

Cash Management in Government

The Government is currently reviewing its cash and banking arrangements. The review is being supported with technical assistance by the Asian Development Bank as part of the Strengthening Public Sector Banking and Cash Management Project.

Cash management in government has two perspectives, that of the operations of Ministries and Departments in respect of their expenditure and revenue generating programs, and that of the Ministry of Finance and National Planning (MFNP) on behalf of the whole-of-government. The review is focusing on the second perspective, that of the MFNP undertakings on behalf of the whole-of-government.

At the individual Department or Ministry level, efficient cash management will involve:

The payment by cheque to suppliers of goods and services, collection of all revenue due and banking of all funds received by Government in a timely and efficient manner;

- The implementation of proper cash handling techniques (such as the separation of duties, register of authorised signatures, etc) and keeping of proper accounting records, bank reconciliations and similar methodologies to safeguard the record keeping and integrity of monies handled by Government; and
- The implementation of proper

physical safeguards in respect of the holding of cash premises (use of safes, locked cupboards, etc), and the transportation of monies between physical locations for banking purposes.

At the MFNP level, cash management involves a broader perspective, which complements the activities of the other Government agencies and which requires the cooperation of all agencies that have the capacity to draw from, or deposit funds to, the Consolidated Fund and government's central account. The MFNP is responsible for ensuring that funds are available to meet payments on all cheques issued by Government bodies as and when they are presented for payment through the banking system.

The review team is currently interviewing ministries and investment organisations and is working on with the Reserve Bank of Fiji on the possible way forward to improve cash and banking arrangements.



Right: Peter Fane, Cash Management Specialist
Left: Necani Lagicere, FMIS Team member

fmrUPDATE

The new Financial Management Bill has been passed by Parliament and the Senate and will be enacted in January after being assented by the President on November 4th. The Bill was tabled in the House of Representatives following close scrutiny by the Joint Parliamentary Sector Committee and was passed on October 7th. Members of the Senate also debated the Bill before it was passed by the Upper House on October 27th.

In an effort to keep all ministries and departments informed with the developments of the Financial Management Reform, monthly meetings have been taking place with Change Leaders from respective ministries. The second and third Change Leaders briefings have been held at the Ministry of Health and at the Ministry of Regional Development respectively. The Change Leaders have agreed that these briefings be rotated amongst the ministries to generate awareness as well as give the ministries a sense of ownership of the Reform.

The performance budgeting aspect of the Reform is in place for those ministries that are piloting the FMR in 2005. This includes the Ministries of Education, Health, Finance and National Planning, and Women, Social Welfare and Poverty Alleviation.



Change Leaders briefing at Ministry of Regional Development, HQ

INSIDE THIS ISSUE	Cash Management in Government	1	FMR Update	1
	Website Update	2	FMIS Update	2
	Through the eyes of a Change Leader			2
	Financial System Implementation	3	FMR Training	3
	Frequently Asked Questions-Financial Management Act	4		

Through the eyes of a Change Leader

by **Apenisa Matairavula - Ministry of Education**

A personal view of the FMR process in Government

My first encounter with the FMR process in Government was in 1997 when the SVT Government first introduced it.



At that time, it was so new and very difficult to absorb many things at a very short time. It was quite confusing.

This time around though the concepts are much clearer, FMR is still at a very early stage and more clarifications are required. Now as a "Change Leader" for the Ministry of Education, I am able to better understand why Reform in financial management in Government must be undertaken and implemented as soon as possible.

FMR is the vehicle for better management of government resources.

FMR training of key officers is very important and the right step forward especially to the Ministry of Education

being a pilot Ministry is crucial in ensuring accountability, transparency and good governance.

I also personally feel very strongly that training of non-finance officers at all levels in the hierarchy who manage public funds is very crucial and important.

The FMIS is an essential component of FMR and training of staff in this area will strengthen and speed up the implementation process.

The financial reform will certainly enable consistency in effective record keeping and financial reporting which will help in the assessment of financial performance of government agencies.

In my personal opinion the FMR process appears to have been carefully and thoroughly mapped out and will be implemented in a more systematic manner through appropriate sequence of events.

FMIS Update

The Financial Management Information Systems (FMIS) Evaluation Committee is in its final stages of evaluation.

The team is liaising with the short listed suppliers on the finer details of the FMIS.

