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FINANCIAL CONTROL IN AFRICAN COUNTRIES

Lubin Doe and Sailendra Pattanayak

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Financial Control in African Countries[1]

Prepared by Lubin Doe and Sailendra Pattanayak[2]

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This note addresses the following main issues:

- What is the rationale for guidelines on financial control and its relevance for Fund programs?
- What are the objectives of financial control and its role in the overall budget execution system?
- What are the main models and institutional forms of financial control in African countries?
- What are the main problems encountered in implementing financial control?
- What are the preconditions for an effective financial control system, and what are reform options?

I. Introduction

A well-prepared budget could be undone during its execution if sound internal control and accounting systems are not in place to ensure that the budget is being implemented as planned, and in accordance with prospective cash flows. The key issues are whether: (i) the budget outturn is likely to be within the approved figure[3] and in accordance with the planned expenditure priorities; (ii) there are any hidden financial implications of transactions not being adequately identified and reported during expenditure execution; (iii) expenditure transactions comply with applicable laws and regulations; (iv) any problems are being encountered and/or fiscal risks are emerging during budget execution, such as the buildup of payment arrears; and (v) the reliability of accounting records and financial reports is being assured.

[1] Although the note focuses on financial control systems in African countries, the issues addressed are also relevant to other countries with underdeveloped financial control systems.

[2] The authors are indebted to colleagues for very useful comments on earlier drafts. They acknowledge, in particular, the contributions of: (i) Helio Tollini and Mario Pessoa, and Dominique Bouley on financial control in Lusophone and Francophone African countries, respectively; (ii) Pokar Khemani on specific issues related to Anglophone African countries; and (iii) Richard Allen on the broad structure and coverage of the note.

[3] It is important to note, however, that the deviation of outturn compared to the original approved budget both in terms of aggregate expenditure as well as composition of expenditure items is a function not only of the budget execution procedures but also of the degree of realism of the approved budget. For instance, if some of the non-discretionary expenditures, such as salaries, utilities, are under budgeted, the outturn will deviate from the approved budget. However, a strengthened budget execution arrangement, including a good expenditure control and accounting system, is an essential step towards preparing realistic budgets.

Internal control is a broad concept that the present note does not intend to cover comprehensively. Instead, the note focuses on a key component of internal control system, called here financial control, which is *ex ante* and intervenes at each of the four main stages of the budget execution cycle (commitment, verification, payment order, and payment). Financial control exists in every PFM system, in one form or the other, irrespective of the architecture and/or specific inheritance of the PFM system.[4]

Many African countries have several PFM dysfunctions related specifically to financial control. These include recourse to unbudgeted expenditure, disregard for commitment control, absence of systematic use of cash plans, concealment of excess spending, and non-compliance with financial regulations. The *ex ante* financial control remains a weak link in the government expenditure chain[5] in these countries and its reform is critical to: (i) fostering fiscal discipline and averting debt crises; (ii) preparing the ground for other PFM reforms such as fiscal decentralization and/or performance budgeting; (iii) restoring the private sector's confidence in doing business with the government; and (iv) compensating for the deficiencies/low capacity in the external oversight exercised by supreme audit agencies and parliament.

The scope of the present note is broader than and complementary to the note on commitment control prepared by Khemani and Radev (2006).[6] The outline of this note is as follows. Section II describes the objectives of financial control and its role in the overall budget execution system, whereas section III examines the main models of financial control in low-income Francophone, Anglophone, and Lusophone African countries.[7] Section IV highlights the main problems encountered in implementing financial control, and Section V suggests a reform path for the creation of an effective financial control system.

II. Objectives of Financial Control and its Role in the Overall Budget Execution System

A. Objectives of Financial Control

The International Organization of Supreme Audit Institutions (INTOSAI) sets out four objectives for internal control in a public sector organization:[8] (i) executing orderly, ethical,

[4] Different terminologies are used to describe the financial control function, e.g., *contrôle financier* and *expenditure control* under the Francophone and Anglophone PFM systems respectively.

[5] Bill Dorotinsky and Rob Floyd, 2004, "Public Expenditure Accountability in Africa: Progress, Lessons and Challenges," in *Building State Capacity in Africa*, ed. by Brian Levy and Sahr Kpundeh (Washington: World Bank).

[6] Pokar Khemani and Dimitar Radev, 2006, "*Commitment Controls*," FAD, PFM Technical Guidelines Note No. 3, July 2006. (Washington: International Monetary Fund).

[7] The description of these three models in the note applies only to their standard spending procedures.

[8] The 17th International Conference of Supreme Audit Institutions (2001) updated the 1992 INTOSAI guidelines on internal control by incorporating the Committee on Sponsoring Organizations of the Treadway

(continued)

economical, efficient and effective operations; (ii) fulfilling accountability obligations; (iii) complying with applicable laws and regulations; and (iv) safeguarding resources against loss, misuse and damage. These objectives can be achieved in several ways, including controls over access to resources and records; authorizations and approvals; evaluations of operations and processes; supervision, verifications, and reconciliations; and reviews of operating performance.

Financial control is, therefore, a key component of the overall internal control system and can be defined as a set of ex ante verifications undertaken during budget execution to ensure that: (i) public resources are committed and expended in accordance with the budget law, existing financial laws and regulations and government priorities (as set in the budget or the cash plan); and (ii) the principles of "economy"[9] and "consistency"[10] are observed in the use of public resources.

B. Role of Financial Control in the Overall Budget Execution System

Financial control is one of the three key *ex ante*[11] controls applied during budget execution (Box 1).[12]

Aggregate cash control is applied during the funding authorization phase (*notification de crédit*) by the minister of finance through the issuance of warrants or allotments that give spending agencies the authority to make commitments/payments.

Financial control intervenes at all four stages of normal budget execution and has several dimensions. Appropriation, regularity, and commitment controls are applied at the commitment (*engagement*) stage to ensure compliance with the budget law, other financial

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Commission's (COSO) integrated framework for internal control. While incorporating the COSO model in the guidelines, the INTOSAI included the ethical aspect of operations and the safeguarding of resources as important internal control objectives in a public sector environment.

[9] That is, ensuring that goods and services are procured by the government at competitive market prices.

[10] Consistency relates to the uniform application of financial laws, regulations and instructions across spending units (spatial consistency) and time (temporal consistency), as well as similarity in treatment of all suppliers of goods and services.

[11] They are ex ante in the sense that they are applied before the operation proceeds to the next stage of budget execution. These ex ante controls also need to be distinguished from ex post verifications (i.e. internal and external audits).

