus is clearly justified for developmental decisions because no course of action, plan, or program can be evaluated and analyzed without at least some sort of measurement and understanding of its final impact on the resources, flows, and requirements. Since the number and costs of services are impacted directly or indirectly by changes in the level of economic growth and development, a government needs to develop an appropriate philosophy of financial management and a clear definition of its scope and function, as part of its public administration.

9. It has long been accepted in the private sector that the primary objective of financial management is to influence those that make decisions in such a way that the decisions taken are more sensible and prudent, and that they lead to more effective management. In the public sector many key financial decisions are taken without any meaningful information or careful analysis of future impacts. It is the inevitable combination of political, legal, and social demands which make financial management of the government much more difficult and complex than financial management of a business. This is further complicated by the traditional fragmentation of the centralized functions of public sector financial management. Although in businesses it is common practice to name an appropriate individual as chief financial officer, most governments have divided the basic financial functions among various entities which compete for influence rather than collaborating for the common good. If it is accepted that the basic and essential responsibilities of both public and private sector financial management include the functions of planning, financing, safeguarding, utilization, analysis, and reporting, then the following characteristics should be applicable to financial management systems in both sectors.

Framework

CHARACTERISTICS OF FINANCIAL MANAGEMENT FUNCTIONS

- The establishment of a financial framework for the *planning* activities and operations in the future.
- The guarantee of sufficient funds to *finance* the planned activities and operation.
- The *safeguarding* of resources through adequate financial controls.
- The administration of the systems that produce the *information for controlling* planned activities and operations.
- The *analysis* and *evaluation* of the financial impacts of the management decisions both before and after application.
- The *reporting* and analysis of the results of the activities and operations measured in financial terms.

Box 1

10. Translating these functions into systems, a financial management system can be defined as composed of the budget, cash and debt management, accounting and auditing subsystems.

Relationship of Function to System

Planning	=	Budget
Collection	=	Cash Management
Assignment	=	Budget
Financing	=	Debt Management
Utilization	=	Cash Management
Safeguarding	=	Internal Control
Recording	=	Accounting
Analysis & Reporting	=	Accounting
Control (Feedback)	=	Internal & External Audit

Box 2

The most economic and efficient way to apply these characteristics is through the integration of the basic financial functions and responsibilities within a single and coordinated system. The broad technical requirements of public sector financial management are similar for all countries or systems of government, and a core system can be tailored to differing country circumstances: this is the integrated financial management system (IFMS) approach.

11. The **purpose** of this report is to clearly define the concept of the IFMS, review its application in Latin America, and present the lessons learned and emerging issues in its implementation. In many countries, Bank work has moved from partial to comprehensive reform within a medium term framework. In a growing number of countries in the region, an integrated approach to financial management reform is being adopted, including changes in budget laws, the modernization of financial management systems, and the use of computerized financial information systems. Efforts are also being made to modernize civil service and assist in privatization. All of these activities are oriented toward assisting member governments to make and implement public policy which will lead to sustainable economic and social development. The Bank's role must be to encourage a wider range of stakeholders, from government bodies to NGOs and local community groups, to understand the benefits of improved financial management capability and in particular, the importance of transparency and accountability in order to achieve sustainable economic and social development. As recognized in *Effective Implementation: Key to Development Impact* "Successful implementation requires commitment, built on stakeholder participation and local 'ownership'"[4] This is achieved through information sharing, consultation, and wider decision-making with government agencies involved in the project.

12. The **conclusion** of this overview of experiences in Latin America is that much more emphasis needs to be put on financial management, and in particular the benefits of efficiency and effectiveness which can be gained through the adoption of the IFMS approach. In view of the findings of the various task forces, as well as the increased emphasis on accountability by both donor agencies and borrowing countries, the Bank must continue to look for ways to improve inadequate systems of accounting and auditing evidenced in many of its projects. "In all regions there is strong confirmation that public sector management is a key issue of development effectiveness and that systemic issues of governance, institutional development, and public sector management are at the core of country development performance and therefore must be central in the Bank's dialogue with governments."[5]

13. This report, which has been prepared by the LAT Public Sector Modernization Unit, draws on material provided by governments, international organizations, technical experts, and others, through interviews and as noted in the bibliography.

---

[4]World Bank, *Effective Implementation: Key to Development Impact* (Washington D.C., 1992) p.ii.

[5]World Bank, *Governance, The World Bank's Experience* (Washington D.C., 1994) p. 12.

II. SIMAFAL: MODEL INTEGRATED SYSTEM OF FINANCIAL MANAGEMENT AND CONTROL IN LATIN AMERICA

14. SIMAFAL is the product of an investigative process carried out to develop a guide or model for the design and organization of a financial management and audit system generically applicable to the public sector. This investigation was based on experiences obtained in various countries of Latin America and was prepared under the sponsorship of the United States Agency for International Development Regional Financial Management Project, Phase I (USAID/RFMIP I). An Action Strategy (STRATAC) was presented to and commented on by the Donor Consultative Group on Improving Financial Management which is made up of multilateral as well as bilateral donor organizations active in the western hemisphere. Various countries have designed and/or begun implementation of financial management reform programs based on a systemic approach, such as Peru, Bolivia, El Salvador, Panama, Argentina, Venezuela, Guatemala, Nicaragua, Colombia, and Guyana.

15. Administration of financial resources is one of the adjective systems (support or auxiliary) of the public administration system. Financial Management is defined as the system through which planning, collection, assignment, financing, utilization, safeguarding, recording, analysis, and reporting, takes place ideally resulting in the efficient management of the public financial resources required to satisfy societal needs.

16. The core components of the financial management system are:

- Budget
- Treasury
- Public Credit
- Accounting

These components include their corresponding internal controls. All of them, at some point during the annual financial cycle, are responsible for forecasting, processing, and reporting on operations related to public financial resource management. Each system functions based on inputs that are processed and produces flows of information that assist management in making decisions.

17. The components of the financial management system cannot be considered in isolation. They are linked to form one indivisible conceptual unit geared toward achieving a common goal. The financial management system should include all government revenues and expenditures, whatever their nature, origin or use; or at the very least, those of all government agencies, whether the agencies are centralized, decentralized, autonomous, regional, or sectorial. The principal characteristic of the IFMS is normative centralization and operative decentralization.

18. The objective of the **budget system** is to forecast the sources and amounts of monetary resources and assign them annually for financing the plans, programs, and projects of the government. Political will, i.e. public policies, dictate the programs to be funded. The budget serves to detail and formalize the annual financing of operations as well as the medium and long term plans. The budget ensures conformity with the financial plan, the investment plan and other economic policy instruments. The budget system process includes programming and formulation, discussion, approval and publication, execution, control and evaluation, and liquidation and closure. The budget process, in coordination with the systems of treasury, public credit and accounting through reporting, provides the possibility of timely execution of government programs. The characteristics of the system include: active participation by all government agencies and entities, conformity with the legal mandate (budget law), the principle of unity and universality, and common and uniform classification of revenues and expenditures.

19. The **treasury system** is responsible for determining the amount of tributary and non-tributary revenues; collection of those revenues when due; prompt payment of contractual obligations for goods and services received; and receipt, safeguarding, and as needed, negotiation of documents of value and obligation on behalf of the government. The treasury system is a cash management system and as such is closely linked to the budget, public credit, and accounting systems. The treasury system controls the flow of cash which is facilitated, if possible, when the payment process is decentralized. The characteristics of the system include the principle of unity, the single account, and cash forecasting.

20. The **public credit system's** objective is to capture, through both internal and external sources, the resources destined exclusively for financing the investment of the government when collected revenues are deficient. Public credit is closely related to the treasury, budgeting and accounting systems because of its role in providing financial resources as well as its impact on disbursements for debt servicing. The components of the system include both internal and external public credit. Although the origins of the resources may be different, public credit should be oriented toward a unitary and integral conception since the funds are used to benefit, either directly or indirectly, the public sector as a whole. The public credit system is characterized, different from the other systems, by a centralized approval process. If the credit process is realized at the agency level, fragmentation may occur and the unitary and integral principles would be corrupted.

21. The **accounting system** is the integrating element of the financial management system. Its objective is to provide a base of common, uniform, timely, and reliable data to the other systems and users for managerial analysis, consolidation, control and decision making. The validation, classification, recording, and reporting of results of the budgetary (revenues, expenditures, assets, liabilities, and equity) operations are functions of the accounting system. The accounting system provides the framework for centralized financial statements, classified by groups of similar entities; the formulation and presentation of the consolidated financial statement for the government; and the preparation of financial reports and analysis of the results obtained at the various levels.

22. **Internal control** means all of the measures taken by an organization for the purposes of (1) protecting its resources against waste, fraud, or inefficient use; (2) ensuring the reliability of accounting data; (3) securing compliance with management's policies; and (4) evaluating the performance of all employees, managers, and departments.[6] The components of internal control include pre-control, concurrent control and internal audit. Internal pre-control and concurrent control are related to the execution of operations. Posterior internal control is carried out through internal audit. **Internal audit**, which is subject to generally accepted auditing standards, measures the effectiveness of the other internal controls. Its usefulness is found in the recommendations made to management for improving operation. Internal audit is practiced by personnel independent of the execution process.

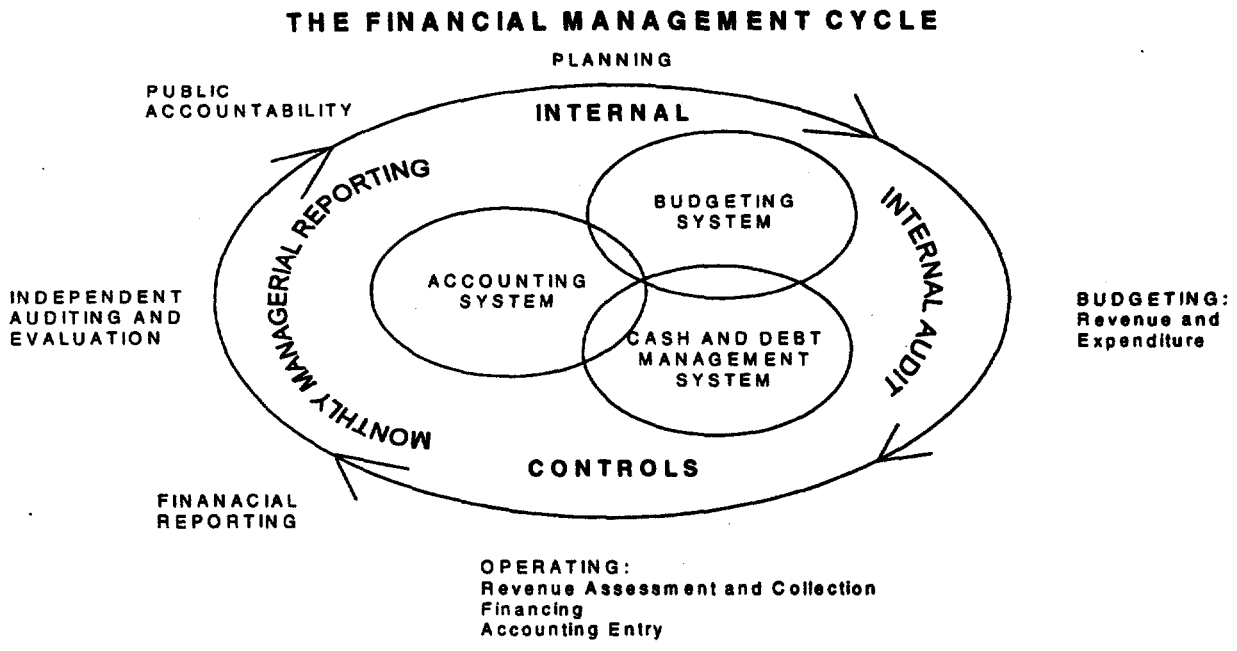
23. The **external audit system** is the group of professional activities carried out, according to a set of standards, by an entity that is totally external and independent of the operational agencies. Its purpose is to provide, to the public, an opinion on financial statements prepared by the government on the use of public resources. This is done through objective, professional examination of the information prepared by the organization responsible for financial management in the government. The external audit serves to provide an opinion on the reasonableness of the statements as well as efficiency and economy in the use of the resources and the effectiveness of the results. The external audit system also provides recommendations for better financial management and verifies their adaptation. External audit may be carried out by the supreme audit institution and independent firms. The external audit system has the responsibility for review of the entire public sector; not only in terms of regularity and legality of operation, but also in terms of economy and efficiency as well as effectiveness of the results. The relationship between the internal control system and external audit is extremely close as the quality of each inversely affects the other. The diagram on the following page is a graphic illustration of this concept.

24. In addition to the components described above, there are four elements which must be considered when discussing an IFMS. They are:

- Legal and normative framework
- Organization
- Human Resources
- Information

25. The **legal and normative framework** for IFMS should be based on clear, simple, congruent,.harmonic, and hierarchical order. This is best evidenced through the preparation, approval and publication, of an Organic Law of Financial Management for the Public Sector. The law, tailored to meet constitutional mandates, integrates proposed systems, and groups them with

[6]Meigs and Meigs, *Financial Accounting*, Eighth Edition, McGraw-Hill, Inc. (1995)



other adjective systems, resulting in public administration as an efficient tool for the functioning of the substantive systems of the government. The law should contain doctrinaire criteria and principles for the financial management system and be characterized by a degree of relative permanence which will avoid constant modification and duplication. It should also provide for normative authorities and obligatory application throughout the government. Regulations and secondary norms, are issued by the lower level institutions. This ensures a degree of adaptability to the particular needs and necessities of the institutions, and the incorporation of new technologies, as they are developed. The approval of a law is not necessarily a pre-requisite for implementation because important strides can generally be made within existing legislation.

26. **Organization** refers to the administrative structure and the attributes, competencies, and operations of the financial management system. The central responsibility for the operation of the financial management system falls under the Executive Branch and in particular, within the Ministry of Finance. The Ministry, under a common chief, includes the central rector authorities for the systems of budget, treasury, public credit, and accounting. These offices or units are responsible for the issuance of policies, standards, and directives in order to ensure coordination of the different elements. At the central government agency level, the responsibility for financial management rests in the executive chief, financial units, as well as any sub-units. The responsibility for the external audit system must be independent of the Executive Branch and most commonly is located in the Office of the Comptroller General.

