

THE ROLE OF THE GOVERNMENT POLICIES ON FINANCIAL DISCIPLINES, APPLICATIONS AND CONTROL



P. Algama
Dept. of Public Finance



OUTLINE

- **Constitutional Provisions on Public Finance**
- **Role of the Ministry of Finance**
- **Financial Regulations**
- **Government Procurement Guidelines**
- **Principles Governing Public Procurement**
- **Other Legal provisions on Public Financial Management (PFM)**
- **Key Elements in Public Financial Management Cycle**
- **Public Finance Functions**
- **Treasury Functions**
- **Public Finance Reforms (PFM) for better Governance**



CONSTITUTIONAL PROVISIONS ON PUBLIC FINANCE

Constitutional Provisions of the Democratic Socialist Republic of Sri Lanka , 1978

Article 148: Parliament Shall have full control over public finance.(no tax, rate or any other levy shall be imposed by any local authority or any other public authority, except by or under the authority of a law passed by Parliament or any existing law.

Article 149 (1): The funds of the Republic not allocated by law to specific purposes shall form one Consolidated Fund into which shall be paid the produce of all taxes, imposts, rates and duties and all other revenues and receipts of the Republic not allocated to specific purposes.

Article 149(2): The interest on the public debt, the costs, charges and expenses incidental to the collection, management and receipt of the Consolidated Fund and such other expenditure as Parliament may determine shall be charged on the consolidated fund.



CONSTITUTIONAL PROVISIONS ON PUBLIC FINANCE CONTD..

Article 150(1): Unless otherwise expressly provided in Para 3 and 4 of the Article below, **no sums shall be withdrawn** from the Consolidated Fund except under the authority of a **warrant under the hands of the Minister** in charge of the subject of **Finance**

Article 150(2): No such warrant shall be issued **unless the sum has by resolution of parliament** or by any law been granted for specified public services for the financial year during which the withdrawal is to take place or is otherwise lawfully charged on the Consolidated Fund

Article 150(3): Where the President dissolves Parliament **before the Appropriation Bill** for the financial year has passed into law, he may, unless Parliament shall have already made provision, authorize the issue from the CF and the expenditure of such sums as he may consider necessary for the public services until the expiry of the **period of 3 months from the date on which the new parliament is summoned to meet.**

Article 150(4): Where the President dissolves Parliament and fixes a date for a General Election the President may, unless Parliament may already made provision in that behalf, authorize the issue from CF and the expenditure of such sums as he may after consultation with the Commissioner of Elections consider necessary for such elections.



CONSTITUTIONAL PROVISIONS ON PUBLIC FINANCE CONTD...

Article 151(1): Parliament may by law create a contingency fund with the consent of the President for the purpose of providing urgent and unforeseen expenditure.

Article: 152: No bill or motion authorizing the disposal of, or the imposition of charges on the CF or other funds of the Republic or the imposition of any tax, repeal or reduction of tax in force shall be introduced in Parliament except by Minister of Finance with the approval of the Cabinet of Ministers

Article: 153: There shall be Auditor General appointed by the President

Article: 154: Duties & Functions of AG-FR 154

Auditor General shall audit the accounts of all departments of governments, local authorities and corporations or business undertakings set up by any written law or as may be prescribed by parliament by law. (19th Amendment-Audit Commission)

Parliament Standing Orders:

125: COPA-to examine the accounts of the departments along with the AG's reports and report to the parliament-FR-152

126: COPE- to examine the accounts of the corporations or business undertakings along with the AG's reports and report to the parliament



ROLE OF THE MINISTRY OF FINANCE

- Minister of Finance is charged with **raising of revenues** and other **government income** with the oversight of all the financial operation of the government- FR124(1)
- Minister of Finance **accounts to parliament all receipts and payments**. He delegates to **Secretary to the Treasury** to discharge the responsibility on his behalf. He appoints Secretary to a ministry to be **Chief Accounting Officer (CAO)** and delegate him the responsibility to **collect and disburse funds** on his behalf FR124(2) (supervising departmental financial transactions) while the **Treasury retains general control over governmental financial matters**.
- The Treasury is to maintain control and supervision over the government finance. Treasury is responsible to devise **a system of financial administration** that is satisfactory in all respects in carrying out this responsibility-FR 126
 - **Issue regulations, directives and instructions generally applicable**
 - **Advising CAOs and AOs on special circumstances**

Head of each department will be the Accounting Officers in respect of departmental financial transactions. He is immediately responsible to CAO-FR 125

Revenue Accounting Officer (RAO) is responsible for preparation of revenue estimates and collection and reporting of government revenues- FR 128(2)



FINANCIAL REGULATIONS

Financial Regulations is the most significant regulation to provide fundamental legislative framework for managing scarce resources in public sector.

