

**CIPFA**

The Chartered Institute of  
Public Finance & Accountancy

# progress towards professionalisation

of Public Financial Management  
Lessons from the field



## About CIPFA

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance.

Our 14,000 members work throughout the public services, in public audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed. CIPFA is a founder member of the International Federation of Accountants (IFAC).

As the world's only professional accountancy body to specialise in public services, CIPFA's portfolio of qualifications covers the essentials for a career in public finance. Our services include the gold standard professional qualification for public sector accountants as well as postgraduate certificates and diplomas for people already working in leadership positions.

We champion high performance across the public services, translating our experience and insight into clear advice and practical solutions. Our services include information and guidance, courses and conferences, property and asset management systems, consultancy and interim staff for a range of public sector clients.

Globally, CIPFA shows the way in public finance by standing up for sound public financial management (PFM) and good governance. We work with partner governments and the public sector around the world to advance good professional practice and enable better service delivery. We promote sustainable holistic approaches to developing capacity in PFM, based upon a proven model of professionalisation. We recognise the potential for sustained improvements in PFM through strong relationships between professional bodies, training providers and governments. To achieve that we work closely with donors and international accounting bodies.

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# Foreword

As an enthusiastic but relatively unskilled amateur, whenever I undertake some DIY at home I always end up thinking about the cost of not using a professional who would have done a proper job. Not using professionally trained finance staff has serious consequences for the developing world; not least it can undermine the donor's agreed strategy of using country systems.

CIPFA is committed to assisting the development of the public financial management (PFM) profession throughout the world. Everywhere we go we hear about the lack of investment in training public sector finance professionals. This lack of investment places an enormous strain on accountants and auditors general and their staff. Where professional training is undertaken it is almost always private sector focused, and therefore simply does not relate to the trainee's day job. Worse, once they are trained, many accountancy and audit graduates take their new qualification and use it to increase their income in the private sector; a perverse outcome indeed. In other countries the emphasis is on short courses that are not structured into a programme and make no long-term impact on staff capacity or learning.

The arguments for the professionalisation of PFM go beyond the mere value of training. In our view, being a professional carries with it wider responsibilities and expected codes of behaviour. A professional culture in the PFM function makes a difference to the quality of work and the ability of staff to meet ever-rising financial management challenges.

In this publication we explore how four countries in sub-Saharan Africa have approached professionalisation. We try to identify the key lessons that ought to be learned from the four approaches so that stakeholders considering the design of professionalisation programmes can benefit from them.

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# Professionalisation: Still Lacking Critical Mass?

*“It is one thing for an occupational group to designate itself a profession but quite another to attain public recognition of this status.”<sup>1</sup>* And it is yet another thing to achieve a smooth route to embedding professionally trained finance staff in the culture of public sector organisations. A number of published papers chart the story of professionalisation of accountancy in the private sector, yet few focus on the same process in the public sector. What information there is suggests that the achievement of professionalisation has been hampered by the public sector’s own lack of recognition of the need for staff who have been professionally trained in public financial management (PFM). This is not to say that no progress has been made, as the CIPFA case studies illustrate. It is however illustrative of the fact that professionalisation of PFM in the public sector, particularly in developing countries, has yet to acquire the critical mass and momentum that are essential for its widespread adoption.

Professionalisation – the establishment of a recognised PFM profession represented by a professional body with specific characteristics and capabilities – is a phenomenon found as much in the private sector as in the public. Achieving it in the public sector has particular challenges, however. Many of these arise from the distinctive nature of public financial management as compared to its counterpart in the private sector. A number derive from the inherently conservative nature of the public sector. The variety of administrative traditions to be found in developing countries means that, for some, PFM is preferably a matter for law and regulation than for the exercise of skilled judgement, one of the defining features of a professional.

In the cases that follow we describe how four particular countries – Lesotho, Mozambique, Tanzania and Nigeria – have responded to these challenges. In this introduction, we confine ourselves to bringing out the salient features of each case and the key lessons to be learned if critical mass is to be reached and the undoubted benefits of professionalisation of PFM are to be realised.

## Why Professionalisation?

Professionalisation of PFM brings with it a number of benefits. It ensures that individuals who acquire the qualification that is the price of entry meet defined standards of knowledge, skills and values, and that they will maintain and develop their professional competence throughout their careers. Society generally benefits from this state of affairs, with the expectation that members of the profession will act in the public interest rather than in their own or some other interest. Citizens and other stakeholders in public services may rightly expect that financial and other information will be accurate, up to date and produced in accordance with the highest international standards. The existence of a professional body, independent of sectional interests, and with properly trained members working in government, helps to ensure that governments may be held to account for their actions. Professionalisation of PFM lies at the heart of good governance.

For the individual member of the profession, holding a recognised qualification facilitates movement within and between organisations in the public sector and, often, between the public sector and the private sector. It improves access to promotion and more technically complex and rewarding work (in job satisfaction if not always in financial terms). Employers can recruit individuals whose professional status can clearly demonstrate that they meet well-defined and internationally

<sup>1</sup> Cooper, K., *Some Professionalisation Strategies of Australian Accountancy*, School of Accounting & Finance, University of Wollongong, Working Paper 2, 1995 (see <http://ro.uow.edu.au/accfinwp/68>).

recognised competency levels. Continuous development - individuals reflecting on their experiences and engaging in a process of developing their skills - is a defining characteristic of professional practice.<sup>2</sup> These processes of 'reflection in action' and 'reflection on action' are central to the continuing professional development that is an essential characteristic of the PFM professional.