[12] The description of the various controls mentioned in Box 1 applies only to traditional input-based budgeting and does not fully reflect changed procedures that are being implemented in countries that have moved over to program and performance-based budgeting.

laws and regulations,[13] and the prospective cash plan before a budget manager can place an order for a supply of goods or services. At the verification (*liquidation*) stage, the control objective is to clearly establish the incurrence of government liability after ensuring that the delivery of the goods and/or services conforms to the specified quality and quantity. At the payment order (*ordonnancement*) stage, the control involves verification of budget cover as well as application of controls at previous stages. During the payment (*paiement*) stage, the financial control objective is to ascertain that no prior payment to liquidate the said liability of the government (towards the supplier) has been made, a budgetary appropriation exists,

[13] For example, financial control assures that the recruitment of a civil servant is in conformity with the civil service regulations, or that the acquisition of a good or service complies with the procurement code. The intervention of financial control helps to avoid later litigation.

Box. 1: Controls Applied During Budget Execution

Before the budget is executed: the funding phase

Aggregate Cash Control (*contrôle de trésorerie*) refers to controlling the release of cash to the spending units (through warrants, *notification de crédit*). This is a key element of the overall cash management system. Its objective is to minimize the cost of financing government programs by smoothening out the gap between cash inflows and outflows from the treasury account so that the interest cost of loans raised to finance the resource gap is kept to a minimum and no payment arrears emerge.

During budget execution: commitment, verification, payment order, and payment stages

Financial Control (*contrôle financier*) has several dimensions:

At the commitment stage:

- **Appropriation control** *(contrôle budgétaire also called contrôle de disponibilité des crédits).* It aims at ensuring that the expenditure is properly covered in the annual budget. This control has two dimensions: (i) the verification of the availability of budget allocation under the relevant line item; and (ii) the assurance that the proposed expenditure amount has been calculated correctly and covers all unavoidable expenses so that no additional hidden expenses are assumed by agreeing to the expenditure proposal.

- **Control of regularity of expenditure** (*contrôle de régularité).* It essentially ensures that the expenditure operation conforms to the legal and regulatory framework and procedures, and in particular to the financial regulations.

- **Commitment control** *(contrôle d'engagement).*[1] This control reconciles the commitment with the availability of resources, thus ensuring that spending units enter only into contracts or other arrangements for which sufficient unencumbered balances, both with respect to the approved budget and cash plan, are available or likely to be available at the time of their payments.

At the verification stage:

- **Verification of goods and services** *(contrôle du service fait).* This control essentially involves: (i) a verification of the goods and/or services delivered by a supplier to ensure that these conform to the specified quality and quantity; and (ii) a precise calculation of the liability incurred by the government.

At the payment orders stage:

- **Verification of payment due** (*contrôle de l'ordonnancement*). The comptroller ascertains that the budget provides for the transaction, that all previous controls have been performed, and that a payment is due.

At the payment stage:

- **Controlling liquidation of incurred liability** *(contrôle de liquidation)*: This control is applied during the payment stage and seeks to establish: (i) the existence of budget cover; (ii) proper budget classification to facilitate budget execution accounting and reporting; and (iii) that the payment is being made to a real creditor for a claim that was not paid earlier.

After payment is made: the accounting phase

Accounting control *(contrôle de comptabilité).* Here the objective is to ensure that the transaction is accurately classified and recorded in the general ledger. This control is important for generating accurate and timely fiscal data and reliable fiscal reporting.

Control of appropriateness of expenditure in terms of value for money (*contrôle d'opportunité*). This is an ex post control in the sense that the proposed expenditure may have been budgeted for and legally valid but may not be the best option amongst a range of alternatives. Here the objective is "value for money" and the control requires an analysis beyond the routine verification with regard to the budget line item or compliance with rules and regulations. This control could be internally applied only in well-developed internal control systems. Since this is not the case in low-income African countries, this verification for "value-for-money" can only be done ex post by external and/or internal audit institutions.

and budget classification is correct. Either an agent of the ministry of finance (in the case of Francophone African Countries, FACs; and in Lusophone African Countries, LACs) or a staff of the line ministry/spending agency itself (in the case of Anglophone African Countries, AACs) is vested with the responsibility of exercising these controls.[14] The financial control requires an authorization (in the case of FACs and LACs, this is an ex ante visa) before the budget manager can proceed to the next stage of the expenditure chain.

Accounting control is applied to ensure that the payment/expenditure transaction is accurately classified and recorded in the general accounting ledger. It is undertaken by a public accountant of the treasury in the case of FACs and LACs, or the Accountant General's office in the case of AACs (e.g., Gambia, Lesotho, and Tanzania), in the process of executing the payment and keeping accounts of the disbursements. The budget execution data recorded in the *compte administratif* (FACs and LACs) or vote books (AACs) should check and reconcile with the accounting data maintained by the public accountant/accountant general.

The ***control of appropriateness*** of expenditure in terms of ensuring value for money is also important during budget execution.

III. Main Models and Institutional Forms of Financial Control in African Countries

A. Models of Financial Control

The financial control architecture of African countries reflects both the PFM systems and traditions of the former colonial powers, and changes introduced over the years. Three broad groups of PFM have emerged in Africa: the French-based system in the Francophone African countries (FACs); the British-based system in the Anglophone African countries (AACs); and the Portuguese model in the Lusophone African countries (LACs). The main differences among these groups lie in the degree of centralization of the financial control system and the role of the ministry of finance and the line agencies during the expenditure execution process.[15] This generalization of PFM systems in Africa as forming three broad groups should not mask the existence of significant variations within each group both in terms of regulatory, institutional, and operational framework.[16] Furthermore, the analysis and description of the three financial control models here applies only to their normal expenditure

[14] Some LACs (Angola for instance) have the peculiarity that the judiciary (i.e., *Tribunal des contas*) is tasked with approving large expenditure contracts above a certain threshold prior to their implementation to ensure that procurement regulations are followed.

[15] The original French, English, and Portuguese systems on which the African models are based have evolved. For example, France has overhauled its PFM system with the 2001 organic budget law.

[16] For example, some FACs such as Mali and Benin have deconcentrated their procedures for commitments, verifications and payment orders by out-posting the staff of the ministry of finance (*délégués du Contrôle Financier*) in line ministries/agencies.

procedures. Exceptional procedures continue to bypass some of the stages of budget execution where ex ante controls are applied.

Inherited French Model. Financial control in FACs derives largely from the French system as it existed in the 1960s in the French provincial governments (*préfectures*).[17] However, there are some differences: FACs have not only intensified the centralization of financial and accounting controls under the authority of the ministry of finance in the late 1990s,[18] but the minister of finance has also become the single and principal payment-authorizing officer (*Ordonnateur principal unique*).[19] In the FACs (except Mali and Benin), the responsibility for financial control is centralized in the general directorate of financial control in the ministry of finance. The staff of this directorate are out-posted in the line ministries and operate under the supervision of the ministry of finance. The payment-authorizing officer, called the *Ordonnateur*, is separate from the financial comptroller. As was the case in France until recently, the FACs also make a clear distinction between the authority that orders payments (the payment-authorizing officer or *Ordonnateur*) and the authority that makes the payments (the public accountant or *comptable*).[20] This separation, aimed at reducing the risks of misappropriation and misuse of public funds, facilitates the assignment of responsibilities in the event of misconduct.

