

Where to with these Reforms? - Enhancing Accountability

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In the last bulletin, I gave a simple illustration of what accountability is and its roots in a parliament democracy like Fiji. As promised, my focus in this bulletin is on Accountability in the public sector. One of the major objectives of the financial management reforms in Fiji's public sector is to enhance



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accountability. That is to improve on the current accountability platform. Before I jump in and talk about the juicy stuff about accountability, let me give justice to two other important words that are webbed to accountability – Ethics and Governance.

Ethics

As accountability is about our role as stewards to others, the issue of ethics becomes a very important topic to discuss. Ethics is about choices, and signifies how we act in order to make the 'right' choice and produce 'good' behaviour. It includes a thorough and objective examination of principles, values, duties and norms, the consideration of available choices or alternatives in order to make the right decision and the strength of character to act in accordance with the decision. Ethics is inclusive in that it concerns individuals, groups, institutions and society.

Governance

Whilst ethics is about choices, governance like accountability is about relationships. The word governance refers to authority and control and means the strategy, method and manner in which a group of people (the governance body) directs controls and manages an organization. With authority comes responsibility. Accountability in this regard, is the responsibility of those

charged with governance to account for their choices, decisions and actions. This is what FMR is challenged with in the reforms. We know that what is right for individuals are highly subjective. How to define and perhaps develop an equitable balance in dealing with governance matters (such as between conformance and performance (results)) is a delicate issue.

Having said that, there is pressure building up from various quarters of society that challenge us with the manner in which we interpret, apply and practice accountability:

- contemporary partnerships and arrangements have been forged between different levels of government, and within ministries where responsibilities may not be conferred from the traditional senior party to a junior one scenario,
- calls for increased focus on results and performance-based management by the public sector, in addition to addressing concerns with the integrity of governance.
- the parallel call for providing greater flexibility and autonomy to government organizations and managers in order to achieve better results; and
- the importance of transparency as an essential feature of public sector accountability.

The need for accountability does not change, but it is necessary to adjust our understanding of how it applies and is practiced given changing pressures. This FMR's challenge and it is on course to achieving this.

State Investment

In terms of State investments, the Asset Management Unit (AMU) of the Ministry of Finance monitors investments in entities where Government holds Majority/Minority shareholding. AMU officials represent the State at the companies Annual General Meetings and any other special sittings.

Annual Reports received from these entities are reviewed and accurate and timely advice on investment and divestment opportunities and risk exposures are communicated to the Permanent Secretary and the Minister

Entities, that are totally owned by Government, come under the ambit of the Public Enterprise Act, administered by the Public Enterprises Department. These organisations are required to achieve a 10% return on equity and submit at least 50% of profits as Dividend annually. Together with the Public Enterprises Department, the AMU evaluates corporate planning documents of these entities and attends board meetings to ensure that the interests of the State are protected and maintained.

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Mid - Year Fiscal Update

Mid - Year Deficit at 0.6 % of GDP

Central Government net deficit for the six-months ending 30 June 2007 stood at \$32.5 million equivalent to 0.6 percent of GDP. In comparison the forecast for the period was \$246.5 million or 4.9 percent of GDP.



Sanjay Prasad Principal Economic officer-Budget

The better than expected performance was largely due to under spending in both operating and capital expenditures and in smaller part due to buoyant direct taxes and other operating receipts compared to same period last year.

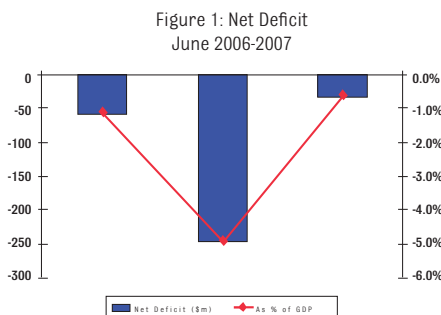
Total expenditure excluding government VAT stood at \$596.1 million in comparison to the forecast of \$840.1 million.

Year-end net deficit is expected to remain within the targeted level of 2.0 percent of GDP.

Government savings which is the excess of operating receipts over operating expenditures was a surplus of \$15.7 million. This was an improvement over the forecast where a deficit of \$48.0 million was expected. The improvement is again due to buoyant operating receipts.

It is expected that the government savings will continue to the end of the year and

hence negate the need to incur additional borrowing.