For donors and development partners, being confident in the ability of government to manage its financial affairs properly and in accordance with best international practice gives assurance that money is used for the purposes intended. Achieving a critical mass of PFM professionals in a country is also a necessary condition for the effective application of a country-led approach to PFM reform and development more generally. The benefits of professionalisation of PFM are widespread, significant and enduring. So why are more developing countries not enjoying them?

## The Four Countries

### Lesotho

A former British colony, on independence Lesotho inherited a PFM system devised in colonial times. Low levels of human capacity and outdated and cumbersome systems and procedures further contributed to historically weak PFM systems. The country has ambitious aims, however, and has put in place far-reaching reforms to increase both the efficiency of the civil service and its accountability to the public. At the heart of the reform programme is a thorough overhaul of the country's PFM system.

Over the years, since independence, analyses have consistently revealed a PFM system that was *"largely dysfunctional and in need of substantial reform"*.<sup>3</sup> Critically, there have been grossly inadequate numbers of suitably qualified and skilled public finance personnel at all levels throughout government, leading to inability to produce regular and comprehensive periodic financial reports for budget management and control. Limited effective demand from the Executive, the Ministry of Finance and Development Planning and chief accounting officers for improved financial management information and appropriate levels of financial accountability have exacerbated the situation.

Since 2006 CIPFA has been working with stakeholders in Lesotho to professionalise PFM in the country. This began with the launching of an education and training scheme, with the first cohort of students enrolling in 2007. By the end of 2010 more than 350 students had enrolled on the programme from a target training population of around 500. Training was provided locally, by the Centre for Accounting Studies, and the Lesotho Institute of Accountants managed examinations and commissioned the marking of students' examination scripts. Although initially student performance was good, subsequently performance declined, and it has been necessary to put in place a formal student performance improvement plan. Overall the central objective of CIPFA's work in the country – of proving the feasibility of operating a training scheme in Lesotho - has been demonstrated, although progress towards the ultimate aim of professionalisation has not been as rapid as at first hoped.

### Mozambique

Mozambique gained independence from Portugal in 1975, and since then has experienced both periods of upheaval and, in the last decade, a period of considerable stability. There is an improving picture of progress in the quality of PFM. This is evident in improving government accounting systems, and in the planning of a substantial reform programme for the supreme audit institution to improve its effectiveness. A number of analyses have drawn attention, however, to the low levels of human capacity in PFM and the need for a systematic approach to raising the level through training and professionalisation.

The Ministry of Finance has been involved in a number of initiatives to raise standards in accounting and auditing in the private sector, mainly intended to address the supply and registration of accountants at the accounting technician level. The accountancy-related bodies that exist have multiple purposes and advocacy functions. Only a few dozen accountants

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<sup>2</sup> Sch\_n, D. (1983) *The Reflective Practitioner: How Professionals Think in Action*. London: Ashgate Publishing Limited.

<sup>3</sup> Government of Lesotho Public Sector Improvement and Reform Programme, Public Financial Management Component Ministry of Finance and Development Planning and Department for International Development Inception Report, p31.

practising in Mozambique hold professional qualifications from IFAC-recognised bodies,<sup>4</sup> and unlike all the other countries studied, Mozambique has no recognisable local professional association of accountants, although the Government has recently stated its intention to establish one.

## Nigeria

Nigeria is a former British colony, exhibiting a rich mix of pre- and post-colonial influences acting on its structure, law and PFM system. The economy represents a broad mix derived from the largest market for goods and services in Africa and the country's vast fossil fuel reserves.

External assessment in 2004 identified weaknesses in control systems and budgetary spending, leakage of funds, and inefficient systems for collecting revenues, all attributed in part at least to weak human capacity in PFM throughout government. Reform of PFM, including audit and financial management information systems, is now a key priority for donors. There are a number of current initiatives under way that address economic and financial management systems, including reform of the Federal Civil Service to improve professionalism and thereby the Government's ability to deliver services.

Of the four countries that are the subject of these case studies, Nigeria has the greatest number of qualified accountants; the overwhelming majority of these work in the private sector, however. In 2006 the World Bank identified a need to train some 2,000 PFM staff at the federal level. In 2009 and 2010 discussions took place between the Institute of Chartered Accountants of Nigeria (ICAN), the largest professional accountancy body in the country, and CIPFA to identify how the two bodies could best collaborate to support the professionalisation of PFM in Nigeria. The Accountant General of the Federation of Nigeria subsequently requested CIPFA's assistance in developing the capacity of the Federal Treasury Academy, government's PFM key training provider, to train students for a new PFM qualification to be awarded jointly by CIPFA and ICAN. It is likely that, in time, these new arrangements will be extended to other spheres of government in Nigeria, including the states and local government.