27. The practical application of the conceptual model proposed depends directly on the quality, professionalism, and ethical levels of the assigned **human resources**. Three factors to be considered and integrated into the design of an IFMS are: (1) an administrative and professional career based

on merit and adequate compensation; (2) in-service specialized training; and (3) permanent motivation and professional development.

28. **Information** is critical for decision making. Information provides knowledge of the set of conditions that exist at any moment, in order to decide what modifications may be needed to meet institutional goals and objectives. The principal characteristics of required information are:

- reliability and certainty of the data, actions and numbers;
- integration and understanding of the operations;
- verification of the operations;
- objectivity that reflects the reality;
- opportunity for knowledge to use in making decisions; and
- transparency so that nothing is left unclear.

Financial information is the principal product of the accounting system and should always reflect these characteristics. Management information, whenever possible, should be made compatible with the financial information. The ever growing use of computers makes it easier to produce information and is becoming a fundamental requirement for the efficient and effective operation of a government financial management system.

III. ISSUES IDENTIFIED AND LESSONS LEARNED

29. During the survey of the various financial management reform projects underway and in preparation in Latin America, similar issues were identified in many countries. There are always some issues or constraints which will be country specific; however, experience has shown that general constraints exist. The recognition of these issues is important in developing the criteria that should be used when assisting governments in undertaking financial management reform projects. It should be noted that in cases where some evidence of resistance to applying an integrated approach to financial management reforms exists, it is usually because of a more basic resistance to the concepts of accountability and transparency which the system installs.

The Importance of IFMS in Achieving Efficiency, Effectiveness and Economy

30. Public administration, when defined from a systemic focus, is a group of entities, principles, and activities linked and coordinated to constitute one indivisible unit, while taking into account the relative functional and operational independence of each part. For the system to function efficiently and effectively, the parts should be coherently arranged with harmonic and rational relationships. The parts of the system should act with like orientation, to satisfy a common objective.

31. The systemic focus, at the level of financial management, has obvious links. Accounting, budget, treasury, and public credit form the basic integrated financial management system and are closely interrelated and interactive in the area of standards, operations, and information. Budget is the planning system, treasury the processing, public credit the financing, and accounting the reporting. The development of rational and harmonic interrelationships among the various systems ensures the best use of qualified human resources, equipment, programs, applications, information, and financial resources. Efficiency can be achieved through the formulation of general standards for decentralized and coordinated application. The absence of a rational financial management system with control procedures makes it difficult to promptly execute programs, causes duplication and fragmentation, facilitates the inappropriate use of public funds, and results in citizenry's lack of confidence in those responsible for public resources. For example, accounting is made up of a group of principles, standards, organizational, and technical procedures utilized to collect, record, process and explain the economic actions that affect or could have an effect on the programs and resources of the government. If the financial information is not uniform and common there will be: fragmented and unreliable data; duplication of information collection and processing; difficulty in reconciling information; failure in the planning process, to obtain and utilize information on actual results; and, perceived unreliability of information leading to undue reliance on information and analysis of one subsystem to the exclusion of the information and analysis generated in the other subsystems. This has been evidenced, many times, in treasuries characterized by crisis cash management, insupportable national debt situations, and extra-budgetary resource management. Interestingly in countries such as Argentina, Bolivia and El Salvador, which have invested resources in computerized central data systems and the development of a uniform Chart of Accounts with common terminology

and classifications, the role of the accounting system has become the integrating information system of the government.

32. Improved internal and external control systems effectiveness assures transparency. Insufficient control has resulted in abnormal growth or distortion of activities, continuous violation of principles and standards, and obstruction in the execution of government programs. The importance of internal control as part of the managerial role is becoming recognized in Latin America because it promotes accountability by assigning responsibility for program, project, operational, budgetary, economic, financial, resource, and regulatory management. There still exist, however, many places where internal control suffers from a lack of understanding of its purpose.

33. External control as exercised through a supreme audit institution (SAI) is recognized as an important component in the evaluation of effective and efficient use of public financial resources. However, while more comptroller general offices now have technical, functional, and administrative autonomy, most are still dependent on the executive branch in the budgetary area. Most countries continue to mandate that the external audit organization be subject to the budget office approval of access to funds, therefore impeding the ability of the organization to carry out its functions in a truly independent manner. In addition, the pre-control function exercised by some SAIs generally causes serious bottlenecks in program management, a lack of SAI independence, and diminished sense of responsibility of the implementing agencies.

Active Support and Leadership

34. Although reform of the financial management system of a government is considered by some to be a technical effort, any change in the traditional ways of "doing business" needs the active support and leadership of top government officials and politicians. Experiences in Bolivia, Panama, and Argentina have shown that with a spokesperson at the highest levels, it was clearly easier to communicate the aims and objectives of the reform effort. When there is inadequate commitment and lack of active involvement at the highest level and strategy for project direction and implementation is not clearly defined, the benefits and effects on the delivery of services are not communicated within the government, to legislature who represent constituencies of citizens, and to the citizenry which demands and should receive services. The IFMS concept needs to be continually publicized and recognized as an important means of improving accountability by elected officials. According to the particular characteristics of the country and the divisions of responsibility, executive and legislative branch commissions, inter-ministerial councils, and senior official level exchanges or working groups which have been incorporated into reform efforts have helped maintain the level of urgency and coordination needed in the face of other competing government priorities.

35. Secondly, an effective project management and coordination structure is also essential. When the appropriate structure was not in place, real reform was inhibited and project reporting

produced inadequate information. Effective project management, just like financial management, needs to ensure adequate, timely, accurate, and complete information on the status of implementation, operations, training, communications, and management of the entities involved in the project. Without complete information, appropriate project decisions cannot be made to ensure sustainability.

Strategic Planning in Reform Projects

36. Since the purpose of a financial management reform project is to achieve rational public sector financial management while providing more transparency in the receipt, application, and control of public resources within the defined objectives and policies of the government, a definite sector wide strategy needs to be developed prior to implementation. Individual projects which are not comprehensive result in weak or fragmented initiatives which impede the achievement of IFMS and its benefits. The strategy provides the framework within which the project will develop. This does not, however, preclude a phased approach. The framework serves as the mechanism for coordination and integration of the activities at the normative and operational levels. It includes activities such as the education of key leaders of the program, establishment of open communication links, identification and creation of linkages across the highest levels of leadership regarding the implementation of the program, and application of penalties for non-compliance. The framework must also emphasize operational effectiveness. When direction has been minimal, integration and coordination have become confined as mere administrative tools and not the hoped for sustainable changes envisioned in the reform.

37. Large projects tend to be heavily dependent upon outside physical and financial resources. Several cases of prolonged, overuse of international consultants as well as no detailed program addressing their use, resulted in local counterpart skill deterioration and only minimal knowledge transfer. In cases where international input appears relevant, international consults should be hired. However, reform project strategy needs to address the role of the international consultant and the level of technical assistance provided in terms of applicability and transferability. Financing requirements, available funding levels, and programs to replace consultants with national staff as soon as possible need to be established. In the case of Panama, low levels of international consultants appear appropriate because of the intimate integration of the consultants with the Panamanian staff. Bolivia, with a much larger project, needed a far higher level of international input during its initiation of the SAFCO Law, and that input is still needed in certain components of the project. Argentina has depended in large part on national resources, but has brought in international consultants for specifically designated activities. The Financial Management Reform Project in Nicaragua will not only be integrated at the implementation level, but will be an international effort in collaboration among the World Bank, the Inter-American Development Bank, USAID, and UNDP. Lastly the strategy needs to establish feasible and realistic time frames and deadlines. Although inability to establish precise time frames is most commonly blamed on the difficulties involved in procuring equipment or on a lack of qualified personnel available, the

strategy should address and incorporate these problems during the design stage.

Common Issues in Implementing an IFMS Reform Project

38. The concept of responsibility is key on two levels in financial management reforms: institutional and personal. Clear and concise definition of the role and responsibility of the institution, and the role and responsibility of each person within that institution is essential for success. In the area of financial management, personal responsibility becomes of paramount importance because each public sector employee has fiduciary responsibility for the utilization of financial resources supplied, in main part, by the citizens. For this reason, personal responsibility must include commitment to the objectives and goals of the government for the common good and not the narrower aims of personal power. Often, managers and officials do not understand their role and responsibility in the process. The Bolivian SAFCO Law, Chapter V, identifies the responsibilities of public sector employees in terms of authorities and obligations. Panama issued a Code of Ethics for Public Sector Employees and has included it in many training courses. The personal responsibility concept has been discussed in seminars and conferences in Paraguay, Peru, Bolivia, and Panama. The importance of good governance has been the subject of papers prepared by the World Bank, the Organization for Economic Cooperation and Development, the Inter-American Development Bank and most recently been included in the *Declaration of Principles* signed at the Summit of the Americas in December, 1994.

39. From the organizational perspective, examination of many public sector entities in various Latin American countries led to the conclusion that government agencies exist that do not correspond to the structure or function of their role. Others have assumed various functions that actually weaken their role and limited their ability to carry out their proper responsibilities. Particularly in the area of audit, there still exist examples of supreme audit institutions carrying out executive and judicial functions which impede their ability to independently evaluate the accountability of the government and to provide transparency. To ensure clarity, the existence of a basic legal framework is important in most cases, and should be a priority if possible. Some countries use the budget law as the basic legal framework for the financial management system; however, this has, at times resulted in a narrow vision of the role of financial management. The purpose of a law for financial management and audit is to delineate the authorities, organization, functions and responsibilities within a clear, concise, yet flexible framework. The legal framework specifies the authorities and responsibilities of the system, including the rector organizations and administrative agencies subject to it. The rector organizations exercise their authority through the issuance of decrees, policies, and standards for the system and the agencies. The responsibilities of administrative agencies are to tailor managerial decisions to the constantly changing conditions needed for achieving the most efficient, effective, and economic results within the parameters of the system. Clarification of responsibilities also leads to greater participation and ownership by those involved in the process. For example, when budgets are prepared solely by the central administration, with minimal or no input from the agencies responsible for executing those budgets, little responsibility is taken for the successful achievement

of the programs and objectives. Duplication and inconsistencies become characteristics of the system because there is no clear definition of responsibility. The lack of a clear, concise, yet general legal mandate often leads to obsolete procedures; constant delays in actions; rigidity in budget decisions; excessive centralization of financial and human resource management controls (which tie the hands of administrative managers); and disorder and illegal acts resulting in corruption and inefficiency. In various countries included in this study, the nonexistence of a normative instrument has reduced the budget evaluation process to a mathematical exercise, permitted the use of different accounts to reflect the same economic events, and fostered duplication and errors in information.

40. Human resource management in the public sector permeates every sector and every level. Changes of government, as well as changes of ministers and other top level executives can reflect changing priorities and lead to serious impediments in implementing reform efforts. Lack of stimulation and economic compensation impact on the retention of government employees. Many leave for the private sector, leaving positions vacant or occupied by others with less experience. The risk of failure in reform projects is amplified when there is no continual education in the goal and concepts of the integrated financial management system, the necessity of each subsystem, and the impact and benefits the system brings to better governance. There exists in many sectors a confusion of the concepts between governing and administration. Governing defines the policies and parameters for the general orientation of the government. Administration consists in implementing those policies, directives, and measures which the government has issued. Public managers responsible for implementing reform do not always have the knowledge necessary to understand their role in the process. A lack of information about their own operation as well as about the other systems and processes being implemented, constrains the decision making process. Legal instruments are often complex, redundant, and cumbersome. It is necessary to constantly strengthen the capacity of those involved so that they may understand, manage, and operate the integrated systems and processes. It is imperative that training courses, seminars, and workshops for employees at both the central and decentralized levels be included in any reform project. Depending on the human resource capacity levels, more intensive, aggressive and continual training may need to be considered.

41. When training takes place as part of the technical assistance objective, i.e., whereby consultants pass on their knowledge to permanent staff, there must be guidelines and monitoring to ensure sustainability in the transfer. A reform project should contain a formalized plan, schedules and milestones, targets, and regular monitoring procedures. It is important to incorporate the most modern knowledge in the areas of management technology, financial management and control. In order to take full benefit of the limited duration of consultant training, a number of skilled counterpart personnel must be identified early on and recruited from within the government to participate in the development of the system.

42. In the longer term, every official interviewed indicated that education and training are the only ways to improve the government's ability to competently and proficiently meet its reform objectives. Several countries have developed innovative programs to address the training issue. In both Bolivia and Panama, much effort has been put into strengthening the government training centers and improving the university system. Courses have been developed to train instructors in the various subsystems: this has a multiplying effect. Another example of programs geared toward employee retention is the use of fixed-term employment pledges in the short and medium term. A scholarship/fellowship program has been developed in the Comptroller General of Bolivia's office, aiding in the retention of highly qualified individuals. In Panama, meetings were held with the deans of selected universities to discuss the teaching of university faculty in the characteristics of the new accounting and budgeting systems. The initial sessions were so successful that the accounting and budgeting courses developed under the reform project will be incorporated into the university curriculum. The Catholic University of Bolivia has recently entered into a five year agreement with Harvard University to offer master's degrees in Public Policy Formulation and Auditing. These efforts will have a far reaching effect on the future capacity of governments in the area of financial management and audit.

43. Coordination, harmonization, collaboration, and communication are also essential to successful reform projects. Coordinating committees were identified as key factors during the design and implementation phases. This encouraged participation and ownership. Interestingly enough, however, although this concept tends to be embraced at the design phase, it becomes very difficult to sustain during the longer term implementation phase. Both Bolivia and Panama have experienced problems because of the lack of an active inter-institutional coordinating council. Harmonization of legislation, policies, principles, procedures, and technical standards can help avoid conflicts, dissimilar terminology, and incongruent classifications, among other non-desirable effects. Collaboration among individuals, government organizations, key agencies, international technical experts, other branches of the government, and even, as in the case of Nicaragua, international organizations must be incorporated as an essential day-to-day working condition. This ensures the common objectives of the system are achieved within precedence over particular or partial interests. Communication through frank debate of disagreements or preoccupations can help avoid the general undermining of common objectives. Communication can also play an important role in strengthening the commitment to the reform process. In Argentina, the many publications issued by the Ministry of Economy and Finances and the Sindicatura General have increased the interest and demand for accountability in the government. The President of Panama declared 1994 the Year of Governmental Accounting as a means to "strengthen the stewardship exercised by the oversight institutions, which, in the ultimate instance, constitute the eyes and ears of the people in the vigilance of the crystalline management of the nation's resources, which are in fact, the resources of the Panamian people."