REVENUE BELOW COLLECTION BY \$23.8 MILLION

Total Revenue excluding government Vat for the period under review stood at \$569.8 million against a forecast of \$593.6 million. This variance emanates from indirect taxes and other operating receipts.

A total of \$198.7 million was collected in direct taxes. Of this, \$104.1 million was personal taxes. This was about 2 percent above the forecast. This was mainly attributed to the increased newly registered PAYE taxpayers cumulative to 30 June 2007.

State Investment

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Anare Vocea -A/Principal Accountant-Asset Management Unit

Government Commercial Companies (GCC's) and Commercial Statutory Authorities (CSA's) are generally financed through government equity

and/or debt. In return, government receives interest and dividend income. Government received \$27.6m in dividend income in 2006, an increase of \$3.9m of which \$8.7m was from GCC's and CSA's and \$18.9m was from Government investments in other entities.

The AMU is facilitating the sale of shares held by Government in entities, that are deemed more efficiently run by the private sector. Such divestments are also necessary to prevent any conflicts of interest of the State in being market player and regulator.

The most recent sale has been that of Government's shares in Colonial National Bank, which was settled last year at a price of \$28m.

Two investments currently being progressed for divestment are Fiji TV and the Daily Post. Revenue gained from these sales assists Government with operational and capital needs. Furthermore, the AMU has the added responsibility of the investments and responsibilities previously managed by Fiji Investment Corporation Limited (FICL).

Following the closure of the company's operations by the Interim Administration, the AMU is executing contractual obligations on behalf of the State, whilst simultaneously seeking the best way forward for the placement of FICL to ensure that government investment policies entrusted in FICL are properly implemented.

Consultations are progressing thereon, with due diligence necessary for some of the projects which are currently under scrutiny.

The AMU remains optimistic of favourable outcomes and is appreciative of the varied nature of these special assignments.

FMR AWARENESS AND FINANCIAL INSTRUCTIONS REVIEW

The FMR- Policy Assurance Unit will be conducting its divisional workshop program in November. This program will also include a comprehensive review on the Finance Instructions. Divisional Heads are encouraged to bring along issues that

might be of concern and/or beneficial to the financial management operations of their respective division. Attendances are encouraged, as the workshop would be an opportunity to consult with the FMR Project Office.

The Need to Start Capturing Fixed Assets Across Government

The implementation of the Fixed Asset (FA) module across whole of Government is another milestone that the Financial Management Information System (FMIS) Office is targeting to achieve by November 2007.

The FA module was purchased to capture records of all fixed assets acquired and owned by Government, in readiness for the move towards Accrual Accounting. Since Government is still using the cash basis of accounting, the FA module is left to sit as a stand-alone module and would not be interfaced to the General Ledger until Government adopts the accrual accounting concept.

However, to assist in capturing their fixed assets, Ministries and Departments have been requested to enter into the system all financial information about their existing and newly acquired assets and to run the monthly depreciation process accordingly. In doing so, the correct book value of the

asset would be captured by the system prior to adoption of the accrual accounting concept.

Whilst the FA module is also seen to be one of the important modules, difficulties have been faced in attempting to obtain the full list of fixed asset maintained at an agency. Most agencies are of the view that the capturing of fixed asset details is not vital at this stage due to the cash basis of accounting that Government adopts.

However, they fail to understand that the undertaking of this exercise allows them smooth transition to accruals accounting. More importantly, the capturing of vital fixed assets detail in the system is a

requirement under Section 54 (1) of the Finance Instruction, which clearly states that, "all property, plant or equipment with a value in excess of \$2,000 or more must be recorded in the agency's asset register".

The FA module allows a user to capture the above requirement. Now that the module is available to all agencies across Government, they should now be able to extract fixed asset information such as:

- Cost of the fixed asset;
- date of acquisition;
- appropriation code and cost centre used to purchase the particular asset;
- location and section; and
- the position of the officer responsible for the assets.

In addition, the system has also been set up to capture Expendable Items whose value is between \$200 and \$2,000. The depreciation for expendable items need not be run, however, given that Ministries and Departments are also required to adhere to Section 54 (3) of the FI, the system has been designed to also capture this requirement.

All these detailed records will ensure that transparency, accuracy and control of fixed assets (and expendable items) are maintained at all levels.