The Minister in charge of the subject of Finance issued the Financial Regulations:

Objectives:

- regulate the Public Financial Management
- prescribe the responsibilities of persons entrusted with Public Financial Management
- ensure the effective and efficient management of Public Funds; and,
- ensure the effective and efficient management of assets, liabilities, other resources of the government

These Financial Regulations are binding on transactions of Ministries, Departments, Public Corporations, and Government owned Companies, Statutory Funds and Trusts and all state employees who perform those transactions.



Chapter	Description	Financial Regulations	F.R.
1	Introduction		
2	Control, Supervision, Accountability and Management of Public Finance	Part III – Control, Supervision, Accountability and Management of Public Finance	F.R. 4 - 13
3	Planning, Budget Preparation, Approval and Management	Part V – Planning, Budget Preparation, Approval and Management	F.R. 17 - 49
4	Budget Classification of the Chart of Accounts		F.R. 23
5	Warrants and Imprest	Part VI – Cash, Revenue, Expenditure, Asset and Liabilities Management	F.R. 50 -104
6	Banking Arrangements and Bank Reconciliation Procedures		
7	Revenue Accounting Procedures		
8	Purchasing, Commitment and Payment Procedures		
9	Foreign Financing and Debt Management Procedures		
10	Advance Accounts		
11	Payroll Accounting	Part X – Creation of Posts and Personal Emoluments	F.R. 119 - 126
12	Inventory Management	Part VIII – Inventory Management	F.R. 105 - 114
13	Fixed Assets Management	Part IX – Fixed Assets Management	F.R. 115 - 118
14	Journal Entries and Posting Procedures	Part XI – Preparation of Government Accounts	F.R. 127 - 138
15	Preparation of Government Accounts		
16	Audit	Part XII - Audit	F.R. 139 - 145
17	Losses	Part XIII – Losses	F.R. 145 - 155
		Part XIV – Financial Misconduct	F.R. 156
18	Miscellaneous		8



GOVERNMENT PROCUREMENT GUIDELINES

Government Procurement Strategy is to create necessary framework for the procurement of goods, works, consultancy services and other services to ensure value for money, open and effective competition, ethics and fair dealing, transparency and accountability in Public Procurement.

Governing Regulations;

- Government Procurement Guidelines – 2006 (Goods & Works)
- Guidelines on Government Tender Procedure – Part II
Private Sector Infrastructure Projects (BOO / BOT / BOOT Projects)
- Guidelines on Selection and Employment of Consultants
- Guidelines for Procurement of Pharmaceuticals and Medical Devices



PRINCIPLES GOVERN PUBLIC PROCUREMENT

- **Value for money**

Value for money is a key consideration for public procurement. Quantitative factors are tested by comparing the outputs and costs of proposals against a neutral benchmark.

- **Public Interest**

Procuring decisions need to safeguard the public interest; and protect the public interest right throughout the process in all procurements ensuring that the procurement process is structured to ensure that the project continues to be in the public interest.

- **Output Oriented**

Projects should focus on the specification of what services are to be delivered rather than how they should be delivered in order to maximize the opportunity for innovation. Performance measures should be established to ensure that the required services are delivered in accordance with the output specification.



PRINCIPLES GOVERN PUBLIC PROCUREMENT

CONTD..

- **Transparency**

The procurement process ensure that the availability of information on the use of government resources to Parliaments, taxpayers and other stakeholders. The need to disclosure of the processes and outcomes is emphasized.

- **Accountability**

Officials involved in Procurement process should be accountable for the people, parliament, donors and civil society and other stakeholders. The procurement transactions are recorded and published all the data in relation to particular procurement.

- **Engaging the market**

Procurement entities should encourage all suppliers to participate in public procurement and should always engage in marketplace, suppliers and other stakeholders.



PRINCIPLES GOVERN PUBLIC PROCUREMENT

CONTD..

- **Confidentiality**

Parties associated with Procurement Actions, namely, suppliers/ contractors and officials shall ensure that they maintain strict confidentiality throughout the process.

