

PART 2 - GUIDELINES ON FINANCIAL MANAGEMENT

DIVISION 1- LEGAL BASIS OF GOVERNMENT FINANCIAL MANAGEMENT SYSTEM

1. The raising and expenditure of finance by the National Government is subject to **authorisation and control by the National Parliament and is regulated by an Act of Parliament as per Section 209 of the National Constitution.**
2. The **Public Finances (Management) Act, 1995** provides for the management of public finances. The Act also enables regulations to be made by the Head of State acting on the advice of the National Executive Council, for "the better control and management of public moneys and public property" (**Section 115**) and for issue of Financial Instructions by the Secretary of the Department responsible for financial management (Department of Finance) for the purpose, under **Section 117 of the Act.**
3. The **Act**, the **regulations** thereunder and the **financial instructions** constitute the legal framework for the Government Financial Management System. In their application to public bodies, they should be read with the constituent Acts of the respective bodies.

DIVISION 2 - OVERVIEW OF THE GOVERNMENT FINANCIAL MANAGEMENT SYSTEM

4. Central to the Government Financial Management System are the following facts:-
 - The Minister for Finance and Treasury is responsible for the supervision of the finances of the State and public bodies, the formulation of the National Budgets and overseeing its implementation (**Section 3 of the Act**); and
 - The Secretary for Finance is responsible for the control and direction of all matters relating to the management of the financial affairs of the State. He may require the submission of financial reports at specified intervals and may impose surcharges and penalties on Departmental Heads who fail to submit the required reports (**Section 4 of the Act**).
5. The basic components of the Government Financial Management System are:
 - Planning
 - Budgeting

- Raising and spending of resources and accounting
 - Control procedures including internal and external audit
6. Planning is the process of determining priorities and developing ways of achieving the priorities in a budget formulated in accordance with an overall development strategy.
 7. A government budget is a resource plan relating to a period of time and takes the form of an annual estimate of revenue and expenditure in terms of money.
 8. Procedures for raising revenues are designed to comply with requirements of relevant taxation statutes and in case of non-tax revenues, to satisfy in part or in full, the self-financing needs of the services provided.
 9. Expenditure procedures comply with relevant financial laws and ensure effective administrative control over operations, *and promote economy, efficiency, effectiveness and prevention of fraud and waste.*
 10. Control procedures include a satisfactory accounting system in operation, to give a true and fair view of the income and expenditure of the Government during the year and the state of affairs at the end of each year, provide means for economic and financial appraisal of programme operations and facilitate internal and external controls. The control system also includes a review of the Annual Accounts by the Parliamentary Committee on Public Accounts empowered to obtain evidence from Departments and agencies of government.

DIVISION 3 - CYCLE OF FINANCIAL CONTROL

11. The control of Government finance operates in a cycle and is based on the principles of:
 - Legislative Supremacy
 - Executive Initiative
12. **Legislative Supremacy**
 - 12.1 The **Constitution, Section 209** requires the financial proposals for a fiscal year to be presented to the Parliament in the form of a National Budget.
 - 12.2 The Budget sets out the estimates of public moneys to be raised and proposed expenditure. Public moneys raised in the form of revenue (tax or non-tax), grants, loans or other finances are paid into the Consolidated Revenue Fund. Expenditure proposed in the National

Budget is paid out of the Consolidated Revenue Fund under Appropriation for the year.

- 12.3 Separate proposals for the services of Parliament, Judiciary, General Public Services and development expenditure are made in the form of Appropriation Bills, to be approved by the Parliament. Approval is granted through Appropriation Acts.

13. Executive Initiative

- 13.1 The proposal for the raising and spending of money by the Government is a function of the Executive. This is recognised by **Section 210 of the Constitution** which prescribes that the Parliament must authorise the imposition of tax, raising of loans or expenditure of public money only on recommendation of the Head of the State, acting on advice of the National Executive Council. The section further prescribes that Parliament cannot change the purpose of any tax, loan or expenditure or increase or reallocate the amount in budget proposals.

- 13.2 Parliament, however, may reduce the amount of taxation; loan or expenditure proposed in the Budget and it can increase the estimate of expenditure for Parliament and Judiciary up to the amounts proposed by the latter.