Under this system, the budget authority is commitment-based. In other words, the spending agencies can commit expenditures under the annual budget law up to an authorized ceiling. The annual budget authority, however, is further regulated by the minister of finance who releases warrants (*notifications de crédit*) specifying a commitment ceiling for a particular month or quarter. A complementary period (generally two months) is allowed after the close of the fiscal year to process and record cash payment transactions in respect of late commitments (i.e. commitments authorized before the close of the fiscal year in respect of which the actual delivery of goods or services is yet to take place). The key elements of the old French model are the principles of separation of responsibility and centralization of financial control. The principle of separation means that no single individual or agency

[17] D. Bouley, et al, 2003, "How Do Treasury Systems Operate in Sub-Saharan Francophone?" *OECD Journal on Budgeting*, OECD, Vol. 2, No. 4, Paris.

[18] Prior to the 1990s, financial control was under the Presidency (Côte d'Ivoire), the Prime Minister's Office, (Senegal) or was the responsibility of a separate ministry. It was centralized by a 1997 directive in the West African Economic and Monetary Union (WAEMU) countries.

[19] This is unlike the system in France where each line minister is an *Ordonnateur Principal.*

[20] The public accountant assumes personal and financial responsibility for compliance with regulations and is accountable to the Court of Accounts. Because of the separation principle, the authorizing officer is not permitted to manage bank accounts or cash. In exceptional circumstances, the authorizing officer can order the public accountant through a "requisition order", to authorize a payment order that the accountant had previously rejected. When this occurs, the minister of finance must send a report to the Court of Accounts and the responsibility for the transaction shifts from the public accountant to the authorizing officer.

should control all key stages of an expenditure transaction.[21] Therefore, duties and responsibilities should be segregated and assigned systematically to different authorities to ensure that effective checks and balances exist. This system has also a number of built-in redundancies/overlaps in controls to reduce the risk of insufficient oversight that could lead to waste or misappropriations of public money (for instance, verification of budget cover at the levels of both the *contrôleur financier* and the public accountant).

Inherited British Model. The AACs have inherited the British model which is characterized by the devolution of the responsibility for financial control to line ministries. The accounting officer (AO) in the spending ministry, usually the permanent secretary, is responsible for proper use and control of the ministry appropriations. Therefore, after warrant releases, line ministries have the power to: (i) make commitments against their budget appropriations and authorized cash ceilings without reference to the ministry of finance; and (ii) issue payment orders themselves. However, the execution of payment (i.e. issuing checks or electronic money transfer advices to the banks) remains centralized in many AAC countries under an Accountant General.

In this type of system, the budget authorizations/appropriations are cash-based. Therefore, there is no complementary period, and at the beginning of a new fiscal year, in principle, no cash transactions pertaining to the previous year's budget should take place. Unlike the old French system, the key principles here are integration and decentralization. The British model assigns both the authority to spend and the responsibility to ensure the regularity of each transaction to the same agency. The argument is that separating the two might create confusion about accountability and coordination as each expenditure transaction would be linked to more than one agency.

Lusophone Model. Financial control in LACs (Angola, Cape Verde, Guinea Bissau, Mozambique, and Sao Tome and Principe) is quite similar to that in FACs. It is centralized in the ministry of finance and is multi-stepped. However, there are a few key differences between the expenditure execution system in FACs and the model prevalent in LACs. LACs are characterized by a higher degree of centralization in the sense that the overall budget execution responsibility, including the responsibility for financial control, is concentrated in one office: the budget office itself (e.g., in Guinée Bissau and Sao Tome and Principe) or the accounting office (e.g., in Angola and Mozambique). Moreover, whereas in FACs the payment-authorizing officer is separate from the financial control officer, in LACs, these responsibilities are exercised by the same authority. The LACs have an additional layer of financial verification that is exercised by the Expenditure Department, which is tasked with confirming the control undertaken by the budget office/accounting office. For contracts in excess of a certain threshold, a judiciary approval is also required. Recently, Angola and

[21] However, in the case of the FACs, this principle is not observed when the Minister of Finance himself is the principal payment-authorizing officer and also supervises the Treasury Directorate.

Mozambique have deconcentrated some expenditure responsibilities and assigned them to line ministries.

The system is virtually the same in Equatorial Guinea, the only Spanish-speaking country of the African continent. Financial control and budget execution more generally are the most centralized in Equatorial Guinea, where all expenditure initiatives have to be cleared by the President's office.

Figures 1, 2, and 3 outline the overall budget execution systems, including different stages of the expenditure chain, the relevant control points, the main actors involved, the control tasks/parameters at each stage, and the role of financial control within the system in respect of FACs, LACs, and AACs respectively.

Recording of Expenditure Transactions under the Three Models. In FACs and LACs, the expenditure execution during the commitment, verification and payment order stages, (called the administrative phase), is recorded and reported according to the budget classification and serves as inputs for the preparation of the *compte administratif,* while in the accounting phase, transactions are coded according to the chart of accounts[22] and used to prepare the *compte de gestion*. In case of AACs, expenditure commitments and issuance of payment orders are (or should be) registered in the vote books of line ministries, while the actual payments are recorded in the Accountant General's books.

Model-Specific Risks in the Absence of a Sound PFM System.

In the absence of a sound PFM system, the management of public finances faces several risks. Budget execution procedures in FACs and LACs could become cumbersome, rigid, and time-consuming due to the centralized control arrangement and the requirement of clearing each expenditure transaction through multiple actors/agencies. This might encourage frequent recourse to exceptional procedures that bypass the financial control system altogether. However, assuming that there is no recourse to exceptional procedures, the centralized systems in FACs and LACs might in fact make it easier to consolidate the expenditure data for the government as a whole at different stages of the budget execution process. In AACs, on the other hand, since the control and recording of the commitment, verification, and payment order stages are typically undertaken in the spending ministries, delays in forwarding the expenditure data could prevent a timely consolidation of government expenditure by the ministry of finance, thereby complicating the analysis of fiscal impulse. There is also a risk that spending units might misuse their discretion in the

[22] The chart of accounts used in FACs facilitates the preparation of financial accounts (*comptes de gestion*). However, the classification therein may not (in some countries) incorporate the budget classification.

absence of strong systems of internal control and audit and ex post oversight (e.g., through external audit). As a result, irregular transactions may not be properly identified and reported.