LESSONS LEARNED

- **Importance of the IFMS Approach for Efficiency, Effectiveness, and Economy**
  - The integration of the planning, and processing, and of reporting on financial resource administration must result in more efficient, effective and economic government financial management.
  - If the benefits of the integrated system can be demonstrated early, then more commitment and interest will result.
  - The benefits and effects of the integrated approach must be publicized.
  - Continual emphasis on the efficiencies gained through the integrated system.

- **Active Support and Leadership**
  - The active support and leadership of top government officials and politicians is crucial to carrying out reform and providing the appropriate legal framework.
  - Participation at all levels in designing and developing the reform must be encouraged.
  - An effective project management and coordination structure must be in place.

- **Strategic Planning in Reform Projects**
  - A definite, integrated, interrelated and interactive sector wide strategy needs to be developed prior to implementation.
  - The strategy needs to address the role of external and internal financing, national and international consultants, and the transfer of skills, knowledge, and technology.
  - Feasible and realistic time frames and deadlines need to be established.

- **Common Issues**
  - A basic legal framework that establishes a clear, concise, yet flexible definition of roles and responsibilities must be developed.
  - Clear understanding of the differences and responsibilities of the various subsystems including internal control, internal audit and external audit is important.
  - Promote development in human resource management for greater participation and ownership by those involved in the process.
  - Education and training is the most viable way to improve the governments capability to be accountable.
  - Coordination, harmonization, collaboration and communication are essential attributes for integration.

Box 3

IV. GUIDELINES FOR FINANCIAL MANAGEMENT REFORM PROJECTS

44. Financial Management Reform Projects have become more common during the last few years throughout Latin America. Many countries have recognized the need to modernize this sector in order to achieve the accountability and transparency demanded by citizens as well as international donors. Some have adopted comprehensive integrated financial management reforms while others are trying to modernize through phased in modification. Most of the reforms projects currently in process have defined and agreed to key conditions needed prior to the development of the reform design.

45. A **clear understanding** of the systemic concept for application to public administration in general and financial management in particular is needed. That is, public administration is a system whose parts are coherently arranged with harmonic and rational relationships. The system is a group of entities, principles, and standards linked and coordinated, constituting one indivisible unit, taking into account the relative functional and operational independence of each part. The parts should act with the like orientation to satisfy a common objective. Financial management is a part of the public administration system. It may be defined as the group of systems, organizations, principles, standards, procedures, and resources which provide the framework for the operations of programming, management, and control necessary to efficiently capture and apply public funds for the achievement of the objectives and goals of the government. Financial management should be based on rational, interrelated, interactive, and integrated systems in order to permit the best possible use of resources. It should ensure accountability and transparency through efficiency, effectiveness and economy. Its purpose is to generate timely and reliable information for decision making.

46. **Political will** is the fundamental factor which not only begins the project process but also contributes heavily to its success or lack thereof. In Bolivia, Antonio Sanchez de Lozada, Comptroller General, realized that the exercise of efficient external government control was not possible without adequate systems of administration, information, and internal control. Therefore, the SAFCO project included improvements in management, transparency, and accountability. In Argentina, Dr. Ricardo A. Gutierrez, Secretary of Finance, with the express support of Dr. Domingo Felipe Cavallo, Minister of Economy, designed and implemented a Governmental Financial Administration Reform effort to modernize financial management operations and make them more efficient to offer the citizenry a more transparent public resource management process. Comptroller General Ruben Carles of Panama requested international assistance in strengthening the financial management capability of the Government of Panama in order to renew public confidence in the integrity and competence of the government. With similar goals, Nicaragua and Venezuela are in the process of designing financial administration reform projects.

47. There must be a **strong commitment** and **definite strategy** to implement an interdependent, interrelated and interactive set of administrative subsystems to provide the most accountable and transparent use of resources in achieving the objectives and goals of the government. The financial

management system constitutes a social and rational process for combining human resources, materials, and finances. The IFMS approach mandates a clear definition of the role and responsibility of each subsystem and each institution within the system, and also empowers the people who are responsible for its operation. This is done through the concept of normative centralization and operational decentralization; i.e. the creation of rector organizations at the central level with administrative operations being carried out by individual agencies. The system is formalized through a clear, concise, yet flexible **legal framework** which defines the system.

48. There is some discussion as to whether a public administration law is necessary to begin implementing the financial management reform process. Panama has opted to carry out the reforms and then define the legal framework to formalize them. Bolivia and Argentina passed laws to define the reforms prior to implementation. Colombia included the basic concepts in its 1989 Budget Law. Ecuador is attempting to base its program on its Budget Law passed in December 1992. Peru has included financial administration in its Political Constitution of 1993, but is having difficulty conforming existing legislation with constitutional mandates. Each country needs to determine the most feasible way to implement a reform in terms of its particular situation. Because of the common Latin American constitutional characteristic of non-sequential terms of office for president, this generally implies more emphasis on short-term results.

49. **Communication** through **coordination** and exchange is an essential condition. Commitment to the importance of communication should be an integral part of a reform project and applied in the broadest sense possible. This includes horizontal and vertical communication among those involved in the reform, as well as between other branches of the government, the citizenry and interested professional groups, and non-governmental organizations. **Collaboration** in terms of frank and open discussion to provide all concerned parties with information regarding the reform will promote cohesive support for the effort.

50. Commitment to **education and training** at all levels is requisite to assure that all of the players understand the concepts and necessity of the reform, and in particular the subsystems which make up the system. Education of key leaders of the government regarding the role, purpose, and objectives of the reform will reinforce political support. Training of participants in their responsibilities within their subsystems, as well as the relationships between the roles of their subsystems and those of the other subsystems in the reform will decrease the risk of failure of the effort.

CONDITIONS PRECEDENT TO THE DESIGN OF AN INTEGRATED FINANCIAL MANAGEMENT REFORM

- There should exist a belief in and understanding of the systemic approach to the integrated, interrelated, and interactive set of systems which make up the financial administration of the country, province, or municipality.
- There is political will at the highest levels to commit both time and resources to carry out the implementation, in the shortest time possible, for the optimal impact. The effects of elections and changes in ministers or other high level officials should be taken into consideration.
- There is in place, or the possibility exist, to put into place, a clear, concise, yet flexible legal framework.
- There is commitment to coordination, collaboration, and cooperation among those involved in the implementation of the reform.
- There is recognition of the need for continual education and training and good human resource management to make the effort sustainable.
- Interchange of ideas and experiences with other countries in the region can lead to adaptation; however, each country, province, or municipality must take into consideration their particular characteristics and needs.

Box 4

51. Based on the foregoing prerequisite conditions, general guidelines for designing an integrated financial management system reform project have been identified. First, the financial management system should have a clearly defined hierarchical and legal structure. The financial functions of the public sector are the responsibility of the central government, and as such, the central administration shall have the attributes and authorities necessary to carry out this responsibility. Generally, one ministerial level agency will have this role for financial management and one for audit, as in the cases of Argentina and Bolivia. If more than one agency has constitutionally mandated responsibility, the establishment of a formalized coordinating mechanism is essential.

52. With or without the legal framework in place, it is imperative that a mechanism for coordination, at the highest levels and including all subsystems involved in financial management, be formed to promote leadership for the reform. An inter-ministerial council composed of high level

officials should be created to ensure coordination in policy making and other overall supervisory functions. Through the coordinating mechanism, the interchange of ideas and experiences will lead to sustainable achievements because those involved will have taken part in the decisions leading to the changes. This may include the Ministry of Finance, the Ministry of Planning, the Comptroller General, and any other public sector entity which has authority in the areas of accounting, budgeting, cash management, public credit, and other subsystems which compose the financial management system. The inclusion of the legislative branch in the coordinating mechanism has been recognized to be useful because of its budgetary control and oversight functions.

53. Although most Latin American countries have recognized the need to modernize their public sectors, there will always be resistance to change, especially if, as in the case of a Court of Accounts, it means relinquishing certain powers. This concept holds true not only at the higher levels, but at the administrative levels as well. It is the reason for which commitment, coordination, and collaboration are integral to the reform. Coordination and harmonization of the system entails a great deal of commitment to the concepts of economy, efficiency, and effectiveness and this must be evident in the rector organizations involved in the reform.

54. The financial management system will be defined to include those subsystems which form part of the collection, programming, use, reporting, and evaluation of government financial management. Specifically, the financial management subsystems should include accounting, budgeting, cash management, and public credit, in addition to any other financially related subsystems such as procurement, contracting, asset management, or taxation, depending on the particular characteristics of a government. Because of the close relationships and interdependencies which exist among the financial management subsystems, they will be integrated, interrelated, and interactive. Each subsystem will have a rector organization in the central government administration which will define the policies, standards, methodologies and procedures for that subsystem in view of the individual needs of each subsystem, the inter-relational necessities of the other subsystems, and the overall objectives and goals of the government for the efficient functioning of the system. Conceptualization of the integration or interrelationships of the subsystems is essential. The roles and responsibilities of each subsystem will be set forth in a clear, concise legal framework; be it a law, decree, or executive order.

55. There will be a clear differentiation between the centralized and decentralized functions of the subsystems. Normative centralization implies the provision of orientation for the various subsystems. Operative decentralization implies the administration of the policies, norms, general and common methodologies, and procedures in each of the entities of the government. The degree of decentralization will be determined according to the political, legal, and administrative framework of the various government organizations, the specific characteristics of the subsystems and the individual capabilities of the entities involved.

56. The financial management system, at the least, should include all of the non-financial public sector: the central government administration, the decentralized and autonomous entities, and the non-financial enterprises of the state. At its broadest, it should include the departments, provinces and municipalities which are responsible for public financial resources. The financial management system should be based on the most modern concepts in the area of administrative technologies, financial management, and control.

GENERAL GUIDELINES IN THE DESIGN OF AN INTEGRATED FINANCIAL MANAGEMENT SYSTEM

- There is a clear understanding that financial management should be based on a rational system which is integrated, interrelated, and interactive in order to ensure efficiency, effectiveness, and economy as well as accountability.
- There will be a complete rationalization and evaluation of the objectives of the reform with recognition of those systems currently in effect and the needs of financial information users.
- There is a clearly defined hierarchical and legal structure in place, or one can be put in place, to assign organizational and personal roles and responsibilities.
- The financial management subsystems will include all of the subsystems which form part of the collection, programming, use, reporting, and evaluation of the government's financial resources.
- The financial management system will include all of the resources of the government, province or municipality.
- There will be a clear definition between centralized and decentralized functions.
- The reform will be based on modern concepts of financial management and administration.
- The accounting system will be common, unique, uniform, and applicable to all government entities. If a computerized information system is envisioned, the accounting system will maintain authority over the system as the rector organization for information. If a manual system is utilized, submission of data to the accounting system will be mandated and enforced.
- The budget system will be based on a defined budget policy and will be prepared according to the unified accounting classification system. Evaluation will be based on the achievement of specific objectives as well as legal and regulatory requirements and efficient management by those responsible for budget execution.
- The public credit system will include all debt (both internal and external), and mechanisms for coordination with the budget, treasury, and accounting systems and other financial institutions involved in public credit.
- The cash management system will include the establishment of a "single account," appropriate mechanisms to ensure the timely access of resources and their effective application to programmed operations.
- An internal control structure will be established in all of the entities of the government to ensure transparency in the areas of authorization, processing, classification, registration, verification, evaluation, security, and physical protection of the entities' assets. Internal control will be the responsibility of the management of each entity.
- An internal audit unit will be established in all of the entities of the government to evaluate the achievement and efficiency of the entity's administration and internal control and to make recommendations for improvement.
- The modern concepts of the role of the supreme audit institution should be established. Auditors assist legislatures and other governing bodies to fulfill their oversight responsibility by providing assurances as to the credibility of management reports, assessments of various administrative practices, and other information. The supreme audit institution must be independent, professional, and objective

Box 5

V. CURRENT STATUS OF INTEGRATED FINANCIAL MANAGEMENT SYSTEMS IN SELECTED LATIN AMERICAN COUNTRIES

57. In the review of financial management systems, this study focuses on the national level within selected Latin American countries. The countries included in the study are grouped by those: (1) currently implementing integrated financial management reform projects, (2) those that have financial management reform projects with some integrated aspects, and (3) those that are preparing integrated financial management reform projects. In view of the preceding brief explanation of the IFMS model, country summaries will emphasize conformity with the IFMS approach, and identify noteworthy activities and constraints which have impeded progress in implementing the reform. It is worth noting that in those countries where the Bank or another international donor has been actively involved in the reform efforts more evaluation commentary is available. Also, the programs in Bolivia and Panama have been in effect for a longer period of time, have been professionally evaluated, and therefore the lessons learned from these efforts are more easily identified.

58. The degree of integration of the financial management systems in any country is a question which requires considerable study and analysis in view of the national and international situation. Nearly any program geared toward integration will be costly in terms of reorientation and training. Total integration may not be financially feasible; however, there have been countries which have shown considerable improvements through partial measures. The government of each country must consider its own situation: the degree of sophistication of the current system; the need to improve the system; and, the degree of integration which may reasonably be expected within a defined period. The most important requirements are: (1) the consideration of all the financial management functions and factors (not just the traditional ones), and (2) that all components of the financial management system be improved in parallel if there is to be sustainable change.