## Tanzania

Tanzania is a former British colony. Like other developing countries, the private sector is in the forefront of professional accountancy development; however, the number of newly qualified accountants is widely recognised as being inadequate for the needs of the country. The country has long been seen as a prime target for the development of PFM capacity under the World Bank's Africa Staff Capacity Development Initiative (SCDI). The objectives of the SCDI are to increase the number of qualified accountants and auditors in Africa generally, and to support the development of local training facilities and institutions to provide accredited education, training and qualifications in PFM. In the public sector the situation is even more difficult than it is in the private sector, and no natural champion for professionalisation has emerged. Successive accountants general and controllers and auditors general have attempted to develop a cadre of PFM professionals, by recruiting and training accountants for private sector qualifications. It has become clear however that professionalisation by this route is not feasible, partly because candidates are attracted to higher-paid private sector roles.

The mandate of the National Board for Accountants and Auditors (NBAA) in Tanzania is to serve both the public and the private sector. For some years, however, it has recognised that it did not serve the public sector as well as it served the private sector. In order to strengthen its support for and influence within the public sector, it decided to amend its qualifications framework to increase its relevance to the public sector. The board agreed to work with a partnership involving the Eastern and Southern Africa Association of Accountants General (ESAAG) the Federation of Accountants and Auditors General of West Africa (FAAGWA) and the English Speaking African Association of Supreme Audit Institutions (AFROSAI-E), with CIPFA as consultants, to develop a PFM qualifications framework for Tanzania as a pilot study for the region.

The pilot study identified three ways in which the existing NBAA curriculum could be adapted to meet the needs of the public sector. On further consideration two of the options were rejected as infeasible. There was some positive feedback on the third option (to substitute specific public sector material for some parts of the existing qualification to create a public sector stream), though this was also later rejected. Internal pressure within the NBAA then led to the development of a fourth option comprising a mixed public/private sector curriculum to be tackled by all candidates. Discussion of the most appropriate

<sup>4</sup> The International Federation of Accountants is the global organisation for the accountancy profession.

way forward has since been inconclusive, and at time of writing there has been no substantive progress in introducing a qualification of direct relevance to the PFM sector. Whilst the fourth option identified remains on the table, the levels of compromise it imposes on learning outcomes for both sectors are not acceptable to a significant number of stakeholders. It is likely that a new strategy will need to be developed to take forward professionalisation of PFM in Tanzania.

## Learning Points from the Case Studies

The four countries described in the case studies are clearly at different stages in the professionalisation of PFM. They exhibit markedly different institutional arrangements, and differences in the approaches taken to strengthen human resource capacity for reform. A number of learning points emerge from each country situation, covering a range of issues. To facilitate understanding of these diverse issues, they are classified here according to the four strategic dimensions underpinning the CIPFA FM Model. The model<sup>5</sup> seeks to understand strengths and weaknesses in aspects of financial management in public sector organisations, and was designed to be used as a tool to align financial management with an organisation's development path and priorities. These four dimensions - Leadership, People, Processes and Stakeholders - are all critical to improving PFM.

## Key Lessons to be Learned

### Leadership

All four cases indicate the need for strong, engaged and committed leadership, at a senior level in government, to drive professionalisation forward. Nigeria, for example, provides evidence of leadership in its drive to create a joint qualification between CIPFA and ICAN. No single case provides an exemplar in this respect, however, and this is probably further evidence of the variety of approaches that can be taken to achieve the same ends. There are generally positive signs in all four countries that governments recognise the need to strengthen human resource capability and capacity.

Professionalisation takes time to gain momentum and achieve tangible, sustainable results. Hence continuity and commitment of funding over the medium to longer term (a period of five to 10 years) is essential. Effective leadership comes into play here, to ensure an appropriate allocation of resources within government and amongst spheres of government.

### People

As with other significant change projects, professionalisation may be perceived to be a significant threat to the people involved and this needs to be addressed at source. In Lesotho, managers and mentors of students in the workplace often appeared to see the knowledge and skills acquired by students as a threat to their own position. Unsurprisingly, this undermines the very basis of the student-mentor relationship.

No one-size-fits-all approach, or imported and imposed solution, will resolve the problems of countries with a variety of historical, cultural, institutional and economic characteristics. The colonial background of Mozambique, for example, does not predispose toward the easy adoption of a professionalisation model born out of an Anglophone tradition. And unless achievement of a professional qualification is appropriately recognised in the employment package, difficulties in recruitment and retention of trained staff will continue.

### Processes

The presence of a strong private sector accountancy body may pose challenges in terms of securing its engagement with the adaptation of an essentially private sector qualifications framework to meet the needs of the public sector. In Tanzania this has proved to be a step too far for the existing vested interests. However, in principle at least, the existence of a dynamic local professional accountancy organisation offers a ready-made base structure on which to build a cost-effective approach to the professionalisation of PFM. Such a potential base structure is to be found in three of the four countries, the exception being Mozambique.

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<sup>5</sup> *The CIPFA FM Model: Assessment of Financial Management in Public Service Organisations – Statements of Good Practice (Volume 3)* (CIPFA, 2010) (see [www.cipfa-fm-model.org.uk](http://www.cipfa-fm-model.org.uk)).

In general terms, existing training providers have suffered from historic under-investment in their human resources, learning materials and training environment. Governments and development partners should consider how this under-investment might best be addressed alongside a professionalisation of PFM programme.