- **Free of Corruption**

The officials involved in a Procurement Action shall not abuse their powers. An official who abuses one's position in a Procurement Action to derive benefits for oneself or one's close family or business associates, would be deemed deemed to be engaged in corrupt practices.

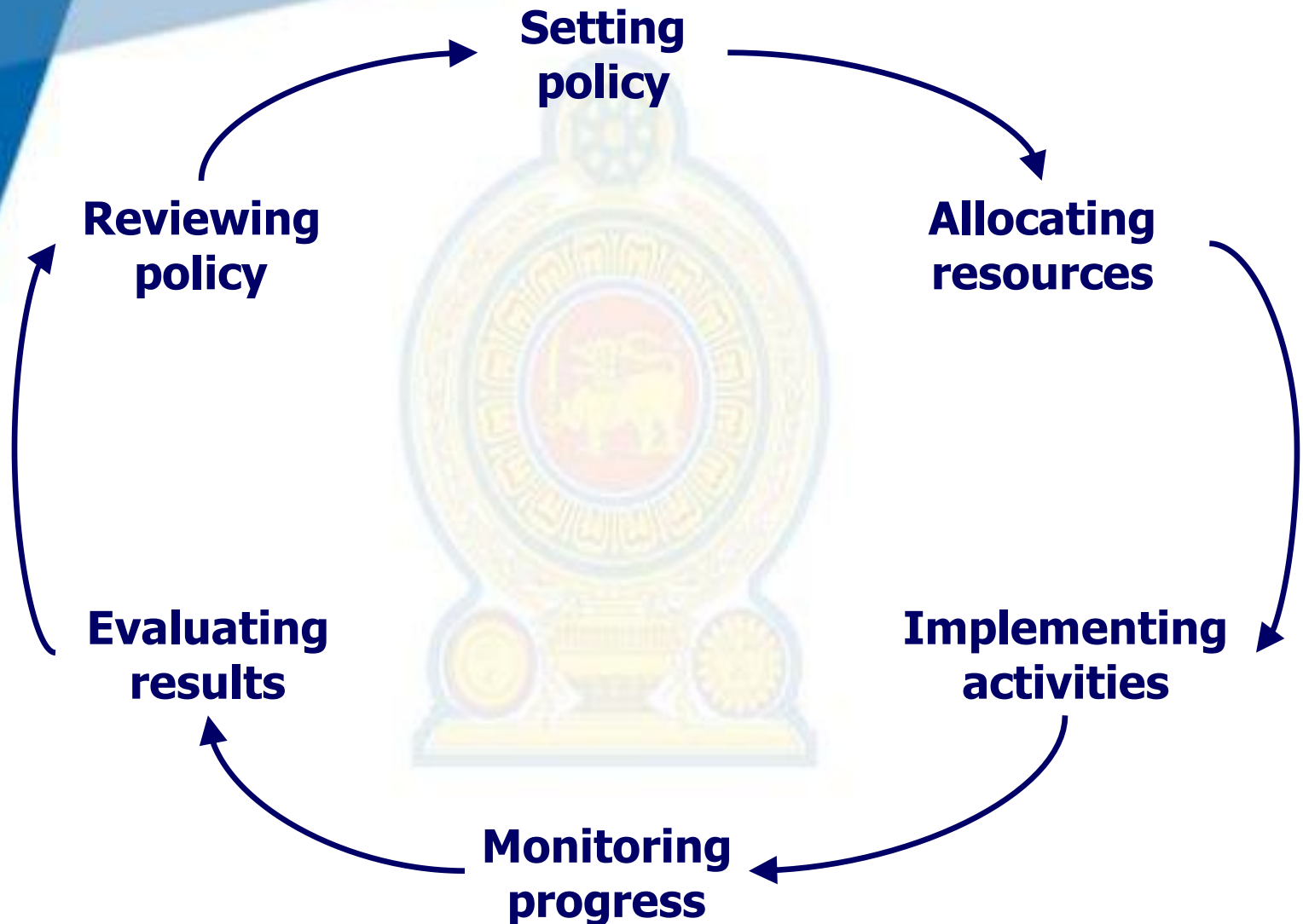


OTHER LEGAL PROVISIONS ON PUBLIC FINANCIAL MANAGEMENT

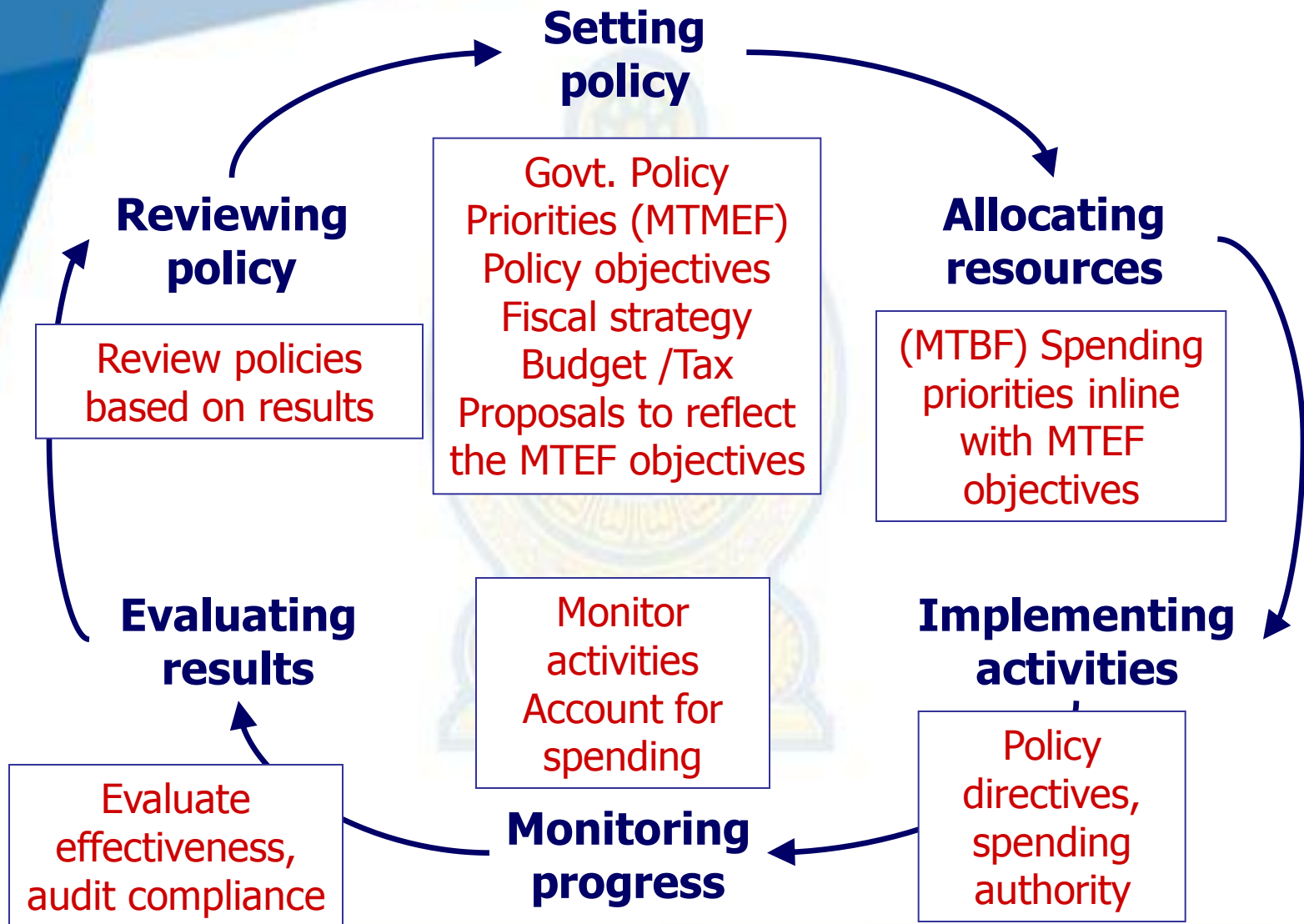
- Annual Appropriation Act: (Budget) :
- Fiscal Management Responsibility Act No.3 of 2003: Budget Economic and Fiscal Position Report(for next 3 years), Mid year (4 months) Fiscal Position Report, Final Budget Position Report to show the Actual and estimated Revenue, Expenditure, borrowings Cash flow information.
- Inland Revenue Act no 10 of 2006
- Finance Act no 38 of 1971
- Treasury Guidelines, Circulars and instructions