1. Countries Implementing Integrated Financial Management Systems Reforms

ARGENTINA

Spanish Acronym:	SIDIF (Integrated Financial Information System)
Legal Framework:	Law of Financial Management and Systems of Control of the Public Sector
Rector Organizations:	Ministry of Economies, Public Works and Services General Syndicate of the Nation (SIGEN - Executive Branch Internal Audit) Office of the Auditor General
Systems:	Budget Public Credit Treasury Accounting Internal Control and Audit (SIGEN)
External Financing:	World Bank

Box 6

59. In April 1991, the Executive Branch prepared and sent to the National Congress, a proposed Law of Financial Management and Control for the Public Sector based on an integrated approach, which provided the legal framework for the financial management reform. The Reform Project began in 1992, principally funded by the Bank. It defined financial management as the group of principles, standards, organization, resources, systems, and procedures which provide the framework for the operations of programming, management, and control necessary to efficiently obtain public funds and apply them for the achievement of the objectives and goals of the state. The criteria of the program included certain basic design assumptions--the organization would have a systemic character and be coordinated through one central organization responsible for developing the financial policies of the government and formulating the corresponding standards. The systems of budget, public credit, treasury, and accounting were specifically established and are closely interrelated in the areas of standards, operation, and information. Transparency of government financial management is assured through the use of common data and common accounts. A focus on better efficiency in the functions of internal control and audit and external audit is part of the program. Other characteristics include: an educational and training program for all participants

involved in the reform effort; a single computerized accounting information system for all data; inclusion of all non-financial national government entities in the system; and more active participation by Congress.

60. The **Budget Office**, in addition to its responsibility for issuing the standards for budget formulation has also been responsible for carrying out the implementation of the reforms and the training of the officials involved in the process. A budgetary policy was developed that not only includes the traditional annual operational budget but also the principal macroeconomic variables of the country. This permits the revaluation of the basic budget programming actions, as well as the products and financial resources needed for achievement of government programs. The national budget includes all sources of income and is based on a uniform classification system. The various organizations of the national government were classified into four groups: the central administration, the decentralized entities, the social security institutions, and the state-owned enterprises. Budget formulation is carried out by the individual institutions, centralizing the analysis and annual budget law preparation in the Budget Office. The approved annual budget law provides the input data to the financial information system. Data on financial transactions during budget execution are introduced directly into the data base. This permits efficient and reliable access to financial information and avoids duplication of information. Budget management evaluation is based on achievement of budgetary policies as well as evaluation in terms of administrative efficiency and effectiveness.

61. **Public credit** is defined as the capacity of the state to incur and issue debt instruments. Specifically, the law defined the use and type of debt and expressly prohibited incurring debt to finance operational expenses of the government. All information is maintained in the National Public Credit Office in the SIGADE data base. Because the introduction of a rector organization, responsible for debt management, was such a profound change from tradition, the following specific authorities were mandated to this body.

- Participation in the formulation of all financial policies regarding credit
- Organization of a capital markets information system
- Coordination of financing offers received by the government
- Development of authorization request procedures for public credit
- Standardization of procedures for issuance, placement, and redemption of financial instruments as well as negotiation, contracting, and amortization of loans applicable to all areas of government
- Organization of a system of assistance and orientation for loan negotiations
- Responsibility for ensuring that financing obtained through public credit operations is appropriately used
- Maintenance of up-to-date public debt records, ensuring that all information is included in the government accounting financial data base
- Establishment of budgetary estimates and projections for debt service and supervision of debt service activities

62. The **cash management or treasury system** is intimately involved in all government entities that use public funds (the law reflected this amplified vision). The National Treasury participates in the monetary programming and management of public resources. It issues the regulations and manuals that mandate: the responsibilities and roles of the decentralized entities; the operation of the "single bank account;" the procedures for revenues and payments, temporary investment and issuance of financial instruments; treatment of permanent funds and petty cash; and formulas, records, reports, and in general all types of instruments necessary for the administration and regulation of public funds. The Treasurer and the treasuries of each jurisdiction and entity of the central administration are responsible for providing information which is entered into the central data base administered by the Office of the Accountant General (described in the following section). The treasury units operating within entities of the non-financial public sector carry out the treasury functions within the entities and initiate data input originated at that location.

63. **Government accounting** is the information system. It is responsible for producing the financial statements necessary to demonstrate financial management results as well as general financial conditions of the government, in a timely and reliable form for users. The accounting system operates as the information link by maintaining the single data base (SIDIF) for all financial information. SIDIF centralizes the information in a single data base permitting a high level of efficiency. The government accounting system is common, uniform and applicable to all national government entities. It permits the on-line generation of information for analysis and synthesis. It is oriented toward identifying the costs of government operations. The Office of the Accountant General acts as the rector organization of the system of government accounting and as such is responsible for the design, authorization, operation and maintenance of the system in all parts of the national government. The Office of the Accountant General is the administrator of SIDIF. Accounting units (called record keeping units) of the central administration are located as closely as possible to the site where transactions are initiated in order to capture the data in a timely, precise, and secure manner. The accounting units are equipped with adequate equipment to produce the information outputs required by the Accountant General's Office and the management of the individual agencies.

64. Each Executive Branch agency is responsible for the its own system of **internal control.** The General Syndicate of the Nation (SIGEN) was created as the rector and normative organization for internal control and audit. It is charged with the supervision and coordination of the internal audit units that are located in each central government entity. The model of internal control and audit applied and coordinated by the SIGEN is integral and integrated. It includes budgetary, economic, financial, equity, and normative information as well as data on management and evaluation of programs, projects and operations based on criteria of economy, efficiency, and effectiveness. SIGEN reports directly to the President of Argentina on the financial and operational management of the agencies of the executive branch, to the Auditor General in its role as internal auditor, and to the public.

65. Article 116 of the Law of Financial Management and Control Systems of the Public Sector created the Office of the Auditor General as the entity responsible for public sector **external audit,** reporting directly to the National Congress. Its responsibilities include the audit of budgetary, economic, financial, resource, and legal management, including expressing an opinion on the financial statements of the central government, decentralized organizations, enterprises and societies of the state, public service regulatory entities, the municipality of the city of Buenos Aires, and the private entities involved in the process of privatization.

66. Noteworthy Activities

- *Rationalization of the Program:* The reform was carefully and well thought out, taking into consideration the national priorities, the needed political support, the physical and financial resources available, and a definite strategy for both internal implementation and external participation. The reform recognized the government's policy of emphasis on efficiency, effectiveness, and economy as mandated in the Public Administration Law. Political support was solicited through the appointment of key, committed high level personnel in the Ministry of Economy and increased participation by the Congress. Precise plans for human resource development (education, training, and retraining of government employees from entities which were eliminated or privatized as part of the total public sector reform), and computerization of financial information with a central data base were developed. Constant reporting to the public through publications such as the "*Quarterly Financial Report,*" "*Control Experiences, Report on the First Eighteen Months of the Operation of the General Syndicate of the Nation,*" and the establishment of centers and telephone lines for citizens to provide suggestions, comments, r allegations of irregularities serve to make the public aware of the benefits of the reform. All reports are provided to members of the government, both political and career, journalists, civic organizations, and other interested users.

- *Creation of Executive Branch Audit Organization: General Syndicate of the Nation (SIGEN)*: SIGEN was established to serve as the normative, supervisory, and coordinating institution for internal control and audit within the Executive Branch. It reports directly to the President of the Republic. Its role is to pursue and coordinate a comprehensive and integrated self-control model based on economy, efficiency, and effectiveness. In addition to program, project and operational evaluation, the self-control model also encompasses budgetary, economic, financial, resource, regulatory, and managerial applications. The Argentine internal control system includes 300 auditors in SIGEN and 1,056 auditors working in the internal audit units of the various government agencies. Within 18 months of its establishment, 81% of the internal audit units were operating with professional audit staff or interim audit supervisors, 75% of the internal audit units organizational structures had been approved and were operational, and 73% of the annual work plans had been approved and were in process. Approximately 11,845 reports have been issued in the areas of civil

service reductions debt payments, price verifications, privatization transactions, internal control evaluation, special social fund programs, organizational statements, and financial statement audits. This has provided transparency to the government financial management system and strengthened the creditability of the Executive Branch, particularly in terms of the privatization actions of the government.

- *Government Accounting as the Financial Information System of the Government*: The Budget and Accounting Offices prepared the Budgetary Classifications Manual during the first year of the reform. The Office of the Accountant General issued the Government's Chart of Accounts, reconciled the informational needs of the four main groups of government entities (central administration, decentralized organizations, social security institutions and public enterprises), and issued three related regulations. A quarterly financial report is prepared and distributed to the legislature, journalists, and interested public groups to ensure continued interest in and support of the reform. Although operational administration has been decentralized, accounting information at both the entity level and the national government level is readily available. It is also reliable because the system is based on a single entry of data which is then used by all the financial management subsystems. On-line access throughout the entire public sector is estimated by 1996. The Office of the Secretary of Finance is exploring the idea of providing computer terminals in public places, such as shopping centers, where citizens can made direct computerized inquiries seeking any financial data they desire.

67. Constraints

- The various political interests of the legislature have hindered the rapid development of the external audit function. While the historic achievement of creating Latin America's first Auditor General's Office presented a real opportunity to emphasize professional public sector auditing, it was greatly diminished in stature by the last minute creation of seven Auditors General by the Senate, instead of the single Auditor General in the law originally passed by the House. This later version was included in the new constitution.

BOLIVIA

Spanish Acronym:	SAFCO
Legal Framework:	Law 1178 of Government Financial Management and Audit (the SAFCO Law)
Rector Organizations:	Ministry of Finance Comptroller General
Systems:	Operations Systems: Operations Programming Administration and Organization Budgeting Implementation Systems: Personnel Management Resource Management Treasury & Public Credit Accounting Control Systems: Internal Control Auditing
External Financing:	World Bank/USAID

Box 7

68. In late 1985, the Government of Bolivia began an integrated financial management reform process to improve the efficiency of public financial administration, achieve transparency in the management of government, promote the concept of accountability, and reduce vulnerability to administrative corruption. In July 1990, Law 1178 of Government Administration and Control (commonly called the SAFCO Law) was approved by the Congress. Though originally conceived of as only an IFMS framework for financial accountability, SAFCO evolved into a public administration model, with a systemic and management focus emphasizing financial management and proposing the appropriate instruments for the execution and control of the policies, plans and programs of the government. These instruments are grouped by interrelated, interdependent and interactive systems (administration, internal control, and audit), which constitute a rational

combination of human, material, and financial resources joined together to achieve the objective and goals of the government.

69. The reform was organized into three main systems which included nine subsystems. The first group, *Operations Systems,* was to be the primary integrating and interrelating system for the other systems and subsystems of the model.

- *The Operation's Programming System* will develop, within the long term planning framework, the objectives to be achieved in the short or medium term for each public entity. This system identifies the group of coordinated elements necessary to translate the government's strategic objectives and plans into concrete actions and products or services to offer in the short and medium term, to satisfy the needs, requirements, and expectations of society. The products or services offered constitute the goals of the operation's programming system.

- *The Administrative Organization System* defines the administrative organization necessary to make the programming system feasible, in such a way that there is no dilution of accountability while ensuring efficient management of inputs.

- *The Budgeting System* provides for the estimation and assignment of sufficient resources to government entities to carry-out the programmed operations and activities. Budgeting is based on the annual programming of operations in order to permit close and efficient follow-up and control of its execution. The budget system has a close relationship with the systems of treasury and public credit and is integrated with the government accounting system in order to provide sufficient, competent, timely, and reliable information.

70. *Implementation Systems*

- *The Personnel Management System* determines the quantity and quality of the human resources required to implement operations or activities. The system will also be responsible for determining job classification and salary levels, and providing for selection, recruitment, training, professional development, evaluation, promotion, and retirement guidelines.

- *The Resource Management System (Administration of Goods and Services)* is responsible for the goods and services that are required for operations and therefore also includes the areas of contracting, asset management and maintenance, and the means of disposing of the same. This system is interrelated with all of the other administrative systems. It determines the qualitative and quantitative requirements of goods and services needed for programmed operations. The budgeting

formulation process feeds into the goods and services administration system and sets the financial limitations. The Administrative Organization System stipulates the contracting procedures, management and disposition of goods and services. The accounting system designates the accounts nomenclature or classification utilized for goods and services administration. The Treasury provides the financial resources incurred in the acquisition of goods and services. The Internal Managerial Control System ensures correct and efficient management.

- *The Treasury and Public Credit System* has responsibility for the management of revenues; execution of financing or public credit instruments; and the payments, obligations, and contracts needed to implement the budgeted programs. The Treasury serves as the cash management entity of the government rather than a traditional limited payment office.

- *The Integrated Governmental Accounting System* ensures that adequate accounting entry is made and proper documentation prepared to permit verification of results obtained and summarizes the financial and operative information necessary to decision making. It also permits the evaluation of the goals achieved in terms of cost and efficiency and permits demonstration that officials have complied with their responsibilities. This system incorporates all transactions in a common, timely, reliable, useful, and comprehensive system of information expressed in monetary terms. The accounting system plays a fundamental role in the integration of the other systems by not only nurturing them but also depending on them to obtain useful, timely, and reliable information.

71. *Control Systems*

- *The Internal Managerial Control System* includes the instruments, mechanisms, and techniques of directed supervisory control in the areas of authorization, processing, classification, registration, verification, evaluation, security, and physical protection (all of which form part of the administrative systems). The System of Internal Managerial Control includes pre-control as a basic responsibility of each agency, and establishes post-control as the responsibility of the agency's internal audit unit.

- *The Auditing Post-Control System* includes the independent and objective examination and evaluation of the operations of government agencies in order to measure the efficiency of the administration systems and internal controls, and provide professional recommendations for improvements. Secondly, external audit is responsible for the examination of the accounting and operating records in order to determine their reliability. The third class of external governmental audit is the traditional examination of financial statements in order to form an opinion on the

reasonableness of their presentation according to government accounting standards and/or generally accepted accounting principles. Finally, external government auditing includes the evaluation of the results of management in terms of levels of efficiency, economy, and effectiveness of the operations and activities, and it also includes the presentation of recommendations for improvements.

72. Noteworthy Activities

- *The Law of Government Administration and Control* was signed by the President of the Republic on July 20, 1990. This law replaced numerous antiquated, conflictive and inadequate laws with a single law which provides for a modern systems-based framework for not only financial management, but overall public sector management.

- *Identification of the Ministry of Finance* as responsible for the implementation and review of operations programming, organization of the public sector, budgeting, personnel management, procurement of goods and services, treasury, public credit, and accounting. The Office of the Accountant General was created by Ministerial Decree, as an under secretariat of the Ministry of Finance.