## Stakeholders

Donors and governments recognise the need for reform to develop human resource capability and capacity. However, they need also to recognise that the short-course training that has been a feature of the approach to improving PFM capacity can only provide a quick fix. It is clear that such a form of training has been the intervention of choice for governments in all four of the countries surveyed. Whilst short-course training can be used in conjunction with professional education and training to supplement or expand on certain areas, it is not sufficient to produce PFM professionals. It should not be used as a replacement for comprehensive frameworks for professional education and training.

## Lessons from Other Countries

The findings from these four case studies demonstrate that the route to professionalisation of PFM is not likely to be smooth, wherever it takes place. It is also clear that the pathway to be followed in each country should be tailored to that country.

Whilst the key lessons to be learned derive from the case studies, it is instructive to close this introductory section with some consideration of the lessons of history. In this context two quotations, taken from a review by Helen Yee in 2006 of professionalisation in China, are striking:

*“Professionalisation is neither inevitable, universal, nor of any single type.”<sup>6</sup>*

*“Professionalisation does not occur in a vacuum. Like other social processes, it cannot be understood without taking into account certain aspects of the larger society in which it takes place.”<sup>7</sup>*

Similarly, diversity marks the professionalisation journey itself. For example, while Johnson (1982)<sup>8</sup> emphasises the importance of the state in professionalisation projects, the empirical literature also emphasises the varieties of its involvement – ranging from being a relatively passive, even reluctant, participant<sup>9</sup> through to initiator and overseer (for example, De Beelde<sup>10</sup>).

Some wider lessons also emerge from considering the development of the accountancy profession in two of the leading BRIC<sup>11</sup> countries – China and India.

Traditionally, accounting in China was not a prestigious occupation. Discrimination against accountants was widespread. Accountants *“were seen as greedy and little better than thieves – a shameful occupation”*.<sup>12</sup> In the 1950s, however, an accountancy profession began to emerge in China, encouraged by increasing commercialisation and strengthening industry, only to be quashed by the Government. During the last 20 years, however, society and values in China changed dramatically, and accountancy achieved an elevated occupational status. The Chinese Government emerged as the most significant influencing force in enabling the rapid professionalisation of the Chinese accounting occupation.

<sup>6</sup> Crompton (1987, p.106) cited in Helen Yee (2006) *Professionalisation and Accounting in China: A Historical and Comparative Review* (The 8th Interdisciplinary Perspectives on Accounting Conference, 10-12 July 2006, Cardiff).

<sup>7</sup> Vollmer and Mills (1966, p.46) cited in Helen Yee 2006.

<sup>8</sup> Johnson, T., (1982), ‘The State and the Professions: Peculiarities of the British’, in Giddens, A. and Mackenzie, G. (eds.) *Social Class and the Division of Labour* (Cambridge: Cambridge University Press). Cited in Helen Yee 2006.

<sup>9</sup> Macdonald, K.M., (1985), ‘Social Closure and Occupational Registration’, in *Sociology*, Vol.19, No.4, pp.541-556. Cited in Helen Yee 2006.

<sup>10</sup> De Beelde, I., (2002), ‘Creating a Profession ‘Out of Nothing’? The Case of the Belgian Auditing Profession’, in *Accounting, Organizations and Society*, Vol.27, No.4/5, pp.447-470. Cited in Helen Yee 2006.

<sup>11</sup> An acronym that groups together Brazil, Russia, India and China, which are considered to be at a similar stage of economic development.

<sup>12</sup> Guo, D.Y., (1988, p.7), *Chinese Accounting History*, Vol. 2 (in Chinese) (Beijing: China Finance and Economics Publishing House). Cited in Helen Yee 2006.

So society can make a profession - the vicissitudes of the accounting occupation in China are explained largely by traditional cultural attitudes to accounting work and the actions of state.<sup>13</sup> But it also demonstrates that to be successful, professionalisation must be about integration, and not merely about the skills of the individual.

In India, the direct involvement of government similarly influenced professionalisation. This involvement was often at odds with the views of the body of accountants that existed in the country, however, and occurred through legislative means. The Indian Government supported the development of an accountancy profession because of their perception that accounting was an important tool for economic development and had a pivotal role to play in economic development.<sup>14</sup> Accountancy could facilitate rapid economic growth and the fairer distribution of wealth amongst the population. The role of the Ministry of Finance was key in achieving the change: the authority of the Indian Accountancy Institute and accounting profession came, in some part, from statutory authority and government backing and approval.

Contrast this situation with that of Tanzania, where currently the accountancy body is slow to agree adaptations to its existing qualification to meet the needs of the public sector. The case study material suggests that the Government at a high level is not sufficiently involving itself by intervening to move the project forward to meet its legitimate needs.

Finally, and ironically, although the accountancy profession is generally considered to have originated in Scotland, it took a long time for the UK Government to recognise accountants and auditors as a mainstream component of the civil service. It was not until 2004 that the UK Government adopted its change programme for reform of the Civil Service, advocating a move from a generalist to a more specialist approach to the HR skills base. This move resulted in a much stronger focus on the finance profession at central government level. Even so, there is evidence that the idea of a professionally trained senior PFM professional at board level in government still meets some resistance. So fundamental change can take a long time, even in an environment that one would suppose was conducive to change.