14. The following are the various phases of the control cycle:

- 14.1 Preparation of Estimates by the various Departments leading to the Formulation of the National Budget
- (a) Budget proposals, indicating requirements of funds by the spending agencies, are made in two stages:
 - (i) By Departments, Provincial Governments, Local-level Governments and Statutory Authorities to the Department of Treasury.
 - (ii) By the Minister for Finance & Treasury to the Parliament (under direction of the National Executive Council to the Legislature).
 - (b) The requirement for funds by spending agencies are examined by the Department of Treasury with reference to (i) needs of an activity or project under the prescribed policies of government, (ii) justification of the cost provided under items of expenditure, (iii) targets set by the National Executive Council.

- (c) The Department of Treasury obtains approval of the National Executive Council before submitting budget proposals to Parliament through the Minister for Finance & Treasury.
- (d) The exercise should start well before the beginning of each year through issue of Budget Circular by the Department of Finance indicating the details of requirements to be complied with by Departments, Governments and Statutory Authorities in submitting budget proposals.

14.2 Approval by the National Parliament

- (a) This denotes legislative approval of the Appropriation Bill by an Act of Parliament after the presented National Budget and Appropriation Bill are debated in Parliament.
- (b) The Appropriation Act provides for expenditure to be incurred during the year for the services set out in a schedule to the Appropriation Bill. It also confers authority on the Government to incur expenditure on services (i) not originally contemplated (new services) or (ii) in excess of the amount allocated under the Appropriation Act.

For the above purposes, the Appropriation Act prescribes the following mechanism and limits for adjustments of appropriation:

- (i) *Adjustment of Appropriation for New Services (Generally known as Section 3 Transfer):*

The net appropriation should not exceed the amount of Secretary's Advance voted under Appropriation

- (ii) *Adjustment of Appropriation As Between Services (Generally known as Section 4 Transfer):*

The sum of additional appropriation should not exceed the limit specified in the annual Appropriation Act

14.3 Allocation

- (a) This denotes authorisation to commit or pay out or both within a specified time period within the amounts approved in the National Budget after the Appropriation Act is passed.
- (b) Such authorisation is provided by the following 3 instruments at different stages:

*(i) **Minister's Warrant** - Authorisation to the Secretary, Department of Finance to issue Warrant Authorities signifying release of funds to departments.*

*(ii) **Warrant Authority** - Authorisation by Secretary, Department of Finance to departmental heads to commit or pay out.*

*(iii) **Cash Fund Certificates** - Authorisation by Departmental Head to his Financial Delegate to commit or pay out.*

Details of release procedure are set out elsewhere in this Finance Manual.

14.4 Accounting for Revenue raised and Expenditure incurred

- (a) The Department of Finance under the **Public Finances (Management) Act, 1995** has the responsibility to ensure that complete and proper accounts are maintained in respect of all transactions involving public moneys and to prepare quarterly summarised statement of receipts and expenditure of the Public Account and to prepare for each financial year detailed statements of the Public Account.
- (b) The accounting system and records maintained by the various Departments are subsidiary to those of the Department of Finance unless the accounts are maintained and rendered under a specific enactment which excludes the application of the **Public Finances (Management) Act, 1995**.
- (c) Self Accounting Departments keep their own account books and compile their monthly statements of accounts subject to directions issued by the Department of Finance. Consolidated Accounts for the Government rendered by the Department of Finance incorporate the accounts of Self Accounting Departments as well, and are to be regarded as authoritative and final.

14.5 Audit of Accounts

- (a) Auditor General:

The functions and duties of the Auditor General in relation to public accounts and records are set out in the **Constitution and the Audit Amendment Act, 1995**. His audit results are included in the Annual reports forwarded by him to the Speaker of Parliament for presentation to Parliament.

(b) Departments of Finance and Treasury:

In accordance with **Section 6 of the Act**, all Accountable Officers are required to maintain full and proper accounts and records of public moneys, stores and other public property in their possession. Under **Section 9 of the Act**, the Secretary of the Department of Finance and / or a Finance Inspector has right to full and free access to accounts and records of all accounting officers and to inspect and inquire into those accounts and records.