- Development of an *independently managed and financed Supreme Audit Institution* with the potential to perform professional audits in the public sector and assure that audits performed by others also meet appropriate standards of quality, professionalism, and independence. The ten year statutory term of the Comptroller General greatly contributed to improving this system. In addition a new law was adopted requiring that the Comptroller General be designated by a 2/3 vote in the Senate from among three presidential nominees. This reduced the politicalization of the office.

- *Modern training facilities* have been set up and plans made for a comprehensive career path training program for those responsible for accountability in government. Also, a five year contract was awarded to Harvard University to establish with the Catholic University of Bolivia, master's degree programs in Auditing and Public Policy Formulation. The Comptroller General's Office has initiated a fellowship program which will provide scholarships to university students who will then be committed to working in the government for a period of time.

- *Strong political will* at the outset of the project. When the government changed, this became a constraint which highlights the importance of this factor.

73. Constraints

- The May 30, 1994 *"Mid-term Evaluation of the Public Financial Management Operation II, SAFCO/ILACO"* identified several critical constraints, including: (1) the need for a management mechanism to assist the Coordinating Committee in conveying the correct

messages and information to the rest of the public sector; and (2) the need for a cadre of technical/professional consultants with international experience, to provide the quality control, implementation know-how, and sustainable focus necessary. The report cited five major issues to be addressed: the active support and leadership of top bureaucrats and politicians; a more effective project management and coordination structure; adequate information gathering upon which management can base project decisions; a stronger focus on the development of capabilities within each of the implementing entities; and the establishment of objectives for financing line resources. Additionally, the levels of funding available needed to be re-affirmed and there was a need to develop a program to replace consultants with staff.

- In response to the evaluation report, USAID's Regional Financial Management Improvement Project, Phase II (LAC/RFMIP II) was requested in July 1994 to provide two Information Seminars on the SAFCO Law to the ministers and secretaries of the new government. Six of the eleven cabinet ministers, and twenty-five out of the thirty national secretaries attended the seminars. The seminar report pointed out that the fundamental cause of the lag in the implementation of the SAFCO law was that no basic standards had been issued for the systems of operational programming, administrative organization, administration of goods and services, personnel administration and government accounting, although some drafts had been prepared.

- In January 1995, a Bank Supervision in Bolivia reviewed the corrective measures taken since the mid-term evaluation. The conclusion of the mission was that there are still derailment risks especially with regard to meeting the financial management integration objectives and the finalization of standards. However, a series of new agreements were reached, which if accomplished, will facilitate technical coordination and organizational cooperation to allow the project to meet its potential. Only the accounting and auditing standards are complete; however, a new unit known as the Public Management Unit has been set up directly under the Minister of Finance and is charged with producing all of the administrative standards needed to implement the law. Basic financial information is available through the accounting system (in comparative form with amounts budgeted) and a certain amount of combined public sector information is also available on a monthly basis. Accounting, budget, and treasury data has been integrated in the central government and to some degree in the entire public sector. The Comptroller General's Office has been completely reorganized, all normative measures have been issued and the office is now performing professional quality audits of public programs and entities. Audit staff has been trained in accounting and auditing, and an annual audit plan is being executed and reports produced are of high professional quality.

BRAZIL

Acronym:	SIAFI
Legal Framework:	Constitutional Decree dated March 10, 1986
Rector Organization:	National Secretariat of Treasury which is part of the Ministry of Finance Constitution mandates that the legislative, executive, and judicial branches must be responsible for internal control.
Systems:	Treasury Accounting Auditing Budgeting
External Financing:	World Bank

Box 8

74. On March 10, 1986, the National Treasury Secretariat (SNT) was created as the central organization of financial planning and control. It is located within the Ministry of Finance. It assumed the functions of the antiquated Financial Programming Commission and the Central Secretariat for Internal Control. It is responsible for the Federal Government's Integrated Financial Management System (SIAFI) that includes the accounting and budget control systems. Budgeting is the responsibility of the Planning, Budgeting, and Evaluation Secretariat of the President of the Republic. In 1994 the Federal Secretariat of Control (SFC), authorized to contract private firms to perform audits, was the organization responsible for internal auditing in the Federal government.

Estimation of Revenues	S	Estimation of Expenditures
Collection of Revenues	I	Financing Programs & Expenditures
Banking Network	A	Disbursement Approval
On-line Network	F	Payment Orders
Guide for Receipt	I	Liquidation
Common Deposits		Payments

Box 9

75. A site assessment was carried out in Brazil from May 9-13, 1994, which found that SIAFI complies with many of the characteristics of an IFMS. The treasury system has a single account integrated with accounting through automation, permitting accounting and budgetary control and information on government finances. SIAFI is an on-line system that has about 3,000 installed terminals throughout the country covering all of the spending entities of the Federal Government, including the administrative units of the legislative and judicial branches, agencies of the executive branch and the majority of the autonomous entities, foundations and public enterprises that are included in the National Budget and Social Security Budget. The Government Accounting system through SIAFI integrates and controls budgetary compliance with the treasury operation in a process which was considered by the officials interviewed as reliable, consistent, transparent, and inclusive.

76. According to the 1988 Constitution, the accounting, treasury, budgetary, operational, and resource control agencies of the Federal Government and the direct and indirect administrative entities, in terms of legality, legitimacy, economy, application of the subsidies and tax exemptions, are controlled by the Congress. Internal control is exercised by each branch and external control by the Court of Accounts. In the area of **internal control**, the Constitution mandates that the legislative, executive, and judicial branches maintain, in an integrated form, the internal control systems necessary to evaluate the accomplishments of the government goals and evaluate the results of the efficiency and effectiveness of budget, treasury, and resource management by the entities of the Federal Government. The Court of Accounts is made up of nine ministers with life-long terms, three of which are named by the President and approved by the Senate, and six of which are named and approved by Congress. The Court of Accounts is responsible for judging the accounts of the

administrators and others who are responsible for the monies, goods, and assets through direct or indirect administration. It is also responsible for examining those accounts that have caused loss, damage, or other irregularities against the public treasury. The Court is also responsible for the inspections and accounting, financial, budgetary, operation and resource review of the administrative units of the legislative, judicial, executive branches, and the decentralized and regulatory agencies. It does not perform professional audits. All such audits are either internal audits or those done by SFC contracted firms.

77. Noteworthy Activities

- The SIAFI design and development was based on Brazilian experience and needs and included some very innovative and advanced features, particularly in data processing technology. SIAFI, financed in large measure by the Bank, was the first attempt at setting up an IFMS in Latin America and the first information system centered within the accounting function.

78. Constraints Identified

- The budget system still lacks an adequate framework for the investment selection process; does not consider a multi annual perspective; and does not allow for the control of the physical outcomes of the public action. In 1994 this problem was aggravated because budget approval was delayed until October.

- SIAFI was developed in 1986 using state-of-the-art computer technology and equipment including a large mainframe computer in Brasilia. Subsequent technological improvements in microcomputers have rendered the hardware and software relatively obsolete and it will have to be replaced before the end of the century.

- SIAFI has not been fully documented. No official written description of it is available.

79. The Government of Brazil has expressed interest in having a "Financial Accountability Assessment" performed in order to identify ways to fully integrate its financial management system and review the quality of audits performed by the SFC and the private auditing firms which work in the public sector. On a technical mission carried out by USAID, May 23-26, 1995, officials of the State Reform Secretariat, Federal Control Secretariat, Budget Secretariat, Ministry of Administration and Finance Ministry expressed continued interest in having a financial management assessment performed in Brazil in order to come to a decision on implementing a reform project.

PANAMA

Spanish acronym:	RAF: Financial Management Reform Project
Legal Framework:	Being developed
Rector Organization:	Office of the Comptroller General of the Republic Ministry of Planning and Economic Policy Ministry of Finance and Treasury
Systems:	Budget Accounting Treasury Public Debt External Audit
External Financing:	USAID

Box 10

80. The Office of the Comptroller General of Panama assessed the state of deterioration into which Panamanian finances had fallen under the military dictatorship in his "*Report on the State of Public Finances and Some Aspects of the Fiscal Crisis*" presented on March 1, 1990. According to the report, the best means of achieving the goal of strengthening the financial management capability of the GOP and renewing public confidence in the integrity and competence of the government was through the design and implementation of an Integrated Financial Management System (focused on the functional areas of accounting, treasury, budget, and public debt) and a Comprehensive Audit System. The purpose of the project was to improve and integrate the financial management and audit systems and promote accountability of government officials in managing public resources. The project had two major goals: the establishment of an Integrated Financial Management System (IFMS) composed of four subsystems and a Comprehensive Audit System (CAS) that would assure fair, objective, reliable and independent review of government performance and financial reporting. In order to achieve these goals the objectives of the reform project were to: (1) implement organizational improvements, including the rationalization of financial management responsibilities among government entities, and better definition and documentation of key financial functions; (2) formulate, document, and implement financial management standards, policies, regulations, and procedures; (3) establish an independent Office of the Auditor General reporting to the Legislative Branch; (4) formulate and implement professional government audit standards, policies, practices, and procedures; (5) assist in the preparation and advocacy of proposed draft financial management

and government audit legislative reforms; (6) provide classroom and on-the-job training in new financial management and government audit responsibilities, functions and procedures; (7) develop a common data base to serve the IFMS system; and (8) promote awareness in all government employees of their responsibility to provide honest and efficient management of public resources.

81. In contrast to the practice in most Latin American countries, the Office of the Comptroller General is responsible for a number of primary financial management functions. The financial management reform project design reflected the distribution of responsibilities. The role of the Office of the Comptroller General was strengthened because of its leadership in the project. An Auditor General was to be established to strengthen and insulate audit functions. The Ministry of Planning and Economic Policy is primarily responsible for planning, budget policy, and debt management matters through oversight of the budget and public credit subsystems of the IFMS. The Ministry of Finance and Treasury is primarily responsible for cash management as part of the treasury subsystem as well as other functions such as tax and customs policy and revenue collection. Because of the crucial importance of agreement among the key government agencies on their responsibilities and commitments to the project, the signing of an agreement (which defines those responsibilities and commitments) by the Office of the Comptroller General, the Ministry of Planning and Economic Policy, the Ministry of Finance and Treasury and the President of the Budget Committee of the Legislative Assembly, was established as a condition precedent to donor disbursement.

82. The project is managed by the Office of the Comptroller General who designated an international project director and a national coordinator. The Comptroller General and the heads of the other government agencies involved have assigned key Panamanian personnel to critical supervisory roles in the development of the integrated financial management system and comprehensive auditing system. A core team of five international experts, contracted for four year terms, works closely with Panamanian officials to develop the systems in conjunction with regular government operations. Thus the assistance offered is constantly exposed to reality testing and the Panamanian officials remain in control of the design and implementation of the new subsystems as they are developed. Most importantly, project continuity over at least four years is assured.

83. The objective of the RAF project was to provide the government with reliable information for decision making. The IFMS being developed under the project encompasses planning, organization, direction, coordination, and control of financial resources in accordance with the goals of the government. The Office of the Comptroller General acts as a central regulatory authority overseeing the functioning of the IFMS throughout the government. The core IFMS established under the project will be capable of expansion to include the management of all the revenues and expenditures of the central government, decentralized entities, public enterprises, financial intermediaries, corporations and development projects, provinces, and municipalities.

84. The objective of the **budget system** is to estimate the cost of implementing activities planned by the government and to determine the sources of funds to finance expenditures for each annual period. The budget also serves to control the expenditure of government funds. The project has helped create a system that produces annual government sector budgets, including all current revenues and equity, operating expenses, and investments using classifications by program, institution, purpose, sector, and region. Formulation and implementation of the budget is based on the "*National Strategy for Development and Economic Policy Modernization for Recovery, Sustained Growth, and Job Creation*". The budget system is implemented by the Ministry of Planning and Economic Policy and other public sector institutions. The major achievements in the budget area have been the development and official adoption by the Government of Panama of the budget formulation manual and the budget execution manual and extensive training provided to a large number of public employees with direct budget management and analysis responsibilities (both at the central and institutional levels).

85. The objective of the **treasury system** is to receive and deposit resources; make disbursements in conformity with budgetary law; and receive, safeguard, and negotiate securities such as bonds, promissory notes, and treasury securities. The treasury system deals with all the revenues and expenditures of the government. It provides for an equilibrium in the execution of the budget through, among other mechanisms, transfers between deficit and surplus accounts of the central government, decentralized institutions, public enterprises, financial intermediaries, corporations, development projects, and provinces and municipalities. Operation of the treasury system is the responsibility of the Ministry of Finance, program agencies, other public sector institutions which deal with taxation and revenue collection systems, and the national banking system. Improvement in the treasury system has been somewhat delayed by protracted negotiations as to the ultimate location of the treasury. Both the Office of the Comptroller General and the Ministry of Finance are preparing documents pertaining to the creation of a formal national treasury system.

86. The objective of the **public debt system** is to assist in the management of public sector financial requirements by borrowing national and foreign currency with payment terms in excess of one year. The public debt system includes the resources made available from internal and external indebtedness, from institutions of the central government, decentralized entities, public enterprises, financial intermediaries, corporations, development projects, and provinces and municipalities. The public debt system incorporates an internal and external financing policy that is supported by financial, investment and budgetary plans; the negotiation, contracting and administration of disbursements arising from external debts and debt servicing; the issuance and investment of government bonds; and the realization of payments on internal public debt. The public debt system is now managed by a central public debt office in the Ministry of Planning and Economic Policy. The ministry has successfully implemented a new integrated debt management system (WBDMS) which replaced an array of uncoordinated data bases and independent applications.

87. The objective of the **accounting system** is to classify, record, analyze, and report financial transactions to management and other users on a timely basis in a format that is useful and supports users' information needs for decision making purposes. The new accounting system applies generally accepted principles, policies, technical standards, practices and procedures to recording and reporting the government's financial transactions. The accounting system is the responsibility of the Comptroller General, who this year issued the first Consolidated Financial Statement as of December 31, 1994. The Consolidated Financial Statement included a Balance Sheet, a Cash Flow Statement, a Statement of the Outstanding Public Debt, and a Statement of Revenues and Expenditures.