## Conclusions

Emerging from this overview of the key lessons from CIPFA's work and the commentary from literature, it can be seen that professionalisation is in many ways a package deal, including education and training, transformation of the supporting behaviours and infrastructure of management, development of stakeholders and capacity development more generally. No one size exists to fit all circumstances – clearly historical influences, socio-economic trends and cultural realities all add complexity to the issue. But there are clear benefits to government of moving along a path which seeks to ensure that all public financial managers have a level of training that meets the identified needs of the organisation and country, that the training is credible and that it is maintained to a high level throughout that person's career. And individuals benefit from being offered, and being able to take up, appropriate training.

The four country case studies describe different pathways towards professionalisation. They demonstrate that the process of professionalisation takes considerable time, and that sufficient funding is needed to cover at least a 10-year period.

Government has a pivotal role to play in leading professionalisation of PFM and in signalling clearly its necessity and urgency. Whilst donors and other development partners have an important role to play in supporting the move towards this vital and immensely worthwhile aim, government is uniquely placed to act as the catalyst and coordinator of the roles of the other actors involved.

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<sup>13</sup> Helen Yee 2006, op. cit.

<sup>14</sup> Kapadia (1972) interviews with senior government officials cited in Verma, S. and Gray, S.J. (2006) *The Establishment of the Institute of Chartered Accountants of India (ICAI): The First Step in the Development of an Accounting Profession in Post-Independence India* (University of York Department of Management Studies Working Paper, 19 February 2006).

# Case Study 1

## - Lesotho

# Country Context

## Demography

The Kingdom of Lesotho is entirely surrounded by the Republic of South Africa. It lies between latitudes 280 and 310 south and longitudes 270 and 300 east, and covers an area of approximately 30,300 square kilometres. There are two official languages: Sesotho and English. The population of about two million people is relatively static. Annual GDP growth was last measured at just under 4%.

## National Government Politics and Constitution

The country, a former British Colony, became an independent constitutional monarchy in 1966. There is a dual legal system with traditional Customary Law and General Law based on the Roman-Dutch system and a constitution that provides for a clear separation of powers between the executive, the legislative and the judiciary.

As a constitutional monarchy, Lesotho is ruled by a King, and governed by a 33-member Senate and a 120-member National Assembly. The Senate is made up of 22 principal chiefs and 11 members appointed by the King on the advice of the Council of State. Eighty members of the National Assembly are elected through a first-past-the-post ballot system, while the remaining 40 are allocated by proportional representation. Since independence in 1966, there have been a number of military coups and periods of authoritarian rule, including seven years of military government. General elections were last held in Lesotho on 17 February 2007. The election was followed by an extended dispute about the allocation of the seats based on proportional representation.<sup>1</sup>

## Decentralisation/Deconcentration

For administrative purposes, Lesotho is divided into 10 districts, each headed by a district secretary and a district military officer appointed by the central government and the Royal Lesotho Defence Force. A Local Government Act of 1997 created institutional structures at district and community level to assume responsibility and resources for basic service provision and local development, and to promote stakeholder participation in national issues. Equitable arrangements to transfer resources from central government to supplement local revenues are a pressing issue; this includes establishing decentralised district development funds. In 2005 community councils were established in the districts. This led to councillors being trained and councils started to build capacity to manage service delivery, and to plan and control budgets.

As fiscal decentralisation develops, councils are expected to face difficult choices in relation to the allocation of resources amongst sectors and between recurrent costs and development investment.

## Economic Background

Lesotho is small and landlocked, with limited natural resources and a narrow production and export base. Aside from subsistence agriculture, the garment sector plays a critical role in generating employment, output, and exports. The economy is highly open, with imports amounting to about 90% of GDP, and depends heavily on inflows of workers' remittances, and receipts from the Southern African Customs Union (SACU), of which Lesotho is a member. Lesotho is also a member of the Common Monetary Area that links South Africa, Lesotho and Swaziland into a monetary union. The Lesotho maloti is pegged at par to the South African rand, which is legal tender in the country.

<sup>1</sup> World Bank website ([www.worldbank.org](http://www.worldbank.org)).

Fiscal management in Lesotho in recent years is generally regarded as having been sound, with surpluses from revenue growth, mainly originating from SACU, while total expenditure growth has been managed. The public sector wages and salaries bill for about 35,000 employees (including teachers, health workers and the defence force) is generally regarded as high at around 13% of GDP, but politically difficult to reduce. In recent years, the Government of Lesotho (GoL) has used prudent fiscal management to reduce public debt to sustainable levels. Public debt peaked at 10% of GDP in 2001/02 but has declined since and is projected to fall to what is regarded as a sustainable 46% by 2009/10. Inflation, which was in decline for a number of years to 2006, has more recently begun to increase. This is driven primarily by prices in the Republic of South Africa, which remains the source of almost 90% of the country's imports for final consumption.

Real per capita GDP growth averaged 3.3% over 1991–2007, above the average for sub-Saharan Africa. However, this growth has been erratic. After periods of growth, reaching 8% in 2006, GDP growth is estimated to have slowed in 2008 to 3.9% due to lower output in textiles and mining as the global financial crisis affected export demand. The impact has been exacerbated by the slowdown in the South African economy, reducing SACU revenues and worker remittances from that country.