Finance Inspectors and auditors carry out such inspections and audits according to approved programmes at any time and intervals they feel necessary or upon specific direction of the Secretary.

14.6 Review by the Parliament

A committee of the Parliament - the **Public Accounts Committee**-examines the Public Account presented to the Parliament with the Auditor General's report and makes a separate report to Parliament.

DIVISION 4 - ROLE OF DEPARTMENTAL HEADS AND OTHERS

15. The role of the Departments of Finance and Treasury in Financial Management.

15.1 Under the **Public Finances (Management) Act, 1995 Section 23**, the Department of Finance is responsible:

- For compilation of the National Budget, release of funds or payment of grants and related activity, according to Parliamentary appropriations, and to carry out periodical reviews of budgetary performance and appraisal of projects; (Administratively, this function has been delegated to Treasury Department); and
- For managing revenue, commercial investments, public debt and loans and guarantees by the State;

15.2 The Department of Finance is also responsible:

- For preparing the National Government Accounts, publish the summarised account quarterly, and submit the statement of the Public Account to the Auditor General and the National Parliament at the end of each year; and
- For review of the operation of trust accounts; and
- For control over the bank accounts where public moneys are kept;

- For laying down appropriate procedures of procurement of goods and services, asset management, payment of salaries, wages and other entitlements and advances and for the proper implementation of approved projects;
- For carrying out inspection of records of public moneys and stores; and
- For assisting the Public Accounts Committee in its deliberations and preparing Government responses in the form of Minutes addressing issues raised in Public Accounts Committee reports.

16 Responsibilities of Heads of Departments

16.1 **Section 5 of the Public Finances (Management) Act** outlines the duties of the Departmental Heads in the following areas:

- Formulation of annual estimates;
- Prompt and full collection of public money;
- Proper authorisation and application of expenditure with reference to regularity and propriety, economy, efficiency and effectiveness;
- Control over expenditure and commitment within warrant authorities;
- Management of stores and safe custody of Government property;
- Proper maintenance of accounts and records;
- Providing information to the Public Accounts Committee;
- Advice on financial management to the Minister politically responsible for the Department;
- Preparation of annual financial management report; and
- Ensuring compliance with the *Public Finances (Management) Act, the Financial Management Manual and Finance Instructions*.

16.2 It is obvious that the Departmental Head cannot himself perform or even closely supervise the manifold financial duties implicit in the foregoing broad statement of his responsibilities. It is therefore one of his chief responsibilities to make sure that his department is

organised and staffed on sound lines, particularly in the finance and establishment branches, to provide for proper delegation of duties.

- 16.3 While it is recognised that the Head of the Department is not to be turned into an accountant, he cannot escape the modern and wider concept of his responsibility to ensure that financial considerations are taken into account at all stages in framing and reaching decisions on policy and in their execution and for the efficient and economical conduct of departmental operations.
- 16.4 The role assigned to him in the Act emphasises the importance of management, on which effective control of the expenditure and value for money depends. This comprises the preparation of material on which decisions are taken, the technical efficiency with which large administrative operations are carried out, the cost consciousness of staff at all levels, the provisions of special skills and services (scientific, statistical, accountancy and management) for handling particular problems and the selection and training of staff.
- 16.5 As part of this general concept, he becomes responsible to the Public Accounts Committee to provide satisfactory answers for any apparent waste or extravagant administration as well as any weakness in financial procedure.
- 16.6 Relation of the Departmental Head to Parliament, through the Public Accounts Committee:

The Departmental Head is responsible to answer enquires addressed to him by the Public Accounts Committee in relation to his departmental activities and for the efficient and economical conduct of his department as well as for the regularity and propriety of all the expenditure out of the votes under his control.

- 16.7 He has the duty to appear personally before the Committee, if so required by the Committee, and to give evidence in public in relation to departmental activities and expenditure. If the evidence, however, relates to any secret or confidential matter he may request the committee for any inquiry in private.
- 16.8 Advice to the Minister from the Departmental Head:

The Departmental Head has a particular responsibility to Parliament through the Public Accounts Committee in connection with requirements for efficiency, financial prudence and use economic resource in the conduct of his department and he will from time to time need to advise his Minister from this stand-point.

