

# Managing Public Expenditure

## A Reference Book for Transition Countries

Edited by Richard Allen and Daniel Tommasi

# TABLE OF CONTENTS

FOREWORD.....	3
LIST OF BOXES, FIGURES AND TABLES.....	11
LIST OF ABBREVIATIONS.....	13
EXECUTIVE SUMMARY.....	15
INTRODUCTION — REFORMING PUBLIC EXPENDITURE: AN OVERVIEW.....	19
A. Definitions, Goals and Objectives.....	19
B. Public Finance in the Command Society.....	26
C. Improving Public Expenditure Management in Transition Countries.....	28
D. Approaches to Managing Change.....	31
E. Managing the Reform Process.....	36

## *PARTT*

### **THE BUDGET AND THE INSTITUTIONAL CONTEXT**

<i>Chapter 1</i> — THE BUDGET AND ITS COVERAGE.....	41
A. Basic Definitions.....	41
B. Nature of Legislative Authorisations.....	45
C. Coverage of the Budget.....	49
D. Other Forms of Government Activity with a Fiscal Impact.....	56
E. Budgetary Documents.....	62
<i>Chapter 2</i> — THE LEGAL AND INSTITUTIONAL FRAMEWORK.....	65
A. Distribution of Responsibilities within the Executive.....	65
B. The Role of the Legislature.....	69
C. Distribution of Responsibilities between Different Levels of Government.....	73
D. The Legal Framework.....	76
<i>Chapter 1</i> — THE EUROPEAN BUDGET AND THE IMPACT OF EU ACCESSION.....	87
A. The European Budget.....	87
B. National Budget Policies in the European Union.....	102

## Managing Public Expenditure - A Reference Book for Transition Countries

<i>Summary</i> — PART I.....	113
A. KEY POINTS.....	11 i
B. DIRECTIONS FOR REFORM.....	11'

### *PART II*

#### ALLOCATION OF RESOURCES

<i>Chapter 4</i> — BUDGET CLASSIFICATION, PRESENTATION AND PROGRAMMING.....	121
A. Expenditure Classification.....	121
B. Presentation of Expenditures in the Budget.....	129
C. Programmatic Approaches.....	131
D. Managerialism.....	138
<i>Chapter 5</i> — POLICY FORMULATION AND BUDGET PREPARATION.....	143
A. The Macroeconomic and Policy Context.....	143
B. Preparing the Macroeconomic Framework.....	147
C. Conditions for Sound Budget Preparation.....	157
D. Budget Preparation Process.....	163
<i>Chapter 6</i> — MULTI-YEAR BUDGETING AND INVESTMENT PROGRAMMING.....	175
A. Multi-year Budgeting.....	175
B. Other Expenditure Planning and Forecasting Exercises.....	185
C. Budgeting and Programming Investment.....	186
<i>Summary</i> — PART II.....	199
A. KEY POINTS.....	199
B. DIRECTIONS FOR REFORM.....	204

### *PART III*

#### MANAGING BUDGET EXECUTION

<i>Chapter 1</i> — THE BUDGET EXECUTION CYCLE.....	209
A. Objectives of Budget Execution.....	209
B. The Expenditure Cycle.....	211
C. Distribution of Responsibilities.....	215
D. Budget Appropriation Management Rules.....	217
E. Other Issues of Budget Implementation.....	220
<i>Chapter 8</i> — PAYABLES, PERSONNEL AND PROCUREMENT MANAGEMENT.....	223
A. Managing Payables and Arrears.....	223
B. Personnel Budgeting and Expenditure Control.....	225
C. Public Procurement.....	231
D. Contracting-Out.....	235

## Table of contents

<i>Chapter 9</i> — THE TREASURY FUNCTION AND CASH MANAGEMENT.....	241
A. The Treasury Function.....	241
B. Cash Management.....	243
C. Financial Planning and Forecasts.....	248
D. Management of Government Debt.....	251
E. Management of Government Assets.....	255
F. Relationship with the Central Bank.....	255
<i>Chapter 10</i> — INTERNAL CONTROL AND INTERNAL AUDIT.....	259
A. Introduction.....	259
B. Internal Control.....	260
C. Internal Audit.....	267
D. Financial Management of EU Funds in Candidate Countries.....	273
<i>Summary</i> — PART III.....	281
A. KEY POINTS.....	281
B. DIRECTIONS FOR REFORM.....	286

## **PART IV**

### **ACCOUNTING, REPORTING, AND AUDITING**

<i>Chapter 11</i> — ACCOUNTING.....	291
A. Accounting Frameworks.....	291
B. Accrual Accounting.....	297
C. Reforming an Accounting System.....	302
D. Special Issues.....	307
<i>Chapter 12</i> — FINANCIAL REPORTING.....	317
A. General Principles.....	317
B. Main Reports.....	319
<i>Chapter 13</i> — FINANCIAL MANAGEMENT INFORMATION SYSTEMS.....	327
A. An Integrated Approach.....	327
B. Financial Management Systems.....	330
C. Budget Execution and Accounting.....	334
D. Technical Aspects.....	337
<i>Chapter 14</i> — EXTERNAL AUDIT.....	341
A. Prerequisites for Effective Auditing.....	342
B. Types of Audit.....	348
C. Reporting Audit Results.....	355
D. Acting on Audit Results.....	356
E. Audit Limitations.....	357
<i>Chapter 15</i> — PERFORMANCE MEASUREMENT AND EVALUATION.....	359
A. Performance Measurement.....	359
B. Programme Evaluation.....	369

<i>Summary —PART IV</i> .....	383
A. KEY POINTS.....	<b>383/</b>
B. DIRECTIONS FOR REFORM.....	387j
<i>Annex I. — QUESTIONNAIRE ON PUBLIC EXPENDITURE MANAGEMENT SYSTEMS</i> .....	389*
A. Introduction.....	389
B. The Questionnaire.....	390j
<i>Annex II. — ESTABLISHMENT OF A NATIONAL FUND SYSTEM</i> .....	413
A. System for Managing EU Funds (National Fund System).....	414
B. Budget Execution, Payment and Accounting.....	416
C. Financial Control and Audit.....	418
D. Procurement under the PhareDIS Rules.....	418
E. Monitoring and Evaluation.....	418
F. Management of the Phare, SAPARD and ISPA Funds.....	419
G. The Budget Process, Programming of EU Funds and Co-Financing.....	420
H. Irregularities, Fraud and the Recovery of Unjustified Expenditures.....	420
<i>Annex III. — EUROPEAN UNION REGULATIONS CONCERNING FISCAL SURVEILLANCE, BUDGET, FINANCIAL CONTROL AND AUDIT</i> .....	423
<i>Annex IV. —IMF CODE OF GOOD PRACTICES ON FISCAL TRANSPARENCY</i> .....	431
A. Clarity of Roles and Responsibilities.....	431
B. Public Availability of Information.....	432
C. Open Budget Preparation, Execution and Reporting.....	432
D. Independent Assurances of Integrity.....	433
GLOSSARY.....	437
BIBLIOGRAPHY.....	475
SELECTED WORLDWIDE WEB SITES.....	491
INDEX.....	493