## Overall Development Strategy

The country's ambitious aims are encapsulated in Vision 20/20, which states that by 2020:

*“Lesotho shall be a stable democracy, a united and prosperous nation at peace with itself and its neighbours. It shall have a healthy and well-developed human resource base, a strong economy, a well managed environment and an established technological base.”*

In July 2005 these objectives were incorporated into a Poverty Reduction Strategy (PRS). Eight “priority areas of action” were identified and grouped under three key policy “pillars” (see sidebar).

Implementation of Vision 20/20, the PRS and related initiatives has been supported by around 15 development partner agencies in recent years. The main ones include the EU (member states<sup>2</sup> and the European Commission), the World Bank, the International Monetary Fund and the African Development Bank.<sup>3</sup> Significant bilateral assistance has also been received from China, Japan and the United States. Increasingly, the programmes supported by donors have followed a sector-wide approach (SWAp), with multi-donor participation and coordinated financing of agreed interventions.

Donor coordination, alignment and harmonisation have been facilitated with the formation of the Development Partners Consultative Forum (DPCF) in 2005. This is co-chaired jointly by the United Nations Development Programme and Irish Aid. All resident development partners are members of the DPCF, as are the USA and China. The DPCF is responsible for taking forward the 2005 Paris Declaration on Aid Effectiveness for Lesotho, as well as for donor coordination. The World Bank has a number of operations in Lesotho, either being jointly financed with other donors, such as the Integrated Transport Project

### The three pillars of Lesotho's PRS

- First Pillar: Employment and income generation through higher economic growth: creation of employment opportunities; improvement of agricultural production and food security; and infrastructure development.
- Second Pillar: Sharing the benefits of growth through improved health and education standards and the conservation of the environment: improved access to health care and social welfare; improved quality of and access to education; and better management and conservation of the environment.
- Third Pillar: Improving governance and public sector performance: deepening democracy and governance and strengthening safety and security; improved public service delivery.

<sup>2</sup> Of whom the most active have been Ireland, Germany and the United Kingdom.

<sup>3</sup> Others include the Arab Bank for Economic Development in Africa (BADEA), the Kuwait Fund, the Global Fund to Fight Aids, Tuberculosis and Malaria (GFATM) and the UN agencies Food and Agriculture Operation (FAO), the International Fund for Agriculture Development (IFAD), the Joint United Nations Programme on HIV/AIDS (UNAIDS), the United Nations Development Programme (UNDP), the United Nations Children's Fund (UNICEF) and the World Health Organisation (WHO).

(the European Commission and the World Bank); or moving towards SWApS in the health and education sector with Irish Aid and the joint donor Poverty Reduction Support Credit (the European Commission, the UK Department for International Development and the African Development Bank). The Bank is also working closely with the Millennium Challenge Corporation to improve water supply and sanitation.

The Third Pillar of Lesotho's PRS envisages far-reaching reforms to increase both the efficiency of the civil service (central and local) and its accountability to the public. In fact, the decision to decentralise and create a separate local government service preceded the PRS formulation by several years. However, decentralisation requires a parallel 'right-sizing', reorientation and professional uplift of the residual central public sector and this remains an issue still to be tackled. At the heart of the reform programme, for both central and decentralised agencies, is a thorough overhaul of accounting systems and financial management procedures, not least to eliminate the potential for corruption. The introduction of the new Integrated Financial Management Information System (IFMIS), in 2009, is an important step in this direction.

A significant feature of the Poverty Reduction Strategy Improvement and Reform Programme Component 1 Task Force plan for improving audit and oversight, and also for accounting, monitoring and reporting, was the intention to explore development of specialist public sector audit training programmes in Lesotho. Traditionally, available audit training tended to be biased towards the private and public practice sectors, with the result that professional training and skills development undertaken in the public sector merely provided a short-term benefit to government, at the expense of losing those trained staff to better-paid opportunities in the private sector and outside the country, in particular to South Africa. Pay differentials between the public and private sectors are a recognised structural problem, whose resolution is constrained by resource availability and the need for public sector pay restraint.

Apart from the UK Department for International Development (DFID) the two most active donors from within the EC have been Ireland and Germany. Irish Aid has targeted Lesotho as one of its main African development partners and has invested heavily in administrative reform, targeting service delivery in key areas such as education and health. Germany has been particularly active in supporting decentralisation and civil service capacity development in general.

Lesotho is a member of the Africa Peer Review Mechanism (APRM), which aims to help member countries improve their governance, through a process of peer review, based on country self-assessment. Self-assessment covers four themes:

- democracy and political governance
- economic management
- corporate governance, and
- socio-economic development.

The self-assessment process covers issues in relation to:

- standards and codes: the extent to which the country has adopted international accounting and auditing standards and other relevant international instruments including the principles for payment systems, best practices for budget transparency and national and international principles of corporate governance
- promotion of sound PFM generally, and
- efforts to fight corruption and money laundering.

There is widespread recognition that initiatives like peer review and peer-assisted learning can be powerful drivers for change. Lesotho's participation in the APRM could be a positive force for PFM reform. However, progress in implementing country reviews has been slow: the official APRM website lists only 11 studies concluded and published, at time of writing, and does not include Lesotho.

# Public Financial Management

## Background

On independence the Kingdom of Lesotho inherited the PFM system devised in colonial times by the British. This system was designed to meet the needs of the colonial administration rather than to support the delivery of services to a mass population of users and was therefore poorly adapted to the new approaches needed. However, relatively little was done to tackle the deficiencies of the systems over the remaining years of the century.