KEY ELEMENTS IN PUBLIC FINANCIAL MANAGEMENT CYCLE



KEY ELEMENTS IN PUBLIC FINANCIAL MANAGEMENT CYCLE



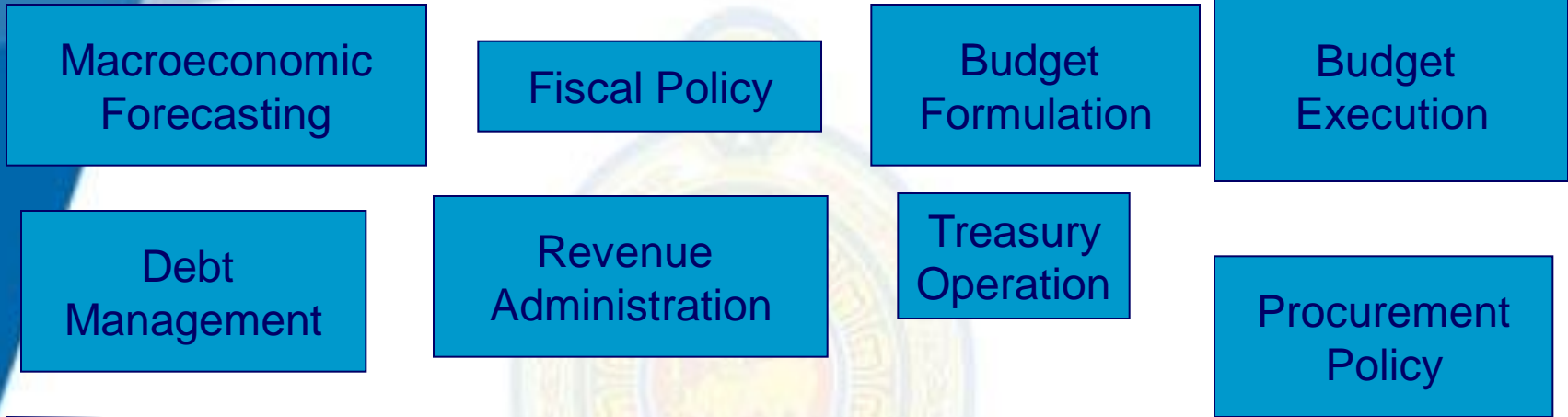
KEY ELEMENTS IN.....

Setting policy	Govt. Policy Priorities. (MTMEF) Strategic thinking (Planning) Budget/Tax proposals
Allocating resources	Central budget systems and coordination Medium term expenditure framework (MTBF) Output based budgeting, Broad based approach with a wider consultation
Implementation	Fiscal decentralization (Through Treasury Guide lines & instructions) Project Monitoring, Procurement ,Cash & Carder Management
Monitoring progress	Measuring and managing for results (Performance Indicators) Accounting and management control systems , disclosure of information - Appropriation Act/Fiscal Management Responsibility Act
Evaluating results	The role of Audit Evaluating effectiveness in terms of outcomes and compare with planned outcomes/outputs
Reviewing policies	Public expenditure reviews and revise policies with actual experience