88. The objectives of the **Comprehensive Audit System** (CAS) are to determine in a professional and independent manner that the government has obtained appropriate value for monies invested; that revenues have been collected and deposited intact; that assets are adequately protected; and that financial statements and other financial data are fairly presented in accordance with generally accepted accounting principles and applicable legislation. Since its inception in 1992, the RAF has substantially completed the development of external and internal audit standards, has provided intensive government-wide training on audit principles and operations, and has assisted in the initial reorganization of the Auditor General's Office and of internal audit units in key agencies.

89. Noteworthy Activities

- On January 31, 1994, the President of Panama declared 1994 the year of Governmental Accounting and formally declared his commitment to the support of the reform effort.

- Reforms developed by the project are in the curriculum of the Accounting and Public Administration schools of Panamanian universities and technical documents prepared by the project are being used as textbook materials.

- The number of government employees which have received training under the reform is exceptional. Through August 1994, 8,032 government personnel participated in formal classroom courses in the areas of audit, government accounting, public debt, budget, treasury, and ethics. This number does not include on-the-job training interventions. This will enhance the capability of the government even if people change positions or leave the public sector. The training has provided the base for sustainable impact, and has contributed to improved government financial management and a strengthened accountability environment. In addition, it has had a highly positive impact on public sector morale and a sense of professional pride has developed.

- A mid-term evaluation sponsored by USAID in December 1994 found that the specific outputs already attained have had an extremely positive and sustainable impact on public sector financial management in Panama. The major accomplishments which were recognized included: (1) government-wide, consistently applied standards, regulations, and

procedures for recording and reporting financial data were developed and are being effectively disseminated through substantial public sector training; (2) two comprehensive budget manuals which established regulations, standards, and procedures for the preparation, consolidation, and evaluation of institution-specific and government-wide budgets have been published and are being used; and (3) consolidated budgets were produced in 1993 and 1994.

90. Constraints Identified

- Coordination between the Comptroller General's Office and other key government ministries and organizations has not been sufficient to date, which has to some extent impeded high level consensus throughout the government with respect to policy and implementation issues. Considerable duplication of effort with widely varied levels of success in implementing budget and accounting subsystems at the individual government entity level has occurred in part due to the lack of a forum for sharing common implementation problems, solutions, and systems developments through an operational inter-governmental coordinating body.

- Relatively low government salaries and incentives continue to be a serious problem, negatively impacting the ability to retain qualified professionals, and to some extent, diminishes the impact of the reform sponsored training.

- The Office of the Comptroller General still exercises both pre- and post-control (audit) functions. These functions have been physically segregated within the office but it is still responsible for auditing what it has already approved. To fully implement the IFMS pre-control must be decentralized and the Auditor General's Office separated and made an entity of the Legislative Branch.

2. Countries with Financial Management Reforms which include some Integrated Aspects

COLOMBIA

Spanish Acronym:	SIIF (Integrated Information System)
Legal Framework:	Constitution of 1991
Rector Organizations:	Ministry of Finance Comptroller General
Systems:	Accounting Budget Public Credit Treasury Audit Informatics
External Financing:	World Bank

Box 11

91. The 1991 Constitution was a mandate for reform based on national consensus, aimed at improving the management of public resources. In the area of financial management, it includes six aspects for improvement. First, the central government will move towards decentralization of services by allocating a larger share of public resources to lower levels. Second, the Office of the Accountant General must be established within the Ministry of Finance. This office will be responsible for consolidating the national budget and preparing state financial statements. Third, a modern financial management system would be established based on principles of efficiency and effectiveness. Fourth, the executive branch would be responsible for equity and environmental impact in terms of resource allocation decisions. Fifth, the Comptroller General's Office was to be reorganized with responsibility for posterior external audit. Internal control would became the responsibility of the individual agencies. Sixth, the offices of Fiscal General and Ombusdman were to be established in the Ministry of Finance.

92. USAID made an assessment of financial management in Colombia at the request of the government in 1989-90 and there have been significant reforms to the financial management model. The measures adopted include: (1) consolidation of the central administration and public agency

budgets into a single budgetary law and requirements of government approval of public enterprise budgets; (2) the establishment of a single mechanism for disbursing funds from the National Treasury through the remittance of resources in favor of public entities, and the possibility of establishing a single accounting system for the management of these funds; (3) the authorization of the Treasury to sell or purchase government or treasury title in the capital markets; (4) elimination of the prior control exercised by the Office of the Comptroller General; (5) the creation of an Accountant General position located in the executive branch, responsible for government accounting (previously the responsibility of the Comptroller General).

93. In consonance with its overall modernization plans, the government is committed to the concept of building financial management capability in order to strengthen the capacity of the public sector and to restore public confidence in it. Nevertheless, there still exists within the Colombian financial management system inadequate integration of (a) information; (b) budget revenues, expenditures, and financing; (c) collection of financial resources; (d) execution of expenditures; and (e) control of the entire process. Therefore, Colombia has entered into an agreement with the Bank for a five year effort to improve its financial management.

94. The key to effectively modernizing public financial management in Colombia is in installing a modern integrated information system. The Constitution specifies a minimum level of information to be required to manage public expenditures. One of the components of the new loan will help to establish clear links from all information systems to the overall financial management system. It will also provide for integration of information related to budget, treasury, public credit, open market operations, and implementation. Installing a modern integrated accounting system is also key to effectively modernizing the government financial management system. Although development of an integrated system has begun, there is no unified accounting plan that can be applied both nationally and locally. Under the new project, the government plans to develop a comprehensive accounting system that would ensure uniformity of accounting procedures and classifications, and establish the accounting subsystem as the information broker for the entire financial management system.

95. In the area of control, the system design for the integrated financial management system includes a clearer definition of "government control." One component will provide international consultants to prepare the structure, procedures, and regulations of the internal control system; define new internal audit standards; and prepare corresponding manuals. The modernization of external control is underway with the assistance of Canada and the U.S. Further assistance will be given to consolidate the advances to date by providing for a comprehensive training program to ensure long-term sustainability of improvements to date.

ECUADOR

Spanish Acronym:	SIGEF: Integrated Financial Management System
Legal Framework:	Organic Law of Financial Management and Control (LOAFYC) Budget Law of 1992
Rector Organizations:	Council for Modernization of the State Ministry of Finance and Public Credit National Secretariat for Administrative Development National Planning Secretariat Comptroller General of the State
Systems:	Budget, Accounting, Debt Management, Audit, Control, Procurement, Human Resource Management, Informatics
External Funding:	World Bank

Box 12

96. Reform efforts are aimed at modernizing the economy, reducing the size of the public sector and generating greater private sector participation in the economy. The reform plans in the public sector plan are to restructure and modernize the management of ministries and agencies according to a redefinition of objectives and goals. The financial management component of the reform has the general objective of streamlining and modernizing the processes of planning, budget execution, accounting, and control. The implementation of the reform is based on an integrated approach to serve the three purposes of a Government's budgetary system: macroeconomic, managerial, and financial. First, the financial management system must generate the national accounts information required for decisions related to the nation's macroeconomic policy. Second, the financial management system is to provide the basis to generate the information required by government executives to make managerial decisions. Third, the financial management system must provide the basis to effectively and economically manage the financial resources of the state. Essential to this multiple use of the budgetary system is the existence of an accounting system in which transactions are recorded and reports generated according to various user requirements.

97. The Council for Modernization of the State (CONAM) was created in 1992 to establish the legal, economic, financial, technical, social, political, and human resource base necessary to achieve the initiative. It will, in cooperation with the National Secretariat for Administrative Development and other government agencies, define an action plan for the modernization process. Each of the core agencies is responsible for designing the processes, standards, and regulations for financial, administrative, control, and audit management required to implement the law. The Ministry of Finance and Public Credit is responsible for establishing the policies, standards, technical specifications, as well as actions for executing, coordinating, evaluating, and determining the balance of the public sector budgets. The National Secretariat for Administrative Development is responsible for: 1) delineating administrative policies, formulating and executing programs, evaluating the efficiency of operations in the public administration, and fulfilling the purposes and objectives programmed; 2) monitoring the efficiency and effectiveness of public sector institutions to carry out their responsibilities; and 3) investigating complaints and claims regarding the management of public funds, advising the public sector institutions on their reorganization and administrative structure, and promoting the adoption of technical administrative procedures appropriate to improve those institutions. The National Planning Secretariat sets general economic and social policies and develops corresponding development plans. The Office of the Comptroller General of the State is responsible for the systems of accounting and auditing of public resources. It is responsible for emitting policies, standards, manuals, and other regulations that permit the design, installation, and functioning of accounting and auditing systems. The new Budget Law attempts to define the audit environment and scope, and establish internal audit units in all public sector entities. The Office of the Comptroller General has the constitutional mandate to audit public investments. The new law broadens and clarifies the overall audit functions of that office.

98. As a means of streamlining and modernizing the financial management process, the reform project will focus on several key areas. It will establish the relationship between the budgeting and planning functions; instituting budget formulation and cash programming capacity at the individual entity level. The Treasury subsystem will be changed to a cash management. The debt management function will be strengthened. Standards and procedures for government accounting will be established. The Ministry of Finance will continue its restructuring in the areas of budget formulation, execution and control and debt management. A draft procurement law to regulate all public sector acquisitions will be written. Finally, public sector human resource management will be strengthened.

EL SALVADOR

Spanish Acronym:	SAFI (Integrated Financial Management System) SICON (Government System of Control)
Legal Framework:	1983 Constitution Legislative Decree No. 64, October 31, 1991 Legislative Decree No. 152, January 30, 1992 Constitutional Amendment, October 1994
Rector Organization:	Ministry of Finance Court of Accounts
Systems:	Budget Treasury Accounting Public Credit
External Financing:	International Monetary Fund USAID Inter-American Development Bank

Box 13

99. In 1989, the Government of El Salvador initiated a comprehensive economic stabilization and structural adjustment program aimed at restoring internal and external competitive market forces. As part of the structural adjustment program, a high level government committee developed a comprehensive strategy to improve public sector accountability. The Ministry of Finance and the Ministry of Planning and Economic and Social Development worked with the World Bank and the IDB to develop a Public Sector Modernization Program. The four areas targeted for modernization included: (1) human resources; (2) financial management; (3) procurement and contracting; and (4) government control. The first phase of the financial management and government control projects was formally initiated in February 1993. Work in the government accounting area resulted in he passage of the *Organic Law of Government Accounting* in 1991; followed up with a mandate to have general and common government accounting in all twenty three agencies of the Central Government by the end of 1994. The introduction of a VAT tax system captures, on a daily basis, 80% of all of the revenues of the government.

100. In 1994 two critical actions were taken in the implementation of El Salvador's Integrated Financial Management Reform Program. It was agreed that budget unification will be evidenced in the 1996 Budget and the Constitutional Reform for the Court of Accounts was ratified on October 14, 1994.

101. In the area of the **accounting system**, the passage of the Organic Law and the development of the Government Accounting Handbook have resulted in establishing a unified accounting system throughout the central government. The system will serve as the basic structure for the accounting and budgeting system. Extensive training in the use of the handbook has been conducted and will enhance the capacity of the government for recording and reporting.

102. The General Budget Office has the broad responsibility for the **budgeting system**. According to the annual Budget Law, this includes two main objectives: to assure rational use of government resources through the planning, organization, and coordination of budget formulation, and to control and evaluate budgetary programs according to policies and actions that contribute to the economic development of the country. There are two main constraints to the budget system: there is no single unified budget and the expenditure information in the budget documents is unreliable (given that a sizeable amount of expenditure which takes place in the post-budget year is considered part of the budgeted year).

103. The General Treasury is responsible for the principal management of **revenue and expenditure** flows of the central government and the management of the General Fund. The Treasury is also responsible for maintaining the liquidity of General Fund operations and providing information on cash flows. A Legislative Decree issued in 1992, *Documentation for Advance of Public Funds*, was the first step in reinterpreting the Salvadoran Constitution (which mandated the pre-control function exercised by the Court of Accounts). The new decree provides for periodic advances, authorizes post audit as an effective modern control mechanism, and allows the Ministry of Finance to set up decentralized payment offices to improve processing time. There is still a lack of a unified approach to cash management and debt policy.

104. The **public debt system** is the responsibility of the Office of Fiscal Policy and Public Financing. This office is working towards integrating debt data collection, debt policy, and debt information. There had been a serious impediment in the information flow among the institutions concerned with public debt. The three major institutions are the Ministry of Finance, Ministry of Planning, and the Central Bank. A comprehensive data base of debt is being developed and will capture the full range of debt activity for the entire public sector.

105. Constraints Identified

- Although international consultants have been working in El Salvador during the last three years, progress has been impeded, in particular in the area of the Court of Accounts. Many of the standards written during the past three years are ready for issuance, including a draft

Organic Law of the Court of Accounts and an organic law for the integrated financial management system. Although efforts to date have been funded with IMF and USAID funds, the IDB will be taking over the project in 1995 to ensure sustainability of the reforms achieved to date.

- The staff of the Court of Accounts was bloated, under-trained and generally opposed to the modernization of the audit function. The employees went on strike in 1993. Definitive action is required to reduce the size of the staff of the Court and institute a training plan sufficient to bring the employees up to a basic level of professionalism.

- Due to the delay in passing the two laws mentioned, not all targets have been met in implementing the first reform project. The budget reform in the central government agencies was delayed one year. The treasury function is still highly centralized. The accounting decentralization has been a fragile process due to the lack of computer facilities at most government agencies. The audit reform has been stalled.

PARAGUAY

Spanish Acronym:	SIIF: Integrated Financial Information System
Legal Framework:	The legislation for financial administration is currently in the process of modernization because of conflicting previous laws.
Rector Organization:	Ministry of Finance Under-Secretary for Financial Management Subsecretaries of Budget, Treasury and Accounting
External Financing:	IDB

Box 14

106. Governmental financial management in Paraguay is the responsibility of the Ministry of Finance. A new Financial Management Law that will govern financial administration, based on an integrated financial information system (SIIF) is currently in preparation. Present laws are in conflict with one another and passage of the framework law will give authority to the reforms taking place.