B. Institutional Framework of Financial Control

Specific Verification Tasks During Financial Control

As part of financial control, the designated control authority needs to verify that:

- the officer committing the government resources or ordering a payment is qualified and authorized to do so;
- the expenditure is authorized in the budget and adequate budget provisions are available;
- the expenditure is classified under the proper budget line, and codified;[23]
- the prescribed procedure for incurring each specific expenditure is followed (e.g., in FACs, normal procedure, simplified procedure, payment procedure without prior issuance of payment order, etc.);[24]
- all the supporting documents are provided, in addition to the commitment and/or verification forms;
- the goods and services ordered have been delivered;[25]
- the prices (fair market prices) and other required specifications (quantity, size, color, etc.) are clearly indicated in arriving at the final price that government is to pay;
- government taxes and fees are shown and netted out on the forms;
- all the forms have the required clearance (i.e. initials, signatures) and the officials who have cleared the operations have the legal authority to do so;
- all the financial and accounting laws and regulations are carefully followed; and
- the verification and payment order forms submitted bear the prior approval or visa that the designated control authority conducting the review had given at earlier stage(s).

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[23] Budget nomenclature that is consistent with international standards is essential in this regard.

[24] The financial control regulations in FACs generally provide for these three different procedures, but they may go by different names in different countries.

[25] The spending ministry (i.e., the credit administrator and payment authorization officer of the ministry) has primary responsibility for verifying compliance with the purchase order, including the effective delivery of the goods and services in the specified quality, quantity, and timeframe.

The financial control officer is also tasked with undertaking a prior review of all plans or intents of decision that may require government funding, and keeping records on authorized commitments and verifications.

Coverage of financial control

Financial control covers all government expenditure, irrespective of the institution undertaking the expenditure (central, deconcentrated or decentralized administrations, etc.), the nature of the expenditure (recurrent, capital, projects, programs, etc.), or the source of financing (domestic versus foreign).[26] Financial control is applied to budgeted and unforeseen expenditure and more generally to all decisions that have a financial impact on government (e.g., personnel compensations, procurement of goods and services, release of subsidies and transfers, debt service payments, agreements, leases, etc.).[27]

Organizational setup of financial control

Setup. As discussed above, the setup of financial control could be either centralized (in LACs and FACs) or decentralized (in AACs). The financial control authority in FACs has always been more centralized than in France and has remained concentrated in the finance ministry in most of these countries. This rigidity dilutes the accountability of line ministries in managing public resources. In some countries, the responsibilities for financial control are concentrated in a few administrative and technical units (e.g., Togo) whereas they are more disaggregated in others (e.g., Guinea - see Appendix I).

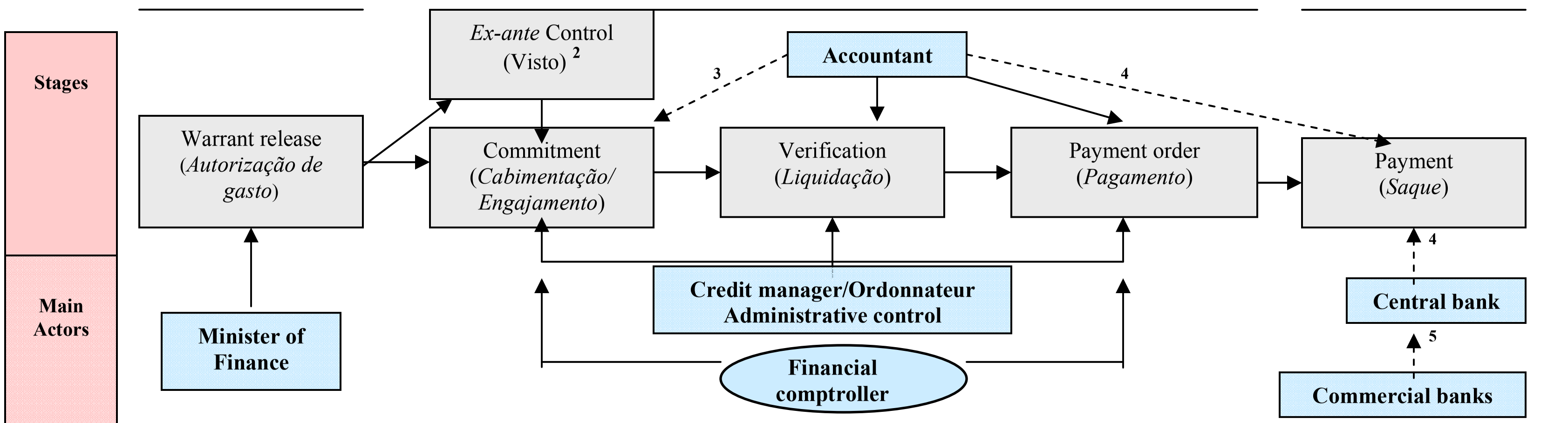
[26] Often, beneficiary countries do not have control over the procedures governing the execution of donor-financed projects and programs, many of which are executed outside the national PFM system.

[27] The control procedures vary according to the type of expenditure. For instance, the control of salary payments is not itemized and systematic unless there are indications that the wage bill has changed.

Figure 1: Typical Expenditure Chain and Control Points in the PFM System of an FAC

	The funding phase (Aggregate cash control)	**The administrative phase** (Financial control)			**The accounting phase** (Financial and accounting control)
Stages	Warrant release (*Notification de crédit*)	Commitment (*Engagement*)	Verification (*Liquidation*)	Payment order (*Ordonnancement*)	Payment (*Paiement*)
Main Actors	**Minister of Finance**	**Credit manager/Ordonnateur**; **Financial comptroller**	**Credit manager/Ordonnateur**; **Financial comptroller**	**Credit manager/Ordonnateur**; **Financial comptroller**	**Accountant**
Main actions	- Communicate the authorized ceilings for funding of expenditure commitments (monthly or quarterly in general).	- Contract/Purchase order for procurement of goods/services. - Ex-ante control with respect to the budget, cash plan and other financial laws/regulations (*visa* of the financial comptroller required).	- Delivery of goods/services - Verification of delivery. - Financial comptroller determines the final cost of goods/services.	- Processing of request to pay the supplier. - Issue of payment order.	- Scrutinize the payment order. - Pay to liquidate the liability.
Control Tasks/ Para-meters	Determine the ceiling for funding, based on the budget authorized by parliament and the cash inflow and outflow projections.	- Control of commitments (record and discharge commitments). - Verify availability of funding, appropriate expenditure classification, exact calculation, regularity of expenditure and procedural requirements.	-Verify conformity of goods/services with the quantity and quality specifications mentioned in purchase order/contract. - Record a verification certificate. -Update the stock accounts (*comptabilité matière*).	- Verify with respect to previous commitment authorizations and certification of goods/services received. - Obtain signature of the authority competent to sign the payment order.	- Verify the availability of budget line item imputation, *ex ante* visa of the financial comptroller, delivery certificate, and rules relating to extinction of public liabilities. -Keep record of the transaction for accounting and reporting purposes.