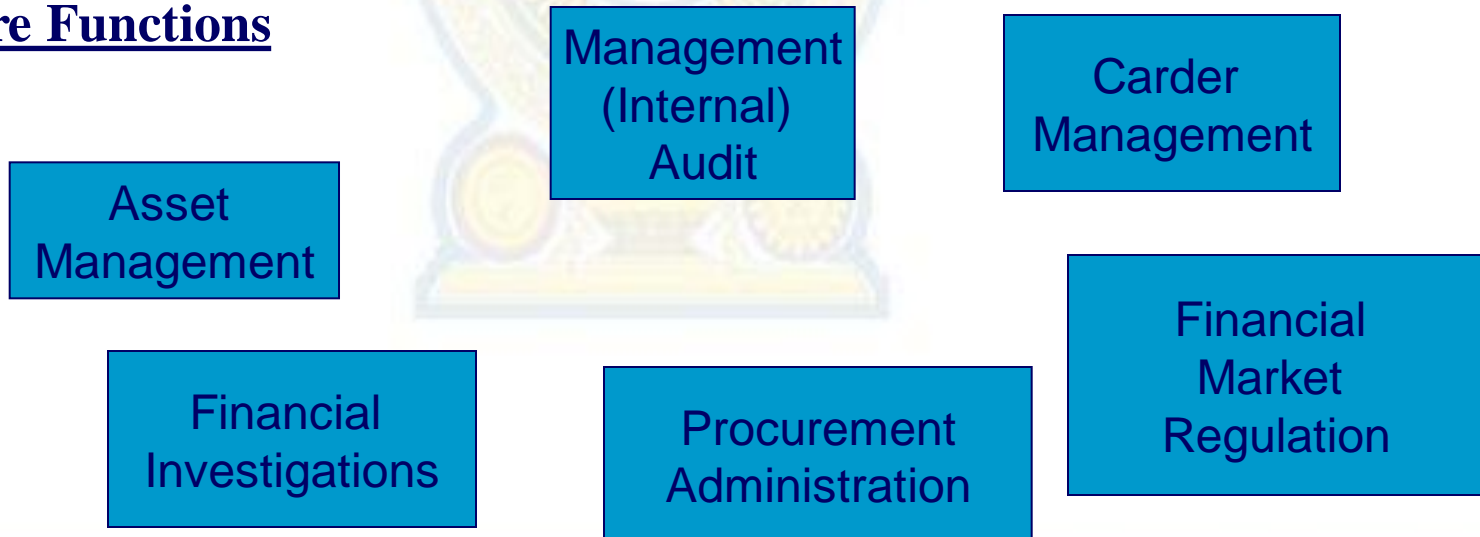


PUBLIC FINANCE FUNCTIONS

Core Functions



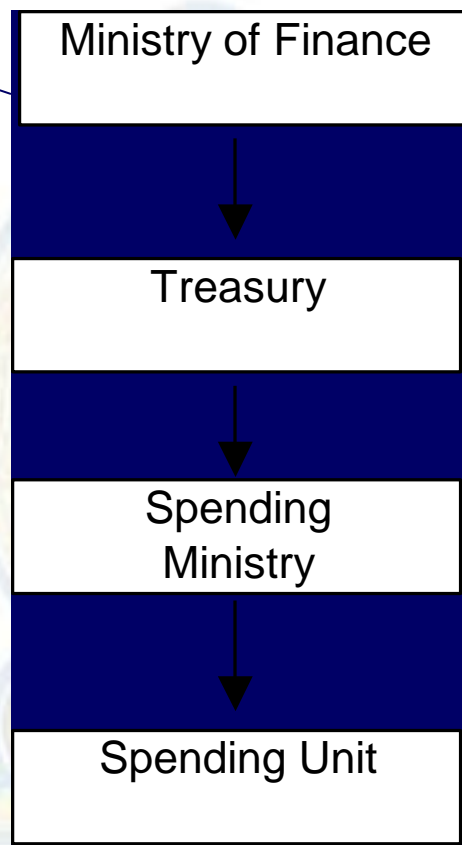
Non-core Functions



TREASURY FUNCTIONS

- Budget Allocations
- Supplemental Budgets
- Virements
- In-year monitoring and correction

- Warrants (cash allocations)
- Cash Flow Management (forecasting, planning, sequestration)
- debt management
- financial asset management
- accounting (policy, system management, chart of accounts)
- make payments
- collect revenues
- account management and reconciliation
- Central Bank relations



- Macro forecasting
- Fiscal Policy
- Revenue administration
- Debt Management

- internal control
- program management
- spending (commitments)
- recording & reporting
- payment orders
- verification of receipt of goods/services
- program/cash plans



Macro Economic Targets Achieved in 2014



PUBLIC FINANCIAL REFORMS FOR BETTER GOVERNANCE (WAY FORWARD)

- The need to improve Sri Lanka public sector governance system has now been more pressing than ever before especially with the Government change and the end of thirty years long civil war which crippled the economic progress of the country.
- Instances were revealed where senior government officers involved in decision making taken inappropriate decisions due to political pressure and personal gains.
- number of irregular contracts have been awarded on massive infrastructure development in the country in recent past without observing fundamental principles of governance such as transparency, accountability and value for money.
- Formulation of Strategic policies, procedures and systems in Public Financial Governance Framework while challenging and difficult, enforcement of policies, procedures and systems has been even more problematic and difficult though it is the key for economic success.
- As the economy and the society are changing over time the policy which worked successfully today would not be the right policy for tomorrow's situation.
- policies or practices work well in given situation would not work in a different situation at the same time. Hence devising a generally accepted policy or practice which works well would be a challenging task.



BETTER GOVERNANCE

The Vision of the Government of Sri Lanka is to ensure that development efforts across all sectors are made fruitful and distributed to all cross sectors of the society, within this regulatory framework in order to achieve sustainable development and enhance the quality of life of citizens.

“Nothing is more destructive of respect for the government and the law of the land than passing laws which cannot be enforced.

Albert Einstein (1879-1955) -





Thank You





Q&A