It is for the Departmental Head himself to decide how and in what form to give his advice. He should not however hesitate to state clearly and explicitly in writing to his Minister his disagreement with any aspects of a proposal, which he considers he would have difficulty in defending as a matter of prudent and economic administration before the Public Accounts Committee, and to ask for a specific instruction from his Minister. Having done so, he must, if his Minister adheres to his decision, accept it and support any subsequent action taken in response by reference to the policy ruling or direction given by his Minister.

- 16.9 Alternatively the matter of the Departmental Head's disagreement and his representation, may be one which involves his personal accountability on a question of safeguarding of public funds or the formal regularity or propriety of expenditure. In that case, he should state in writing his objection and the reasons for it, and carry out the Minister's decision only on a written instruction from the Minister over-ruling the objection.
- 16.10 Provided that this procedure has been followed the Public Accounts Committee may be expected to acquit the Departmental Head of any personal responsibility for the transaction.
- 16.11 **Regularity and propriety of Expenditure:** As mentioned in paragraph 16.1 the Departmental Head should be concerned with the regularity and propriety of expenditure in relation to his Department. The term "regularity and propriety" means that the expenditure must be within the scope of, and limit of, the sum authorised to be spent on the vote to which it is charged. Further, the expenditure must be supported by proper vouchers and by evidence of performance of the service.

17. Quarterly and Annual Financial Management Reports

- 17.1 As required in **Section 5 of the Act**, Departmental Heads shall submit a report on financial management after the end of each quarter for each fiscal year. The report shall be made to the Secretary, Department of Finance and must reach him as soon as possible after the close of each quarter of the year but not later than the 7th of the following month by completing Activity and Project Performance Reports (APPR and APPR/1 forms).
- 17.2 The Annual Report should address relevant issues under convenient sections, as indicated below:
- i. Organisational Chart up to Branch level indicating Activities and Projects handled by Branches.*

- ii. List of Approved Programs indicating Activities and Projects under each Program. (Departments not on Program Budget may list Functions in lieu of Programs).
- iii. Program/Function Evaluation Report (PER): Bring out in the covering note the salient features and highlights emerging from the Program/Function Evaluation Reports to be appended. Append for each Program/Function a report by completing Form APPR and APPR/1.
- iv. Activity and Project Performance Reports (APPR): Bring out in the covering note salient features and highlights emerging from the Activity and Project Performance reports (PPAR and PPAR/1).
- v. Revenue: Estimated revenues (original and revised) by each Revenue sub-head, the actual collection, and reasons for arrears with brief description of remedial steps taken.
- vi. Internal Monthly Reviews: Indicate whether internal monthly reviews were regularly undertaken, the level at which they are undertaken, and the main problems highlighted including the action taken to resolve them.
- vii. Reports by the Auditor General and Inspection Division of the Department of Treasury: Indicate salient features of the reports by the Auditor General's Office and the Inspection Division of the Department of Treasury issued during the year indicating the period to which they relate and the actions taken by the Department on the observations in the reports.
- viii. Overall Assessment: Overall assessment of the Financial Management by the Department during the year including the steps proposed for its improvement in future and the action taken against Accountable Officers for offences under Public Finance (Management) Act.

DIVISION 5 - MISCELLANEOUS

18. Financial Procedures

These are set out in detail in the succeeding parts of this Finance Manual.

19. Interpretation

Many of the terms used in this Manual have been defined in the Act or the appropriate parts of Financial Instructions issued by the Department of Finance. In the Financial Instructions, unless a different meaning is evident from the context:

the Act means the **Public Finances (Management) Act, 1995** with amendments, if any.

the Minister means the Minister responsible for the above Act for example ,the Minister responsible for Financial Management.

the Secretary means the Departmental Head of the Department responsible for financial management, in this case the Department of Finance.

the Departmental Head means the Departmental head of a National Government department , a Provincial Government or a statutory authority.

20. Updating of the Manual

From time to time there may be changes in financial procedures and it will be necessary to alter this Manual. All corrections must be carried out citing the effective date. It is the responsibility of the officer to whom the Manual is issued to keep it up-to-date and circulate the corrections immediately and the updated versions of the Manual periodically to all Departments, Governments and Agencies.