Figure 2: Typical Expenditure Chain and Control Points in the PFM System of an LAC [1]

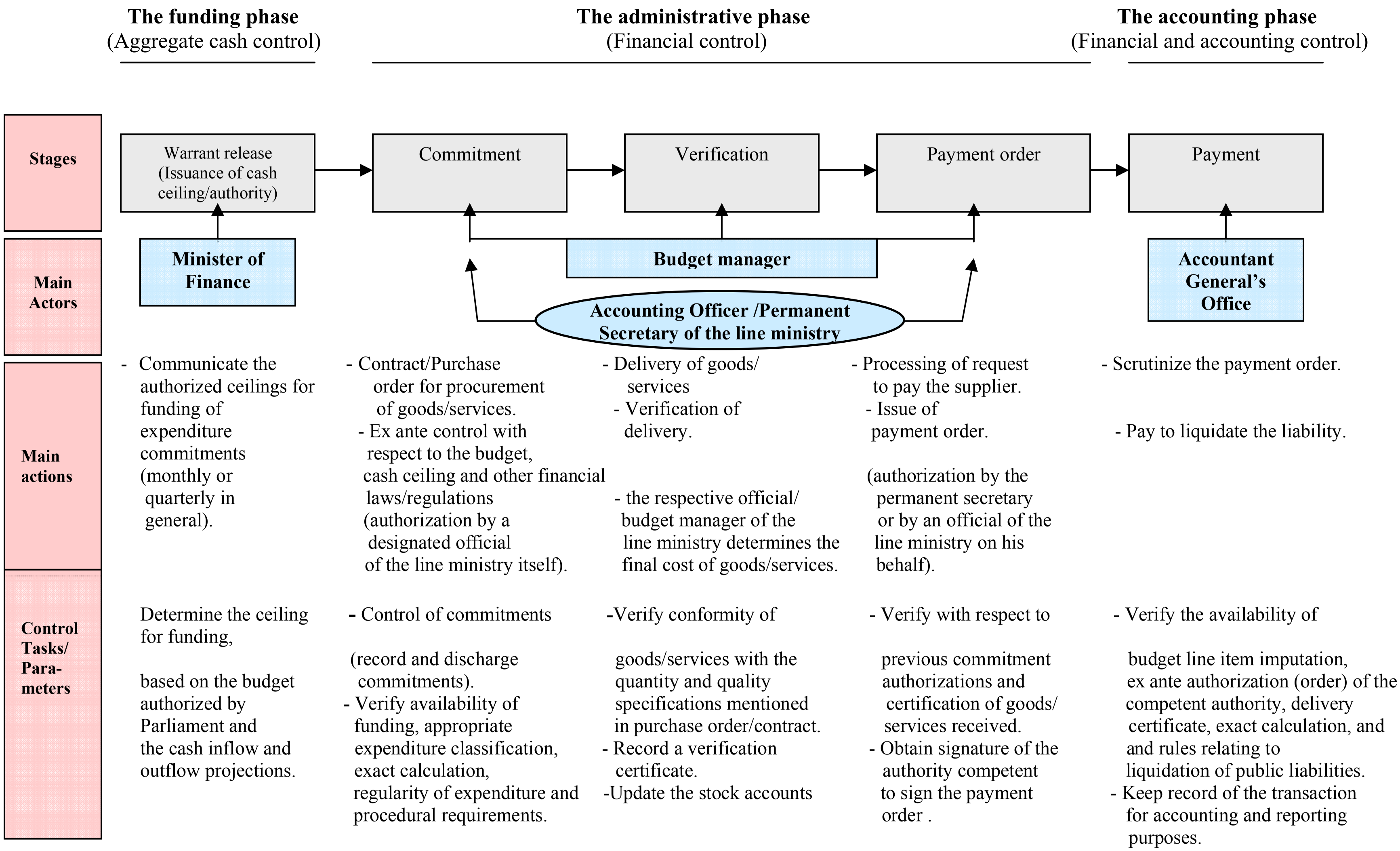


	Warrant release	Commitment	Verification	Payment order	Payment
Main actions	- Communicate the authorized ceilings for funding of expenditure commitments (monthly or quarterly in general).	- Contract/Purchase order for procurement of goods/services. - Ex ante control with respect to the budget and other financial laws/regulations.	- Delivery of goods/service - Verification of conformity of delivery by the administrative agency concerned. - Financial comptroller determines the final cost of goods/services.	- Processing of request to pay the supplier. - Issue of payment order.	- Scrutinize the payment order. - Pay to liquidate the liability.
Control Tasks/ Para-meters	- Determine the ceiling for funding, based on the budget authorized by Parliament and the cash inflow and outflow projections.	- Control of commitments (record and discharge commitments). - Verify availability of funding, appropriate expenditure classification, exact calculation, regularity of expenditure and procedural requirements.	-Verify conformity of goods/services with the quantity and quality specifications mentioned in purchase order/contract. - Record a verification certificate. - Update the stock accounts (*contrôle materiel*).	- Verify with respect to previous commitment authorizations and certification of goods/ services received. - Obtain signature of the authority competent to sign the payment Order.	- Verify the availability of budget line item imputation, ex ante visa of the financial comptroller, delivery certificate, and rules relating to extinction of public liabilities. - Keep record of the transaction for accounting and reporting purposes.

Notes

(1) Angola and Mozambique are already implementing an integrated electronic financial system. Sao Tome and Principe plans to implement one in 2008. (2) Depending on the amount of the contract, prior commitment authorization of the Court of Accounts is required. (3) When budget and account codes are integrated. (4) When treasury single account is already implemented. (5) When appropriate interface exists between information systems of commercial banks and the central bank.

Figure 3: Typical Expenditure Chain and Control Points in the PFM System of an AAC



Conflict resolution mechanism. In FACs, a rejected expenditure commitment order or clearance for payment is forwarded by the financial control officer to the head of the government agency[28] with an explanation for the rejection. The head of the agency can, in turn, appeal the decision of the financial control officer to the minister of finance. Alternatively, if the head of the spending unit (for instance a line minister) has the power of secondary payment authorization officer, he may override the objection of the control officer and issue the order to pay if the expenditure is budgeted and is within the authorized ceiling. Technical errors such as missing supporting documents or improper classification codes or procedures are generally rectified, and the processing of the expenditure order can move forward. In AACs, the financial control officer[29] requires the approval of the finance minister if unused appropriations are to be transferred to cover the unbudgeted or additional expenditure. In any case, no payment order can be issued in either FACs or AACs if verification shows that the goods and services were not delivered.

IV. Main Problems Encountered in Implementing Financial Control

Shortcomings in the legal and regulatory framework, organizational structure and control processes have hindered the effectiveness of financial control in African countries.

A. Weaknesses in the Legal and Regulatory Framework

Ideally, the basic principles governing financial control should be coded into budget system laws (as is the case in developed countries, the United States being one example). These principles should define both the objectives and scope of financial control, and the institutions that are tasked with undertaking it. However, in several FACs, (WAEMU, for instance) the organic budget laws do not explicitly mention financial control.[30] The main risk of such an omission is that financial control is not legally binding and is dependent on the commitment (or lack thereof) of the executive to ensuring fiscal discipline.