The two principal players in the PFM system in Lesotho are the Ministry of Finance and Development Planning (MFDP) and the Office of the Auditor General (OAG). MFDP is responsible for the normal range of government financial services including budgeting, accounting, internal audit and treasury management. It is also responsible for a range of activities in development planning and has significant roles in the management and regulation of the economy. OAG functions along the lines of a typical Anglophone-style supreme audit institution conducting external audits of the work of government departments and reporting its findings to the National Assembly. Historically PFM systems have been weak, with outdated and cumbersome systems and procedures and low levels of human capacity being widely regarded as the main contributory factors.

## Performance of the Public Financial Management system

Over the years there has been considerable analysis of the PFM system in Lesotho, carried out by the International Monetary Fund, the World Bank, DFID, international consultancy firms and others. These analyses have consistently revealed a PFM system that was *“largely dysfunctional and in need of substantial reform”*.<sup>4</sup> In 2004, work done for DFID detailed these significant weaknesses, as summarised in the sidebar. These weaknesses were compounded by lack of capacity to develop, maintain and manage properly functioning PFM application systems. Financial orders and regulations were obsolete, and the internal control environment was weak, with the effective absence of an internal audit function and what was described as a “cultural norm of fiscal indiscipline”. Critically, there were grossly inadequate numbers of suitably qualified and skilled public finance personnel at all levels of government, leading to inability to produce regular and comprehensive periodic financial reports for budget management and control. There were also significant backlogs in the production of the public

### A failing PFM system

- Serious omissions in the accounting records for assets and liabilities.
- Numerous transaction processing errors.
- An almost complete absence of reconciliation of subsidiary records to the general ledger.
- Inadequate cash management.
- Multiple bank accounts with almost no reconciliation being done.
- Financial information being provided by a functionally obsolete financial management information system, GOLFIS, and payroll system, UNIQUE.

<sup>4</sup> DFID PFM reform programme Inception Report, op cit, p31.

accounts, with accounts for the years 1996/97 to 2000/01 still, in 2005, to be submitted for audit. This failing PFM system was exacerbated by limited effective demand from the Executive, MFDP and chief accounting officers for improved financial management information and appropriate levels of financial accountability.

In addition to these extensive deficiencies in the overall PFM system, there were significant problems with the budget. This is the principal mechanism in government for ensuring that policy intentions set out in strategies and plans are made operational. However the budget and the budget process in Lesotho suffered from a number of deficiencies, including a focus on inputs rather than outputs, being incremental in nature, taking essentially a single-year view and being based on centrally set expenditure ceilings, without consultation with line ministries. In October 2003, the Cabinet therefore decided to adopt a medium-term expenditure framework (MTEF) approach. Implementation began in 2004; however, in the event, only one year's expenditure and revenue estimates were prepared, for the year 2005/06, and these were presented to parliament in the same line item and programme format as in previous years.

## Reform of Public Financial Management

The Government in Lesotho has long recognised that poor service delivery has impeded the achievement of its development goals, through inefficient service provision, the mismanagement of limited resources, and weak control measures facilitating corruption. In 2001/02, the Government devised its Public Service Improvement and Reform Programme (PSIRP) to improve the delivery capacity, effectiveness, accountability and transparency of public services, although this was not fully implemented until 2004.

Planned as a number of phases, Phase One of the PSIRP consisted of three components:

- Component 1: Improving financial management and accountability.
- Component 2: Improving service delivery through decentralisation.
- Component 3: Improving public service management.

Component 1 contained nine core objectives:

- improve public sector planning and budgeting, through macroeconomic modelling, integration of the development planning and resource allocation cycle, and improved data management
- improve public sector planning and budgeting through the introduction of an MTEF to ensure the establishment of sustainable aggregate resource ceilings; the allocation of resources between and within sectors in accordance with national development priorities; and through the efficient utilisation of resources
- facilitate fiscal decentralisation and develop an institutional framework to efficiently manage the transfer of financial resources to local government
- enhance accountability and efficiency in the utilisation of public funds by strengthening the offices and operations of the Accountant General and the Auditor General
- enhance revenue collection by strengthening the capacity of the Treasury and the Lesotho Revenue Authority
- improve the procurement system to become more effective, efficient and transparent
- restructure the MFDP, to align its roles and functions so as to enhance its efficiency of operation
- mobilise resources and monitor expenditure for optimum efficiency in the fight against HIV/AIDS
- strengthen pensions operations to ensure an efficient and timely processing of public servants' terminal benefits.

Implementation of the PSIRP was supported by DFID, the EU, Development Cooperation Ireland,<sup>5</sup> the World Bank and Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ - the German federal government owned international cooperation enterprise for sustainable development) along with other development partners. The EU also supported reform through its Capacity Building in Economic Planning project in the MFDP, with a total programme budget of €17.5m and with a further €5m available for PFM reform.

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<sup>5</sup> Now redesignated Irish Aid.