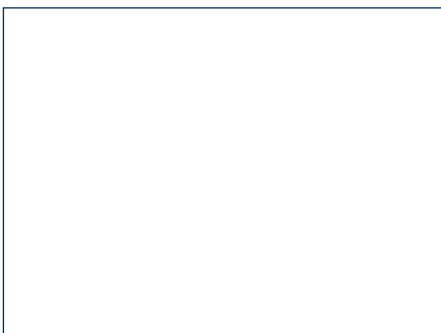
Hardware requirements for the system, is currently under discussion with Information Technology and Computing Services (ITC) and a tender for hardware requirements will be issued shortly.

A scoping study will be conducted by the supplier to establish precise costs and services to be provided under the contract, and to detail the contributions that the supplier and the Government are expected to make towards the project implementation.

The scoping study is expected to last 4 weeks.

Software implementation and training will commence on pilot basis from early 2005.

WEBSITE UPDATE



The FMR Web page has been updated. The following information can now be accessed on the web page:

- FMIS Awareness presentation;
- FMR Framework presentation; and
- Performance Budgeting presentation and questionnaires.

A new page has also been created under Training and Capacity titled Change Leaders briefings for the FMR Updates, which will provide the latest monthly updates of the FMR Implementation as it progresses.

The FMR web page can be accessed through the Ministry of Finance and National Planning website at www.mfnp.gov.fj

Financial System Implementation

The new Financial Management Information System (FMIS) will be implemented in early 2005.

The implementation will be across the whole-of-government and focus on the core financial modules. It will be rolled out over a number of years. The following modules will be introduced:

- General Ledger
- Budget Monitoring/Funds Control
- Purchasing and Accounts Payable
- Sales and Accounts Receivable
- Fixed Assets
- Job/Project Costing
- Cash Management (bank reconciliation and cash flow forecasting)
- Interface to the existing financial systems.

Based on the success of the implementation, Government will gradually move from cash based accounting to accrual accounting. The new FMIS will be used for reporting and recording of whole of government finances.

In this edition, we will take you through the two of the most important changes (Chart of Accounts and a General Ledger module) that will be introduced at the beginning of next year in the four pilot ministries.

Background

The whole-of-government chart of accounts was created in 1981 with the introduction of the current system with General Ledger being the only module introduced.

The General Ledger operates like a database where transaction entries are made to collate transactional information at the end of each month. Although the system has been upgraded on a number of occasions to meet the changing need of government, no other modules have been introduced.

The chart of accounts was created when the government adopted a programme format for its budget.

New Chart of Accounts

In the process of drawing up the new chart of accounts for the whole-of-government,

key considerations have been given to the definition, classification and allocation of codes based on policies on the recording of financial transactions for accounting purposes.

The chart of accounts will be classified under two categories:

- a) Budgeting transactions refer to the circulation of the annual cash surplus or deficit and are related to:
 - Expense; and
 - Revenue.
- b) Non-budgetary transactions are reflected in the balance sheet and are related to:
 - Assets; and
 - Liabilities

In order to maintain uniformity and consistency in the recording of transactional information, a standard chart of accounts will be adopted and used across all government agencies.

Another important consideration is the classification of the objectives for financial transactions, which aims to provide information for multiple uses both within and outside entities.

The classification system will provide the framework for identifying, aggregating, and reporting financial transactions for planning, resource allocation, management control, accounting, statistical and evaluation purposes.

Currently, the Government is using the Masterpiece/Net Version 1.3 General Ledger to record transactions and generate reports.

The new FMIS will be an integrated system and will have other main transaction processing system linked to the General Ledger. It will operate as a "bucket" in effect catching all other transactions that occur in the other modules and thereby

automatically generating most general ledger transactions.

Since the accounting processes are automated, data will be captured only once as an accounting transaction as it is processed through the system. Adjustment entries will need to be made.

FMR TRAINING

In order to ensure the success and sustainability of the Financial Management Reform emphasis is being placed on capacity building within the civil service.

As a result training for civil servants is being coordinated in two streams, with the first focus on FMR and the second focus on the components of the Financial Management Information System (FMIS).

Training on the former will be conducted by the University of the South Pacific who are the nominated training provider, while training on the latter will be conducted by the preferred FMIS supplier for whole of Government.

USP is expected to commence training on the Legislation and the Finance Instructions (FI) from the end of November to mid-December. The Finance Management Act 2004 will become effective from January 2005. Certain provisions of the instructions will be gradually phased in over a period of twelve months.