Even if financial control regulations exist, they may lack sufficient clarity. For instance, in Kenya the responsibility for expenditure verification is assigned to the permanent secretary in each line ministry, who in turn reassigns it to several senior officers without a clear delineation of responsibilities (accountant general, account comptroller, finance officer, planning officer, budget officer and internal auditor). Such a system leads to an overlapping of responsibilities and is a source of confusion, delays, and inefficiency.

[28] The ministry, local authority, or autonomous agency whose request is being rejected.

[29] The accounting officer in a line ministry, usually the permanent secretary, functions as the financial control officer in an AAC.

[30] In the case of WAEMU, however, these principles are included in the public accounting regulation.

B. Weaknesses in the Organizational Structure of Control Units

Some countries have too many control institutions with ill-defined purpose and usefulness.

Distribution of tasks and responsibilities among financial control units. In some FACs, the control responsibility is devolved to several institutions, without coordination among them or harmonization of their work programs. For instance, in the Republic of Congo and Guinea, there is an additional ministry in charge of control besides the ministry of finance. In general, such ministries are tasked with inspection or internal audit responsibilities. However, such an arrangement runs the risk of fragmentation and confusion of responsibilities, inefficiency, and reaching contradictory conclusions and providing unsound recommendations.

In most AACs, the regulatory framework is defined by the ministry of finance, but is implemented by line ministries. The ministry of finance is expected to exercise oversight in the form of spot checks/inspections and audits performed in line ministries (Uganda, Tanzania). However, if the internal audit units are not independent of the units being audited by them, the risk is that their oversight role might not be thorough and effective.

Supervision of the financial control units. Financial control agencies in most of the African countries are not subjected to any quality control or benchmarking as far as their effectiveness and efficiency is concerned. Hence, errors made by the control units are not reviewed and systematically eliminated. Likewise, inconsistencies in the implementation of control principles and procedures across units and time are not monitored and eliminated. The lack of computerization also makes it difficult to maintain proper audit trails of transactions at different stages of the expenditure process.

Reporting and oversight of financial control performance. As mentioned earlier, financial control cannot be effective without adequate oversight mechanisms, such as internal and external audit systems, and measures to address the reported deficiencies in the control system. FACs usually have centralized internal audit institutions such as the audit office of the ministry of finance (*Inspection des Finances*) and the state audit office (*Inspection Générale d'Etat*). The AACs do not have centralized internal audit institutions, although internal audit units do exist in some AACs under the control of either the Accountant General's office or the respective line ministries. Both FACs and AACs have external audit institutions (*Chambre/Cour des Comptes* and Auditor General respectively). However, the effectiveness of these institutions in both AACs and FACs is constrained by factors common to many African countries (under-funding, insufficient numbers of well-trained staff, lack of independence, lack of audit manuals, lack of sanctions, lack of public awareness of the audit function, non-transparent investigative process, etc.).

C. Weaknesses in the Control Process

In several countries, the effectiveness of financial control is undermined by redundant and ill-designed control procedures and by several operational weaknesses.

Duplication of controls. In African countries, often the same type of verification/control is applied at all stages of the expenditure chain, thereby rendering the verification redundant and tedious. For instance, in Ghana, after the vote comptroller has certified that the expenditure is budgeted for and forwards the financial encumbrance to the comptroller and Accountant General for processing, the latter re-verifies the budget cover before certifying the voucher for payment. The treasury then re-checks the existence of budget cover before making the payment.

Exceptional procedures that bypass the normal expenditure control. In many FACs, besides the normal budget execution procedures, there are exceptional but regulated procedures, which bypass all or some of the controls (Box 2). These exceptional procedures have a legitimate place in FACs because they provide flexibility in implementing certain operations. For instance, imprests for petty cash and advances are particularly suited for remote areas where communication is inefficient, and banking services are rare.

Unfortunately, the regulated exceptional procedures have been used by central agencies to impose expenditure priorities that are consistent with neither the budget nor cash plans. Transactions undertaken using these procedures end up being registered in suspense accounts that are rarely cleared due to lack of budget cover and are neither properly tracked nor reported. Exceptional procedures do not provide assurance that the goods and services that were ordered have been delivered or priced at fair market prices.

Due to cash shortages, in several FACs and AACs, financial control has been used as an expenditure rationing system in practice. Hence, expenditure execution using the normal procedure has become tedious and long. Consequently, a significant proportion of total expenditure is implemented using ad hoc, unregulated procedures that bypass control.[31] Financial control is also bypassed in both FACs and AACs when: (i) cross debts are settled through compensation (tax offset by utility bills or between governments and suppliers); or (ii) revenue agencies keep part of the revenue collected for their own expenses (e.g., Central African Republic (CAR), Sudan). In some FACs (the CAR for instance) and several LACs (e.g., Guinea Bissau, Mozambique, Sao Tome and Principe), cash shortage has severely undermined the trust of suppliers who now require the government to pay before they will provide goods and services.[32] Under such circumstances, the ex ante financial control to

[31] For instance, in Guinea, the exceptional procedures (unregulated and regulated) have become the standard way of implementing expenditure. In some countries, government authorities sometimes instruct the central bank to make payments directly to beneficiaries, thereby bypassing the officer in charge of financial control.

[32] In the absence of fiscal discipline, there is no effective solution to the problem of issuance of payment orders or payments that are not based on prior delivery of goods and services. The strategy for tackling this issue should start with a firm commitment at the highest level of government to observe fiscal discipline. The next step would be integrating the cash and commitment plans, thereby providing a basis for the release of quarterly or monthly warrants to line ministries. The treasury would secure and set aside cash to back these warrants. If this fiscal prudence is followed, then upon verification of delivery of the goods and services, the payment orders can be issued, and payments will be made because the treasury would have set aside cash up to the level of the warrants. Implementing this strategy should help restore the credibility of the government as a buyer.

(continued)

ensure compliance during the commitment and verification stages and safeguard against waste and misuse of government money is no longer possible.

Inadequate integration of expenditure commitment and cash management. As an essential instrument of expenditure management, a cash plan consolidates monies from different sources (tax and non-tax revenue, grants, and loans) according to their anticipated time of inflows, and compares them with disbursement needs. Often, cash plans are unrealistically optimistic in respect of timing and magnitude of resource inflows. Implementing expenditure based on such cash plans leads to payment arrears. Instead of focusing on commitment control, budget managers tend to use, with little success, financial control as a way of restraining spending at later stages of the process.

Box 2. Expenditure Procedures in FACs

These fall into three categories in most FACs: normal procedure, exceptional but regulated procedures, and exceptional non-regulated procedures.

