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The role of Treasury services for a better governance of Public Finances

Accounting standards

TERMS OF REFERENCE

➤ **The role of Treasury services for a better governance of Public Finances**

International organizations, and particularly the World Bank, have developed the concept of “governance” in the 90s. The term refers to all the actions aimed at modernizing the way governments work through better management (best service at the lowest possible cost), improved financial reporting in the public sector and strengthening of external controls (Parliament, civil society, control bodies...).

This sought-after improvement of governance concerns first of all the central government. In fact, well established sovereign missions and their effective accomplishment are fundamental for a country’s economic and social development. The strengthening of powers devolved to local governments implies also that better governance methods be implemented at levels subsequent to central governments.

I- A renewed organization of services to the benefit of structural modernization dynamics

1-Foster new relations between the actors of the public spending chain

Better governance requires a constant effort to improve service efficiency: fast payments to private-sector providers so as to stimulate the economic channels.

Public services need to make sure no expenditure commitments remain outstanding over several years as this will erode tax collection (the Government does not pay what it owes me so I’m not paying my taxes) and would distort accounting and financial reporting. Some countries have implemented mechanisms that enable turning a short term debt (supplier) in a long term debt accompanied by interest rates.

Streamlining procedures can also lead to shorter deadlines and enables a focus on high-stake expenditure.

Finally, the organization designed by public authorities (centralized authorization by the budget directorate, every ministry has authorizing power within its scope, the local de-concentration framework) can also render procedures smoother or more cumbersome.

2- Accomplish to the full the mission of public revenues accounting

The network of collection agencies is more often than not independent from the Treasury (tax, customs, land royalties...), but it is important to hold reliable and readily available information on recovered and outstanding amounts.

3- What role with respect to debt management?

Debt management is often entrusted to an independent body within the Treasury directorate (another department or an ad-hoc public body) tasked with reporting (on underwriting, repayment, stock of debt).

Public accounts need to feature a single debt, but its management is sometimes split depending on international lenders that hold different requirements and apply debt relief programs based on bilateral or international agreements.

4- Upholding the rule of law

Better governance implies that Treasury services contribute to setting out legal rules that render processes more reliable for public-sector stakeholders (e.g. public procurement...).

It is important to make sure that the right supplier is paid at the fair price and thus internal controls need to be established in order to prevent fraud or extortion risks.

A staff training policy on the use of new tools and the principles of internal controls will round up the technical processes renewal plan.

The participation of Treasury services to the formulation of accounting rules regarding the completeness and integrity of operations contributes to improving of public governance.

5- Budgetary reform and regional bodies

Several countries are members of regional organizations (UE, CEMAC, UEMOA...). It is thus relevant to examine the role these structures hold with respect to the national regulatory standardization and to the establishment of working methods aimed at improving governance.

II- Tools and methods to the benefit of financial transparency and an improved understanding of financial mechanisms

1- Develop new control processes

Treasury services have come to realize that in reality exhaustive and homogenous are often impossible. As a remedy, services implement controls (expenditure, accounting...) depending on financial stakes and risks (e.g. hierarchical expenditure control in France).

This entails a new relationship with the authorizing officer (enhance accountability) and control bodies (move from a legal compliance approach to an analysis of the stakes).

These transformations require training of staff and the development of IT tools that would enable targeted controls.

2- Implementation of an enriched and enlarged partnership approach to the benefit of central and local governments

Local governments also need to respond to better governance requirements.

In some countries, the same department is in charge with the financial management of both central government and local governments while in others this task is carried out by different departments.

When the same department is covering both, the partnership with local governments tends to contribute to a more sustainable unfolding of actions meant to improve governance and to better sharing of tools developed by the central government.

When management is split, can synergies enable identical progress in the two areas?

A fraction of the public mission is entrusted to self-governing public bodies. Better governance sought by the central government is called upon to infuse the whole of the public sphere; sometimes, public bodies where measures are experimented at a smaller scale tend to be more advanced.

All these transformations in public management modify relationships with internal control bodies, the Parliament or external audit courts. The things at stake – performance assessment, new controls of the security of operations – could bring about changes to the responsibility of public-sector accountants.

➤ **Accounting standards**

1- Being a fundamental part of the accounting reform, accounting standards contribute to the credibility and quality of accounting data

Public-sector accounting is undergoing reforms in several countries. It does no longer only aim at accounting on budget implementation (keep record of cash incomings and outgoings and report on the authorization granted), but also seeks to render a faithful image of public assets and of the government's commitments and receivables.

But this reform entails the development of legal and IT instruments to respond to the new requirements and asks for a significant effort in terms of internal training and reorganization of services.

Finally, it substantially modifies relations with the other ministry directorates that are already deeply involved in changes in their sector. Thus strategic coordination of state reform that would also rank actions is indispensable.

2- International standards do not integrate yet all the specificities of the public sector

Of liberal essence, international standards have been developed for the private sector. Public sector specificities are not always integrated and thus specific standards need to be developed.

Public-sector standards are often devised by Western countries to echo their particularities and are not always fit for other countries' needs. In fact, immovable property might be more difficult to assess (land status, issues related to deeds, asset structure does not mirror private-sector companies' structure ...), and assets lacking in Western countries need to be valued: hydrocarbons, mines and tropical forests (how to take stock of it and what value to set for it). In the context of forthcoming international programs addressing the issue of biodiversity conservation in tropical countries that would contribute to world climate control, no legal and accounting instruments are available to render the receivables these countries hold in relation to the international community.