107. At the central level, the agency responsible for financial administration is the Ministry of Finance. Its organization and functions were established by Law. No. 109, issued in 1991. There are three Under-Secretaries: Economy; Taxation; and Financial Management. The systems of treasury, budget, and accounting, as well as retirements and pensions, are located under the last secretariat. The Office of Budget, responsible for the organization, authorization, and control of the national budget, has authority over the central government administration and approximately 32 decentralized institutions including public enterprises. However, municipalities are autonomous, have their own revenues, and administer their own budgets. The budget is characterized as the execution instrument for the achievement of government policies; it reflects the objectives and goals through programs, subprograms, activities and projects that are executed during the fiscal period. Since 1992, reforms are being implemented and modifications are being made to the budget structure and procedures. Beginning with the 1995 budget exercise, each entity will prepare its budget using the manuals developed under a project with the Inter-American Development Bank. The Computer Center of the Ministry of Finance will enter the data and prepare the first draft of the budget project, which will

be revised and verified. Except for budget modifications, the other phases of execution are the responsibility of the Treasury.

108. The Treasury is responsible for the administration of the financial resources of the state, the programming and control of the budgetary execution, the payment of the obligations as well as the supervision and control of the standards related to the use of credit and administration of public debt. As part of the SIIF system, through the Subsystem of Information of Resources (SIRE) and Subsystem of Information of Budgetary Execution (SIEP), the treasury is integrated into the computerized network of the programming and execution of the budget. The Treasury centralizes the revenues and expenditures of funds or instruments of value forecasted in the General Revenue Budget or made available by special laws. In the future, an Office of Public Debt, currently being studied by an ad-hoc commission, will be organized. Consequently the functions of public credit will eventually be independent of the Treasury. The data base that the Treasury currently maintains is connected with the Central Bank, as the financing agent of the government.

109. The Subsecretary for Financial Management is responsible for the financial administration, including the Government Accounting Office. The Government Accounting Office is responsible for developing the financial and accounting information of the central government administration in order to prepare the financial statements of the public sector. It also receives information on the accounts of the government entities, and it reports on these as well as the assets of the government. The majority of the workload of the Government Accounting office is the antiquated review of accounts which prevents it from preparing timely reports.

110. The Office of the Comptroller General was created in 1991, replacing its predecessor agency which was a dependency of the Ministry of Finance. The 1992 Constitution conferred on the Office of the Comptroller General certain responsibilities which were inconsistent with the role of the institution. A law was prepared and presented to Congress that attempted to clarify the inconsistencies, however it was vetoed by the President. The Ministry of Finance is also opposed to the law as certain articles will infringe on the responsibilities of the financial management subsystem.

PERU

Legal Framework:	Congressional Decree No. 183
Rector Organization:	Ministry of Economy and Finances Comptroller General
Systems:	Planning System National Control System Public Budget System Government Accounting System Personnel System

Box 15

111. The systems for government administration have been formally established in Peru since the 1970s. They have been increased, modified, and/or annulled depending on the government in power. The formally established systems related to financial management are: Planning System, National Control System, Public Budgetary System, Treasury System, Government Accounting System, and Personnel System. The National Institute for Planning is the rector organization for the **planning system**. This institute was disbanded during the recent government restructuring measures and its functions have been assumed by the President. The Office of the Controller General is the rector organization for the **national control system**. The new Constitution defines this entity as a decentralized organization with autonomy. There is a conflict in identifying the entity as the rector organization for the national control system while being decentralized at the same time. The Office of Budget of the Ministry of Economics and Finance is the rector organization for the **budget system.** The Office of Treasury of the Ministry of Economics and Finance is the rector organization for the treasury system. The **government accounting system** is not mentioned in the new Constitution as it had been in previous constitutions; however the Office of Government Accounting continues to operate as the head of the system based on the still-in-effect original law which created the office. The **personnel system** is the responsibility of the National Institute of Public Administration (INAP). The INAP sets the standards for wages and salary schedules. It also has the responsibility for the training of government employees through the Public Administration School.

112. Government financial management is the responsibility of the Ministry of Economy and Finances. Its legal framework is based on Congressional Decree No. 183. It is responsible for the application of the economic and fiscal policies of the government, as well as the management of the financial resources of the government. There are two Vice-Ministers: Economy and Finance. The Offices of Treasury, Budget, and Public Credit report to the Vice-Minister for Finance. The *Comite*

de Caja is the principal entity for management control and financial administration for the government. It is charged with fiscal restructuring and inflation adjustment policies. The Office of Budget is the rector organization with technical normative authority over the budget system. This office has the responsibility to program, direct, coordinate, and evaluate the budget process in all its phases. As the rector organization for budget, the Office of Budget has the responsibility to issue the directives which must be followed by all government organizations with financial management responsibilities. The Office of Treasury is the rector organization for the treasury system. Its principal function is to centralize and control the funds collected by government agencies, including commercial banks. It is also responsible for payments. The fundamental responsibilities of the Treasury are to: propose the policies and issue the standards necessary to regulate the management of funds; develop the cash flow forecasts and determine cash availability; centralize the collection and payment processes of public funds; and prepare financial statements and reports on Treasury activities. The Office of Public Credit is the office responsible for centralizing information on both external and internal debt. It coordinates the distribution of information and manages the debt service. Although public credit is not formally established as a system, it operates as such. The information on public debt is difficult to rely on because of the absence of integration with the government accounting system.

113. Article No. 145 of the 1979 Constitution of Peru instituted the Government Accounting System. Its main function was the formulation of a uniform, centralized, and consolidated accounting system for the public sector. Based on the 1987 Constitutional Provisions, Law No. 24680 created the Government Accounting Office as the rector organization for the accounting system. The current Constitution, adopted December 30, 1993, does not include within its articles any provisions referring to the accounting system. Law No. 24680 mandated that the Government Accounting System be responsible for: unifying the accounting in the public and private sectors; developing the science of accounting through investigation; developing the accounting to be applied in carrying out economic-financial studies; and carrying out economic-financial studies for the various sectors of the economy in order to develop guidelines for operational analysis. Because of its decentralized nature, the system is not integrated with other systems, making it difficult to carry out its mandated responsibilities.

114. The Office of the Comptroller General was established in 1928. It initially exercised both pre- and post-control. The new Constitution recognizes the Office of the Comptroller General as the rector organization for the control system. The Office of the Comptroller General has spent the last year restructuring its organization to reflect its mandate. It is evident that there is a tremendous commitment on the part of the new Comptroller General and the staff to reform the office into a modern, technically qualified organization.

115. Noteworthy Activities

- The new structure of the OCG reflects a "private sector" approach to a public sector institution. The Comptroller General is a professional accountant who understands and

believes in the modern concepts of audit and its role in providing transparency and accountability. The organizational structure and definition of the office is clear, responsibilities are well delineated, and the professional personnel are dedicated to implementing the restructuring of the organization.

116. Constraints Identified

- As a whole, the financial management system has some serious constraints which need to be addressed by the Ministry of Finance. Although the actual system permits good cash control, until recently there was no general framework for the longer term. All of the financial management subsystems suffer from a lack of clear normative definition. Examples include: failure to fully apply the single bank account concept; collection of resources is not assured; generally accepted criteria are not applied for budgetary classifications; existing functional and organic concepts are confusing. Since there is no integrated system of information, it is difficult to determine the actual financial condition of the government.

- The Comptroller General's Office restructuring is still in the embryonic stages and there are two difficult tasks ahead: completion of an aggressive work plan to embrace the structural reforms and in view of the lack personnel experienced in government auditing.

URUGUAY

Spanish Acronym:	SICOP (Integrated Budget/Accounting System)
Rector Organization:	Ministry of Economy and Finance Court of Accounts
Systems:	Accounting Treasury Budget

Box 16

117. The following is a description of the cooperative agreement which Uruguay signed on June 9, 1994 between the Minister of Economy and Finance of Uruguay and the Secretary of Finance of Spain for the establishment of the automated Spanish model for an integrated accounting information system in the Central Government of Uruguay. The purpose of the agreement was to provide the administration with an integrated government budget and accounting system which would permit the evaluation of management; the provision of sufficient information for the correct formulation of the budget; and the presentation of timely information for decision making. In the environment of Latin American public administration, there is traditionally a strong interest in using the budget as the instrument for the rational use of resources and the programming of activities and projects to achieve the objectives and goals of the government. It follows that the budget is the mechanism for the identification of resources and assignment of expenditures for the government actions. Therefore, it is important to have budgets which are formulated in a manner which facilitates the analysis of expenditures and deviations. The budget should serve as the tool to implement programs, prioritize expenditures, eliminate those programs which are not effective and achieve more efficient and effective management of government resources.

- To strengthen the budget, clear identification of objectives and goals of each program must be identified. To do this, it is necessary to have adequate procedures for accounting entry including an integrated budget accounting system which captures all costs. Currently, the Uruguayan budget system can only capture operational information; over 10% of government resources are not included in the budget and there is no information available on the non-cash assets. The lack of uniform accounting criteria results in reports being issued over a year late.

118. Budget management has been strengthened in Spain since 1986 through the Integrated Budget/Accounting System. The model's basic structure includes the organization and technical requirements necessary for application of the system. The functional criteria include:

- recording of all economic, financial or resource operations;
- entry of data with the minimum possible movement of documents;
- introduction of the data through automated recording and simultaneous modification of all the subsystems and accounting areas which are affected;
- coherence and homogeny through unified accounting criteria and normalization of procedures; and
- security through data consistency and integrity and external security mechanisms.

The system is based on two structures: one conceptual (General Plan of Public Accounting) and the other technical (information system for data processing).

119. The advantages of using the Spanish system are: rapid implementation; important savings since the system is already designed and developed; adoption of a flexible budget model which integrates accounting and budgeting; capturing of information on both the operation and resource data; and the ability to provide information in a timely manner.

3. Countries that are preparing Integrated Financial Management Reform Projects

GUATEMALA	
Acronym:	SIAF SAG
Legal:	To be decided
Rector Organization:	Ministry of Finance Office of Comptroller General
Systems:	Budget Accounting Treasury Public Credit Procurement Auditing
External Financing:	World Bank

Box 17

119. A Fiscal Administration Project, supported by USAID was initiated in 1990 and terminated at the end of 1993. The objectives of the project were to: improve tax allocation in Guatemala; achieve greater fairness in the distribution of tax burdens and expenditure benefits, mobilize resources to cover the cost of public services; and as such improve the government's ability to plan and monitor its fiscal decisions. In December 1993, an evaluation was carried out and the conclusions were that the Fiscal Administration Project had been a relatively successful project, however, institutionalization remained fragile and partial. In particular, there continues to exist a lack of attention to detail and organization within the Ministry of Finance. There is also concern that although the tax structure had been changed, administrative changes were not institutionalized, presenting the opportunity for future problems.

120. In June 1994, the World Bank and the Institute of Public Administration of New York worked with the Government of Guatemala on the Conceptual Design and Plan for the Development of an Integrated Government Financial Management and Control System in view of the recognized weaknesses of the present system. These weaknesses included: an overly detailed planning and programming budget process; lack of control and evaluation of budget execution; the operations of

the Treasury Office a payment office that does not receive adequate information on collections and does nots include all revenues; absence of normative development of accounting procedures; and lack of technical capability in the audit area. The plan proposed development of an Integrated System of Financial Management in Guatemala. The project would include the financial programming system, decentralized operations, and internal audit as part of the Executive Branch.

121. Governmental Financial Administration and Control will be based on the Integrated System of Financial Management (SIAF), with the Ministry of Finance as the rector organization. The System of Government Audit (SAG) includes internal control standards, internal audit, and external audit with the Comptroller General of Accounts as the rector organization. The Economic Cabinet will participate in the program through supervisory execution of the development plan and its components; presentation of semi-annual reports on accomplishments; taking the necessary measures to ensure changes to improve the level of efficiency and effectiveness in governmental financial management; and reviewing the quarterly reports of the Ministry of Finance. A Technical Commission would be created, within the Ministry of Finance, under the Vice-Minister of Revenues (with participation of the Director of Budget, Director of Government Accounting, National Treasurer, Director of External Financing, a delegate of the General Secretariat for Economic Planning, a delegate of the Bank of Guatemala, and a delegate of the Comptroller General), to ensure coordination and collaboration. The project will also have an Administrative and Financial Directorate responsible for authorizing, controlling, and coordinating the management of the administrative and financial resources assigned.

122. The Budget Office will program, formulate, execute, control, and evaluate the budget process through issuing technical standards; closing and liquidating the budget; and carrying out quarterly financial reviews. The Accounting Office will have responsibility for implementing the government accounting system by providing a common, timely and reliable data base for decision making; preparing financial reports; and controlling assets and liabilities. The Treasury Office will plan and evaluate the flows of government funds; control receipt, use and expenditure of funds (according to established standards and procedures); and make the payments for obligations incurred by the government. Because there is no specific structure responsible for administering public sector financing, the project proposes the creation of an External Financing Commission under the direction of the Ministry of Finance.

123. In the area of control, the audit policies and technical standards are part of the responsibility of the Government Auditing System and were issued in 1979; however they have not been actually applied in many years. The principal standards for the design, application, and evaluation of internal control of the government entities are: policies, classified by general, managerial; and operational; principles, organized by areas of operation; and technical standards, classified by activity areas related to the specific administrative, financial and technical systems.

NICARAGUA

Spanish acronym:	SIGFA: Integrated Financial Management System and Comprehensive Audit System
Legal Framework:	There is no legal framework in place however agreements are being signed with the Bank, USAID, IDB and UNDP to institute the reform
Systems:	Accounting Auditing Budget Cash Management Public Debt Informatics
External Financing:	World Bank IDB USAID

Box 18

124. In recognition of the need to embark on a fundamental and comprehensive reform of the public sector financial management system, the Government of Nicaragua has mobilized USAID, IDB, UNDP and Bank support. Under the joint policy leadership of the Ministry of Finance and the Office of the Comptroller General, the Integrated Financial Management System and Comprehensive Audit System (SIGFA) will seek, over an initial five-year period, to integrate all aspects of government financial management within a single interactive, interrelated, and interdependent system. A Government Financial Administration and Control Commission will be established by Presidential Decree and will be responsible for the supervision and follow-up of the reform efforts, and in particular, SIGFA at the macro level. Members of the Commission will be the Minister of Finance, the Comptroller General and the Vice Minister of the Presidency for Government Affairs. The Technical Director of the project will serve as the Secretary of the Commission. The Technical Director will be supported by a Technical Secretariat which will act as the executing agency for the program. The Secretariat will also be responsible for the coordination of evaluation activities, the programming of acquisitions and contracting, coordination with the administrative units of the various donors, and other identified responsibilities.