Once training on the legislation and the FI is completed, USP will then gradually move to training around new FMR concepts such as Performance Budgeting, Output Specifications, Output Costing, etc.

The FMIS Team is currently analysing data collected from a Data Pack circulated to all Ministries and Departments in order to identify the various areas/modules that users need to be trained on.

The FMR team is working with all ministries and departments to ensure commitment and ownership at all levels with a particular emphasis on the identification of the right people to be trained.

FREQUENTLY ASKED QUESTIONS

FINANCIAL MANAGEMENT ACT 2004

What is the purpose of the Financial Management Act 2004?

The Financial Management Act 2004 was drafted to give legal effect to the Financial Management Reform policy framework that was endorsed by Cabinet on 9 March 2004. The objectives of the Financial Management Reform are to:

- (i) introduce a performance-focus in government; and
- (ii) to strengthen accountability.

What changes in the legislative framework will the new Act bring about?

The new Act replaces the Finance Act 1981 and the suspended Public Finance Management Act 1999. The new Act will be supported by:

- (i) Finance Instructions – to be issued by the Minister for Finance; and
- (ii) Finance Manuals – to be issued by each Chief Executive Officer of a budget sector agency.

The new Finance Instructions will contain broader requirements than the Finance Instructions issued under the Finance Act 1981. For example, the new Finance Instructions have sections on managing assets and on the preparation of corporate plans and annual reports.

What new terms are being introduced in the new Act?

The main terms introduced in the Act are:

- "parliamentary body" – includes the Office of the Auditor-General, the Human Rights Commission, the Office of the Ombudsman and the Office of the Secretary-General to the Parliament
- "responsible authority" – includes the Chief Executive Officers of departments (including ministries) and parliamentary bodies and the Boards of statutory authorities and government companies

- "State revenue" and "agency revenue" – State revenue includes taxes and similar compulsory payments to government. Agency revenue is revenue that agencies earn themselves, such as from trading and manufacturing /activities
- "public money", "other money", and "trust money" – Public money is money received by agencies for use by the government. Other money is money that agencies hold temporarily, either until it is identified as being public money, to refund (a deposit or overpayment), or to pass onto someone else (salary deductions). Trust money is money held by an agency as a trustee (such as trust estates).

When is the Act going to come into effect?

The Act will commence from 1 January 2005 and will generally first apply to the 2005 financial year. That is, it will not apply to reports or other processes relating to 2004 that would be done in 2005.

How does the Financial Management Act 2004 affect the implementation of FMR?

The FMR will not be introduced in a "big bang" in one year, but will be phased in over a number of years. The Act allows for a staged introduction in certain areas. Thus, the transitional provisions provide that:

- annual reports of state entities do not need to be prepared for 2004 unless they are required by other legislative requirements;
- annual reports of agencies for 2005 do not need to include financial statements given that reliable figures may not be available until the new accounting system is rolled out;
- mid-year fiscal statements and quarterly appropriation statements need not be prepared for 2005 and 2006 for the same reason given above;

- the Budget Estimates for 2005 may be prepared in 2004 having regard for the new Act; and
- the strategic policy statement and annual budget for 2006 do not need to include the previous year figures.

How will the new Act strengthen accountability over public finances?

Accountability will be strengthened through requirements to develop performance measures and to report publicly on what has been achieved from the spending of taxpayer's money and other resources. This will apply to each agency as well as to Government as a whole.

At the whole-of-government level, the Government will be required to set limits for its proposed budget deficit and level of borrowings before the budget negotiations start each year. At the end of the year, the current Accounts and Finances report will become more like a normal annual report, with information on performance as well as audited financial statements.

At the agency level, the new Act requires each CEO to:

- develop an Annual Corporate Plan with performance measures and targets;
- issue a Finance Manual with the policies and procedures that staff must follow;
- publish an annual report that compares actual performance against the targets in the Annual Corporate Plan, and, from 2006, audited financial statements. These will be tabled in Parliament and made available to the public.



Ministry of Finance and National Planning

Ro Lalabalavu House, Victoria Parade, Suva, Fiji. PO Box 2212, Government Buildings, Suva, Fiji.

Telephone: (679) 3307 011. Telex - FJ 2121. Facsimile (679) 330 5074.