The normal procedure has four distinct stages: commitment, verification, payment order, and payment. The first and third stages require a visa from the financial control officer to confirm that the expenditure is budgeted and complies with the financial regulations. At the second stage, the financial comptroller issues a verification certificate of compliance with the commitment order. The budget office and the treasury certify compliance with the financial regulations at the payment order and payment stages, respectively. The bulk of government expenditure should be undertaken using the normal expenditure procedure because it permits the establishment of fiscal discipline and good governance, and reduces the risk of payment arrears.

The types of **exceptional but regulated expenditure procedures** that are available to expenditure managers include so-called simplified procedure and imprest. A simplified expenditure procedure allows for the combination of the commitment and verification phases and is often applied to such operations as utilities, rentals and official travels. Imprests are used for petty cash expenses, urgent expenses, or expenditures whose amounts are not known with certainty. Imprest funds are released in tranches, and have a specific lifetime. Imprest accounts must be closed by the end of the fiscal year.

Countries have used **ad hoc unregulated payment procedures** that circumvent financial control to implement expenditure: *payment authorizations* in Côte d'Ivoire, *letters of payment* in Guinea, *payment orders* in Benin and the Central African Republic, etc. They are characterized by a direct disbursement of public funds in payment of expenditure that may or may not have been budgeted for or be consistent with the cash plan. The money for these operations comes either from the treasury, or directly from the revenue agencies (customs, inland revenue), central or commercial banks, marketing boards, or public enterprises. The orders (typed or handwritten) are issued by the President/Prime Minister's office or line ministries, which can include the ministry of finance. The budget office and the treasury may or may not have prior knowledge of the expenditure. As an illustration of the problem, in Guinea, during the years 2000-04, on average, over 55 percent of government expenditure was paid using unregulated expenditure procedures. More than 39 percent was paid using the exceptional but regulated procedure, and only 5 percent was paid using the normal expenditure procedure. The excessive use of ad hoc procedure is inimical to fiscal discipline and good governance. It also creates difficulties for a timely closure of government accounts because it results in large suspense accounts that do not have a budget cover.

Good financial management requires close coordination among the financial control officers, the treasury, the cash management unit, and the budget office. Often, there is a lack of coordination between authorization of funding (*notification de crédit* in FACs and warrant release in AACs) and control of commitments. As a result, the commitment profiles and payment schedules are not in line with cash flows, and cash plans are overtaken by ad hoc transactions that disrupt previously set expenditure priorities. This disconnect between cash and commitment management leads to situations where payments due after confirmation of the delivery of goods and services turn into arrears.

In AACs, the failure of line ministries to keep accurate records on commitments and to report these data on a regular basis to the ministry of finance for consolidation makes it difficult to: (i) know in a timely fashion the level of total expenditure commitments; (ii) plan for cash disbursements; and (iii) prevent an accumulation of payment arrears.

Lack of procedure manuals. Manuals to guide the implementation of control procedures are rare, particularly in FACs. Financial control procedures are orally communicated to untrained officers who, therefore, do not have a good understanding of the control tasks expected of them and are not well equipped to perform their duties effectively. This also leads to inconsistencies in applying the regulations.

Lack of automation. Computerized PFM systems enable administrators to, inter alia: (i) streamline controls and reduce redundancy by making available the required information on the financial transaction to all the expenditure managers (credit managers, financial control officers, treasury accountants, etc.); (ii) perform routine checks more efficiently and reduce the errors that are frequently made when entering information manually; and (iii) electronically store and process large amounts of financial data. However, in most African countries, PFM is either not automated or the computerization is not sufficient to enable adequate audit trails. This forces downstream control officers to repeat controls that were already done upstream.

V. Financial Control Reforms

A. Strategy

To ensure consistency, the reform of financial control should be part of a comprehensive strategy of PFM reforms, with a clear definition of the objectives, timeline, means, and monitoring mechanism. The actions should be prioritized and appropriately sequenced.

Regarding financial control specifically, the reform strategy should have both a short-to-medium-term component and a long-term component. The main objectives of the short-to-medium-term strategy should be to put an end to the accumulation of payment arrears due to ineffective financial control, and to bring about compliance with the budget law and existing financial regulations. In the long run, the reform agenda should lead to: (i) an overhaul of the institutional framework of financial control, including the legal and regulatory framework and organizational structure; (ii) the decentralization of the financial control authority with concomitant strengthening of the oversight institutions and an appropriate mechanism for centralized consolidation of expenditure data; (iii) capacity-building efforts through training of key officials; and (iv) the computerization of the expenditure chain, including financial control operations.

B. Political Commitment to Strengthening the Financial Control System

The preconditions for a good and effective financial control system are the existence of strong institutions and a firm political commitment to enforce, at all levels, clear and transparent financial control regulations. This commitment is essential at the top level of the executive branch. Yet, it is common in both FACs and AACs for expenditure orders that circumvent the control system to be issued by the President's office and the minister of finance or his permanent secretary. On the other hand, if the central institutions (e.g., the President's office and the Ministry of Finance) comply strictly with the financial regulations, the line agencies are more likely to follow.

C. Financial Control Reform Path

Assuming that the political commitment exists, financial control in FACs, AACs, and LACs can be improved in several areas.

Tradeoff between the accumulation of controls and their effectiveness. The effectiveness of financial control is not necessarily increased by adding more layers of redundant control.[33] Moreover, rigid and cumbersome control procedures can have adverse consequences. For example, overly rigid and controlled spending procedures in the FACs have resulted in the proliferation and misuse of exceptional spending procedures. What is required is that the control function/task be clearly articulated, assigned, understood by comptrollers and consistently applied to all transactions.[34]

Sound regulatory framework. To underscore the importance of financial control, this function should be mentioned in the organic budget law and its implementation framework spelt out in lower level regulations. To facilitate compliance, the general rules contained in the regulatory framework should be codified in specific procedure manuals. The regulatory framework should:

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[33] This is the case in some Francophone African countries exhibiting symptoms (e.g., emergence of arrears) of a dysfunctional control system in spite of multiple controls being applied at various stages of the expenditure chain. FAD TA advice, in such cases, has been to simplify and rationalize the complex structure of control.

[34] Not all expenditure transactions need pass through the same control/verification process and a case could be made for a differential treatment of high value and risk prone transactions vis-à-vis low value transactions. However, the design of such a differentiated control arrangement would depend on several factors, including the effectiveness of an ex post internal audit system to identify irregular transactions.

- Establish a clear line of responsibility for the financial control system;
- Simplify the financial control process by developing a few, streamlined verifications; creating well-defined lists of supporting documents; specifying the precise scope of the control to be undertaken at each stage of the expenditure process, etc.;
- Provide instructions for the use of effective commitment and cash plans;[35]
- Organize selective controls by setting a threshold for systematic controls and sample-based verifications for low-value transactions; and
- Provide for the regular assessment of the effectiveness of the financial control system.

Sound expenditure procedures. A good financial control system should not include ad hoc unregulated procedures. Expenditure managers should be urged to use the normal procedure to ensure that appropriate verifications are undertaken before payments are made. The conditions for the use of exceptional but regulated procedures should be clearly specified and strictly enforced. The enforcement of these rules will reduce payment arrears arising from recourse to extrabudgetary expenditure.