125. The reform hopes to achieve: (I) a new public sector financial management law and regulations operative in all central government spending agencies; (ii) a standardized and automated government-wide accounting system operative in all spending agencies and the production of Annual Consolidated Financial Statements; (iii) improved ex post audit capacity operating in the Office of the Comptroller General; (iv) a useful budget document based on improved planning and analysis of annual operations and their results; (v) improved cash management and treasury functions; (vi) improved debt management operations and their integration into the government's financial management system; (vii) reform of the procurement and contracting functions and the decentralization of responsibilities to spending agencies; and (viii) the implementation of an automated information system for the government financial management system. All of the above will incorporate appropriate internal managerial and financial controls.

126. Constraints Identified Prior to Program Implementation

- The financial management system of the Government of Nicaragua has been diagnosed as weak and acts as a constraint to the government's ability to execute its policies and programs in an effective, efficient, and transparent manner. Based on a number of assessments carried out during the 1992-1994 period, it was identified that Nicaraguan government ministries and agencies lack the basic requirements of skilled, trained, and experienced staff; adequate equipment; effective management systems and procedures; and sufficient budgetary resources to carry out required functions. These constraints limit the effectiveness of the government in developing and implementing appropriate and workable policies; delivering goods and services; and providing a regulatory framework to assure independent review, fair competition, and protect resources. Diagnostic studies prepared by the Bank, USAID and the IDB have revealed: the absence of a government-wide accounting system to comprehensively standardize, classify, and account for public revenues and expenditures; extremely weak internal control systems, including cash flow management practices and supporting treasury functions; an institutionally fragmented and only partially developed system to manage and control public credit; a cumbersome and non-transparent procurement system; no linkage between the rudimentary personnel establishment register and the budget and expenditure control process; and extremely weak and limited ex post audit capacity.

VENEZUELA

Spanish Acronym:	SIGECOF: Integrated System of the Management and Control of Public Finances
Rector Organization:	Ministry of Public Finances Comptroller General
Systems:	Government Accounting Public Credit Treasury Budget Investigation and Internal Control External Control

Box 19

127. Although the political situation is unstable, the government recognizes the need to address the structural crisis of the Venezuelan economy; manifested in the decrease of net internal production, persistent inflation and the corresponding monetary devaluations, as well as profound social unrest. Nonetheless, the Ministry of Finance has gone ahead and developed a project for the Integrated Management and Control System for Government Finances (SIGECOF). Work was initiated in February 1994. The new project is a systemic effort, coherent, and with a higher multiplier effect, in order to obtain more sustainable development in the area of financial management and control. Within this focus, the following purposes and beneficiaries were identified:

- Improve public financial administration
- Control the inter-governmental debt
- Resolve the structural weaknesses of the tax administration and control system
- Institute the Treasury "single account"
- Integrate the information which corresponds to the rector organizations of the financial management system:
  - OCEPRE, as responsible for the norms of the budget function
  - DINCA as responsible for the norms of the functions of Accounting, in the areas of patrimonial accounting as well as operational accounting
  - Treasury as responsible for the payment functions of the public sector, particularly with respect to the central government administration

  - Public Credit as responsible for the functions of registration and control of the public debt
  - Establish the subsystems of Contracting and Procurement of goods, public works, and service and the administration of assets
- Provide the government entities with an integrated system of information of financial management and control in order to facilitate the formulation and execution of the budget, generate information to make decisions and ensure more accountability.
- Consolidate in the National Superintendency of Public Finance (entity to be created) the regulation and supervision of the internal audit function in the executive branch.
- Implement the national system of financial control: internal control is the responsibility of the individual government entities, cinlduing the internal audit function; and independent external audit performed by the Office of the Comptroller General or contracted audit firms.

128. The Minister of Finance and the Comptroller General of the Republic will co-sponsor the project. The project is aimed at sensitizing, stimulating, and creating a level of professionalism within the employees of the government. This will provide the basis for the modernization and ensure an adequate clarity of direction and sustainable improvement.

129. The reform will be implemented through the creation of an information system that integrates all financial information into one database. Single entry recording of information from the point of execution, centralized payment authorization, and availability of permanent on-line information with emphasis on security, reliability, availability, and auditability are characteristics of the information system.

130. As part of the project, a rector organization to regulate and supervise internal audit within the executive branch will be created. Functionally, it will have the responsibility for preparing the necessary legislative instruments in the area of internal control and internal audit.

131. In order to develop and implement SIGECOF a project team has been created under the Commission for the Program of Modernization of the System of Public Finances. A technical coordinator has been given general implementation responsibility, shared with the coordinators of the government accounting, public credit, treasury, budget and internal control and audit. Furthermore, the project contemplates improvements in the area of information systems, training and legislation. The project team receives assistance from an Assessment Committee made up of the highest executive levels of Cordiplan, OCEPRE, Treasury, Accounting, Public Credit, and the Office of the Comptroller General. The role assigned to the Comptroller General is important in all areas of the project especially in: budget, accounting, internal audit and in areas which correspond to external audit. For this reason, the participation of this organization in the reform project is imperative. The role of the Comptroller General will be amplified, not only at the technical level but at the management level as well, without loss of his functional independence.

BIBLIOGRAPHY

Abad, A.R. "Sistema de Control Interno en el Sector Publico." *Revista Argentina del Regimen de la Administracion Publica.* Argentina: Editorial Ciencias de la Administracion. 1994

Allan, B., and Hashim, A. "Core Functional Requirement for Fiscal Management Systems." *IMF Working Paper.* Washington D.C. 1994.

Arolfo, A."Administracion Financiera. La solucion para un gobierno eficiente." Paper presented at VIII Annual Conference on Developments in Government Financial Managment.Miami, Florida.1994.

Asselin, Lynnette "Nicaragua Financial Management and Control Project." World Bank, Washington D.C.: World Bank. 1995.

Barbieri, E. "Proyecto Sistem de Contabilidad Integrada." Montevideo. 1994

Berrueta Colombo, O. "La Eficacia en el Proceso Presupuestario." Paper presented at VIII Annual New Developments in Government Financial Management Conference. Miami, Florida. 1994.

Casals, B., and Plata, J.A.. "USAID Regional Financial Management Improvement Project, Phase II - Nicaragua Site Assessment." Washington D.C.: Casals and Associates.1994.

Central and Operational Accounting Division, CTRVP."Accounting and Auditing in National Government and Government Owned Enterprises." *Pronouncements by the Public Sector Committee of the International Federation of Accountants and by the International Organization of Supreme Audit Institutions.* Washington D.C.: World Bank. 1993

Comptroller General of the United States.*Government Auditing Standards - 1994 Revision.* Washington D.C.: United States Accounting Office. 1994.

Consulting and Audit Canada. "Mid-Term Evaluation, Bolivia, Public Financial Management Operation II-SAFCO/ILACO." Ontario.1994.

Davies, H.M., Hashim, A., and Talero, E. "Information Systems Strategies for Public Financial Management." *Discussion Paper No. 193.* Washington D.C. 1993.

Duran, Remigio. *SIMAFAL--Sistema Integrado Modelo de Administracion Financiera, Control y Auditoria para America Latina.* Washington D.C.:U.S.Agency for International Development.

Ecuador. *Ley Organica de Administraction Financiera y Control.* Quito: Corporacion de Estudios y Publicaciones. 1993.

Gutierrez, R.A. "La Integracion de los Sistemas de Informacion Financiera en el Sector Publico." Paper presented at XX Inter-American Regional Accounting Seminar. Montevideo.1990.

Inter-American Development Bank. "Fortalecimiento de la Administracion Financiera - Resumen Ejecutivo." Managua.1994.

Liapis, Steven G. "Final Report - Panamanian Financial Management Project."USAID.Panama City, Panama.1995

Loehr, W., Silva, R., Bueso, O., and Noriega, M.R. "An Evaluation of the FiscalAdministration Project for USAID/Guatemala." Key Biscayne: IMCC. 1993.

Ministerio de Economia y Obras y Servicios Publicos, Secretaria de Hacienda. *Programa de Reforma de la Administracion Financiera Gubernamental.* Buenos Aires. 1992.

Molina M.A., and Molina L.A. "Informes Financieros de los Gobiernos Nacionales." Paper presented at the Inter-American Accounting Association. Quito.1993.

OECD (Organization for Economic Cooperation and Development). "DAC Orientations on Participatory Development and Good Governance." Paris: OECD. 1993.

Operations Policy Department."Governance: The World Bank's Experience." Washington D.C.: World Bank. 1993.

Perez Cajiao, E. and Sanchez, Leonardo *El Salvador: Plan de Accion para la Modernizacion de la Gestion Financiera.* San Salvador: World Bank and Inter-American Development Bank.1994.

Perez Cajiao, H. *Presupuesto Publico, Curso Superior.* Panama: Ministerio de Planificacion y Politica Economica y Contraloria General de la Republica.1994.

Perez Cajiao, E., Estrella, E., Fernandez, C., Jimenez, R., Lara, C., Pastor M., Turman, D., and Villalobos, J. "Guatemala: Diseno Conceptual y Plan para el Desarrollo del Sistema de Administracion Financiera y Control Gubernamental, Vol. II". Guatemala: World Bank and Institute of Public Administration of New York. 1994.

Perez Cajiao, H. *Presupuesto General del Estado 1994 - Mejoramiento de la gestion presupuestaria en Panama.* Panama: Ministerio de Planification y Politica Economica y Contraloria General de la Republica. 1994.

Plata, J.A. "Informe Sobre la Evaluacion in situ de la Administracion Financiera de Brasil." Washington D.C.:Casals and Associates. 1994.

Plata, J.A. "Informe Sobre la Administracion Financiera del Brazil." Washington D.C.: Casals and Associates. 1995.

Plata, J.A. "Informe Sobre La Mission de Asistencia Tecnica a la Contraloria General de la Republica de Bolivia." Washington D.C.:Casals & Associates.1994.

Plata, J.A. "Administracion Financiera Gubernamental Integrada - El ModeloSAFCO." Paper presented at VIII Annual Conference on New Developments in Government Financial Management. Miami, Florida.1994.

Quinterros Cortez, T.A."Un Logro en la Restructuracion de la AdministracionFinanciera, implementando SAFCO-ILACO en Bolivia." Paper presented at VIII Annual Conference on New Developments in Government Financial Management. Miami, Florida.1994.

Ramirez, A. "Informe Sobre la Administracion Financiera y el ControlGubernamental en la Republic de Paraguay." Washington, D.C.: Casals and Associates. 1994.

Ramirez, A."Informe Sobre la Administracion Financiera y el ControlGubernmental en laRepublica de Peru." Washington, D.C.: Casals and Associates.1994.

Registro Oficial. *Ley de Presupuestos del Sector Publico.* Quito. 1992.

Registro Oficial. *Reglamento de la Ley de Presupuestos del Sector Publico.* Quito. 1993.

Republica de Venezuela."Programa de Modernizacion del Sistema de las Finanzas Publicas y Reestructuracion del Ministerio de Hacienda" (Draft). Caracus.

Republica Argentina.*Ley de Administracion Financiera y de los Sistemas de Control del Sector Publico Nacional No. 24.156.* Buenos Aires. 1992.

Secretaria de Hacienda.*Boletin Fiscal, Segundo Trimestre de 1994.* Buenos Aires. 1994.

Silveirajunior, A. and Tristao, G."SIAFI: Realidades e Perspectivas." *Revista ABOP.Brasilia.* 1993.

Sindacatura General de la Nacion. *Balance de Gestion.* Buenos Aires. 1994.

Sindicatura General de la Nacion.*El Sistem de Control Interno Gubernamental.* Buenos Aires. 1993.

Sindicatura General de la Nacion. *Experiencias de Control.* Buenos Aires. 1994.

Tellez Mellado, L. "Informes Financieros de los Gobiernos Nacionales." Paper presented to Inter-American Accounting Association. 1993.

United Nations."Gerencia del Fortalecimiento Institutcional del Ministerio de Finanzas (MDP/MIFIN)." NIC/92/501. Managua.1994.

United Nations. Proyecto de Apoyo al Fortalecimiuento del Desarrollo Gerencial del INAP y del Govierno de Nicaragua en su proceso de Reforma y Modernizacion del Estado en el Marco del Programa de Desarrollo Generncial MDP del PNUD." NIC/92/502. Managua.1994.

U.S. Agency for International Development. "Training Needs Assessment, El Salvador Public Sector Accountability Project. Washington D.C.: U.S. Agency for International Development. 1994.

USAID/El Salvador. "FY 1994 ESF Modernization of the State Program Assistance Approval Document." San Salvador.1994.

Wesberry, J.P."Government Accounting and Financial Management in Latin American Countries." *Government Financial Management: Issues and Country Studies.* Washington D.C.: International Monetary Fund. 1990.

Wesberry, J.P."SIMAFAL - Sistema Integrado Modelo de Administracion Financiera y Control para America Latina - Sintesis." Washington D.C. 1992.

Wesberry, J.P. "La Administracion Financiera en el Gobierno-Un Enfoque Integrado." *Bolletin Colegio de Contadores de Lima.* Lima, Peru. February 1994.

Wesberry, J.P. World Bank. "Modernization of the State Technical Assistance Project for Ecuador." Washington, D.C.1994.

_____"Operational Directive 10.60: Accounting, Financial Reporting, and Auditing." Washington D.C.: World Bank. 1991.

_____ "Operational Directive 13.10: Borrower Compliance with Audit Covenants." Washington D.C." World Bank. 1991.

_____*Guidelines: Financial Reporting and Auditing of Projects Financed by The World Bank.* Washington D.C. 1982

_____*Governance and Development.* Washington D.C. 1992.

_____*Effective Implementation: Key to Development Impact.*Washington D.C.: World Bank

_____"Staff Appraisal Report--Colombia" Public Sector Management Division.Washington D.C.: World Bank. 1993.