What is a CS-DRMS system?

The Commonwealth Secretariat Debt Recording & Management System (CS-DRMS) is a software programme designed to provide borrowers with a comprehensive information management system for the effective recording, administration and analysis of their debt portfolio.

Now Fiji Government has been using the CS-DRMS system for over two decades to record its external and domestic debt data.



Wati Kanawale CS-DRMS officer

Today the capacity of this system has been broadened for analyzing all aspects of debt related issues through the use of a newly invented module called the "management tools".

The Risk Management Section of the Debt & Cashflow Management Unit in the Ministry of Finance manages the system on behalf of government, whilst the Domestic Markets Unit of the Financial Markets Department in the Reserve Bank of Fiji provides back up service. Government and the Reserve Bank of Fiji use data extracted from this system to provide analytical reports on the nation's debt level for monitoring purposes.

It has also been used to provide analysis on the impact of any new borrowings on the current debt level and have generated reports that have been used to assist management in effective decision-making regarding government borrowings. At the end of each financial year, reports are also provided to the World Bank.

According to the CS-DRMS Officer, Mrs Wati Rakadrudru, the system has been very useful to government in that it has enabled the Debt & Cashflow Management Unit to provide reports to management on the status of government debt at any point in time. The monitoring of the utilization of loan funds for projects such as the Fiji Road Upgrading Project III for Suva-Nausori and e-government projects are monitored through this system.

Future of the CS-DRMS

In the near future, government aims to consult further with the Commonwealth Secretariat on the set up of other databases such as the on lending database, contingent liabilities database and an auctioning module will be underway sometimes in the near future. These databases will assist government greatly in the better management of its other categories of debt such as on-lending and contingent liabilities.

The move will be a major development in the continuity of this project in Fiji and is also envisaged to provide job opportunities for accountants and IT personnel alike.

FMR Courses offered in November

The FMR Project is again offering two courses for the month of November

Course 1:

Management Control for Supervisors and Managers

Tentative Date: 05 – 06 November 2007

This course emphasizes traditional command and control systems as well as emerging management systems that rely less of formal authority to reach objectives and more on coordination and leadership.

Regardless of the system used in an organization, the ends or desired results for an organization do not change but the means of achieving those results do change and sometimes change very significantly.

Course Objectives

By the end of the course, participants should be able to:

- Create a responsibility/accountability structure for the organization
- Identify and assess risks associated with the achievement of organizational goals
- Identify and apply characteristics and practices of good management control systems respectively
- Develop internal control mechanisms to measure, monitor and review their implementation and successes.
- Carry out performance analysis using a variety of techniques
- Variance analysis (budgets)
- Value for money assessments using the 3

Es (Economy, Efficiency, and Effectiveness)

- Appreciate the role of auditing
- Internal Audit
- External Audit

Target group: Supervisors and managers

Duration: 2 days

Spaces Available: 30

Course 2:

Basic Accounting for Government Officers

Tentative Date: 07 – 13 November 2007

The government of Fiji over the last few years has been implementing different phases of financial management reforms with the objective of strengthening accountability in government.

One of the core principles of responsible financial management, as defined under section 5 of the Financial Management Act 2004 (FMA) is to manage revenues and expenditures in such a way as to achieve prudent levels of debt.

Proper management of assets, revenues and expenditures cannot be successful without the basic understanding and skills in Accounting.

Course Objectives

On successful completion of this course, participants will have secured some understanding and skills in Accounting for

the public sector environment. Specifically participants will be able to,-

- Distinguish between cash and accrual accounting
- Identify and apply relevant data required for fund accounting.
- Recognize the government activities that generate revenue
- Distinguish between expenditure and expenses
- Apply prudent cash management techniques,
- Apply recognized government accounting techniques for inventory, debtors, capital assets and creditors.
- Carry out simple cost accounting techniques and
- Prepare reports under different basis of accounting.

Target group: Government officers responsible for cash management, purchasing, inventories, capital assets, budget officers and internal controls.

Duration: 2 days

Spaces Available: 60

Please Note:

Invitation for participation will be given out via a Finance Circular once the logistics of the courses are finalised by FMR. Nominees to these two courses should be received formally via memorandum from respective agencies.

“The glue that holds all relationships together - including the relationship between the leader and the led is trust, and trust is based on integrity.” -Brian Tracy



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