Sound overall PFM. A strong fiscal discipline and the existence of basic PFM instruments (such as timely and realistic budgets, adequate budget coverage, cash plans, satisfactory budget and accounting classification, chart of accounts, treasury single account, timely closure of government accounts and preparation of accounts balances, etc.) are essential anchors for an effective financial control system. Isolated reforms such as fiscal decentralization or computerization of existing systems and procedures are not likely to have a significant positive impact on financial control unless they are supported by other PFM measures.

Sound communication and information systems. Financial control will not be effective if the control officers are not able to closely monitor expenditure developments in a timely fashion. Computerized systems, such as Integrated Financial Management Information Systems (IFMIS), should have adequate functionalities for tracking expenditure transactions. In AACs, decentralized institutions should be encouraged not only to record all the expenditure data at each stage of the process, but also to communicate them regularly to the ministry of finance for consolidation and analysis. Warrants may be withheld from the line ministries that withhold the expenditure data.

Implications for FACs of the reform introduced in France through its 2001 organic budget law. Although the reforms introduced by this law have generated interest amongst FACs, it is desirable that FACs first strengthen their existing controls, accounting, and reporting systems before introducing measures such as global and fungible appropriations, enhanced delegation

[35] This will require the definition of specific criteria for allocating expenditure, for instance, based on the nature, timing and degree of urgency of the spending concerned (i.e., to give priority to the payment of salaries, pensions, debt service, etc.).

of powers to managers in spending agencies, and performance budgeting through development of indicators for performance evaluation and measurement. The risk is that unless their weak control and accounting systems are first strengthened, introducing reforms instructed by the new French organic budget law into FACs will not only overburden their PFM systems, but might further weaken fiscal discipline.

D. Trend Toward Devolution of Controls to Line Agencies

There is a trend worldwide (particularly among developed countries) to implement reforms aimed at strengthening the accountability, transparency, and efficiency in public financial management through the use of performance-based budgeting techniques coupled with devolution of more powers to manage their own budgets to line managers. In the area of financial control, this trend has taken several forms, including the devolution of this responsibility away from the finance ministry;[36] its simplification and streamlining; selective application of ex ante controls; and the replacement of systematic and line item based ex ante controls by ex post verifications and strengthened oversight (see the cases of Morocco and Thailand in Box 3). As this trend takes hold in African countries, the existing differences in their financial control systems will gradually be blurred, with a move toward convergence.

Box 3. Deconcentration of Financial Control in Morocco and Thailand

Morocco has been implementing a reform of financial control since 2006 that seeks to gradually transfer this responsibility from the ministry of finance to line agencies while ensuring adequate safeguards (through strengthened oversight) against the resulting risks of abuse. In this context, verification of the regularity of certain current expenditures (such as salaries and leases) has been delegated to line agencies at the commitment level. For other expenditure items, the devolution is based on the assessed effectiveness of the internal control system of the line agency and its risk management capacity. For this purpose, the spending units were grouped into two categories (*first* and *superior* level) and the deconcentration of financial control has started with the best-performing line agencies at the *superior* level.

Thailand introduced a *hurdle* approach in the late 1990s to deconcentrate budget management and financial control, moving it from the previously powerful Bureau of the Budget (BOB, Ministry of Finance) to line agencies. This model consisted of two main components: (i) a set of criteria or core financial and performance management competencies (called the *hurdles*) to be met by each line agency to qualify for delegation of financial management and control; and (ii) semi-contractual arrangements between the BOB and line agencies formally linking the reduction in central control to the achievement of financial management and control competencies. The *hurdles* were the following: (i) budget planning within the line agency; (ii) output costing; (iii) financial and performance reporting; (iv) financial control arrangements; (v) procurement management; (vi) asset management; and (vii) internal audit. However, the progress of deconcentration of financial control has been slow due to political and institutional impediments, the complexity of the *hurdle* approach, an underestimation of capacity-building needs, and strong opposition to the reform from key actors such as the Civil Service Commission and the Comptroller General's Office.

[36] This devolution/decentralization of financial control should be gradual and based on predefined competency criteria for line ministries.

VI. Conclusion

A strong and robust financial control system is necessary for embedding other PFM reforms, and promoting fiscal discipline, good governance, and the confidence of the private sector in transacting with the government. Financial control has not been effective in many African countries because it is not part of an overall strategy of PFM reforms; in particular, it is not anchored in a strong political commitment to fiscal discipline, good governance, and a sound institutional framework. Instead of moving toward reform, many African countries have developed elaborate procedures to avoid financial control altogether or give a superficial appearance of robustness and efficiency that does not exist in reality.

For the financial control reform to be effective and sustainable, it should be cast within a comprehensive and strategic framework of PFM reforms ultimately aimed at reducing manifestations of weak control (like payment arrears) in the short run and establishing good governance in the management of public finances in the long run.

Appendix I. Centralized Structure of a Financial Control Organization in FACs: the Case of Guinea, 2004

In its elaborate form, the responsibilities for financial control are split among several technical divisions:

Personnel and Pensions Division **(PPD)**. It controls all operations related to government employees that have financial implications for the government (such as salaries, pensions, etc.). The PPD verifies the credentials of government workers and the authority of the recruitment officer. It is also tasked with ensuring that the lists of government employees and pensioners are accurate and updated.

Purchase of Goods and Services Division **(PGSD)**. It performs the same functions as the PPD regarding the purchase of goods and services and monitors the implementation of government contracts, including procurements.

Debt and Investment Division **(DID)**. It undertakes the tasks of the PGSD related to public debt and investment.

Coordination and Regulation Division **(CRD)**. This office coordinates and monitors the operations of deconcentrated government units: (i) to ensure compliance with the financial rules; (ii) to ascertain consistency in applying the rules; and (iii) to keep records. It also reviews the complaints lodged against financial comptrollers for rejecting expenditure orders and makes recommendations to the minister of finance who takes the final decision.

The CRD verifies and consolidates the accounts on commitments and verifications submitted by local administrations and autonomous agencies. It coordinates the release of government subsidies and transfers to these entities.

Verification Division **(VD)**. It double-checks the reports of the credit administrators acknowledging receipt of the goods and services, and delivers a certificate confirming delivery in accordance with the specifications. It collects, consolidates and reports the accounting data on verifications. It prepares the *comptabilité-matière* for the country, and keeps track of and updates the price lists of all government purchases.

Accounting and Studies Division **(ASD)**. After the commitment order is cleared by the PPD, PGSD, and the DID, and the certificate of delivery is issued by the VD, the ASD registers and reports on expenditure commitments and verifications. The ASD also keeps track of expenses that remain in suspense accounts.

Administrative Division. It handles secretarial work, matters pertaining to financial control office personnel, and other supporting services such as computer services.