Structures were established to implement Component 1, designed to ensure national ownership of the reform agenda within MFDP, and to achieve integration with the wider PSIRP. These arrangements included an overarching PFM Improvement and Reform Steering Committee (IRSC), linked with the wider PSIRP at a policy level via the Principal Secretary Finance, and on a technical level by the Reform Coordinating Unit (RCU). While the IRSC was a policy forum for the Component One reform programme, the detailed work of designing and implementing the reform agenda took place in four task forces, reporting to the IRSC. These are as follows:

Planning and budgeting, including:	<ul style="list-style-type: none"> <li>■ a structured approach to the MTEF</li> <li>■ macroeconomic forecasting</li> <li>■ data collection, and</li> <li>■ tax policy.</li> </ul>
Accounting and reporting, including:	<ul style="list-style-type: none"> <li>■ strengthening the Integrated Financial Management Information System (IFMIS)</li> <li>■ addressing control weaknesses in fundamental systems</li> <li>■ improving fiscal reporting</li> <li>■ developing internal audit capabilities, centrally and in line ministries</li> <li>■ maintaining and improving treasury operations</li> <li>■ technical training and organisational issues in developing and retaining professional skills, and</li> <li>■ revision of the PFM legislative framework.</li> </ul>
Audit and oversight, including:	<ul style="list-style-type: none"> <li>■ building on progress by the Office of the Auditor General and the Public Accounts Committee in improving public accountability</li> <li>■ addressing the backlog of public accounts<sup>6</sup></li> <li>■ dealing with the lack of resources, and</li> <li>■ updating the legislative framework and operating manuals.</li> </ul>
Administration, including:	<ul style="list-style-type: none"> <li>■ restructuring the Ministry of Finance and Development Planning</li> <li>■ resourcing and financial monitoring of the HIV/AIDS programme, and</li> <li>■ public sector pensions administration.</li> </ul>

The task forces were also mindful of the need for central capacity to manage overall finances in the devolved financial environment intended by the Government.

By 2004 it was clear that significant donor action was required to support the PSIRP and strengthen PFM. In that year DFID launched its Poverty Reduction Strategy (PRS) Foundation Programme and PRS Priority Support Programme,<sup>7</sup> closely aligned to the Government's PSIRP plans and priorities. The Foundation Programme was designed to address fundamental issues, including PFM, poverty monitoring and donor coordination, whilst the Support Programme covered GoL's four national priorities of HIV/Aids, Job Creation, Food Security and Governance, and Safety and Security.

<sup>6</sup> Accounts for the period from 1996/97 to 2000/01 remained unprepared for some years before parliament accepted that they could not be prepared with any acceptable degree of accuracy.

<sup>7</sup> At the time Lesotho had been identified as one of DFID's 16 priority partner countries in Africa.

The Foundation Programme comprised three strands: public financial management, poverty monitoring, and donor harmonisation. The programme document described six main outputs:

- strengthened public financial management
- effective accountability systems
- transparent procurement systems
- systematic poverty monitoring, and
- evidence-based civil society advocacy and performance assessment; and effective harmonised donor working.

The first three of these were part of GoL's PSIRP. Other main elements were decentralisation (led by the World Bank and Germany's GTZ) and improvements to the public sector operating and personnel systems, supported principally by the EU and Irish Aid. The Foundation Programme was intended to focus on systemic and structural policy issues that were necessary for successful implementation of both the PRS and the PSIRP programme. It was also seen as the foundation for potential future poverty reduction budget support as parallel sector inputs were phased out, subject to financial systems being sufficiently robust, continued good governance and a sound democratic process.

The Foundation Programme was originally intended to end in 2008. However this was subsequently extended to September 2010 to allow more time to bed in the new Integrated Financial Management Information System, to fully roll out the MTEF, to assess the implications of procurement reform, and to allow time for the reorganisation of the Ministry of Finance and Development Planning to be completed.

## Challenges for Professionalisation of Public Financial Management

In considering the fundamentals of professionalisation (in whatever discipline), two factors have obvious significance – the demand for professionals; and the supply of professionals. The former arises from the demand from firms and government for the services of professionally qualified personnel (teachers, doctors, lawyers, accountants) and the latter from the capacity of a country's education and training systems to generate sufficient potential professionals of the right calibre.

On the supply side, the relatively low rates of gross enrolment (39% of the relevant age group<sup>8</sup>) in secondary education in Lesotho mean that the educational attainment of prospective students for a programme of professional education and training is much lower than might be expected in more mature economies. International Education Standard (IES) 1 of the International Federation of Accountants (IFAC) stipulates that entry requirements to a programme of professional accounting education should be at least equivalent to that for admission into a recognised university degree programme, but in Lesotho this has proved impossible to achieve in practice, given the need to train large numbers of accountants and auditors quickly. This problem is further compounded by the very low rate of enrolment in tertiary education (3.9%<sup>9</sup>), which means that in both relative and absolute terms the number of graduates educated to the standard required to support the demands of a professional qualification regime is very small relative to the need for professionals in Lesotho. The attractions of better opportunities, salaries and working conditions in Lesotho's much larger (and richer) neighbour South Africa adds further to the challenges of creating the level of supply required.

Turning to the demand for accountants, Lesotho's economy is largely based on limited agricultural and pastoral production and on light manufacturing.<sup>10</sup> In such an environment, the demand for accounting and auditing services, historically one of the common drivers for the establishment of an accounting and auditing profession in the private sector, will be quite low. Although the case for professionalisation of PFM can be made in its own right, without reference to the private sector, this may have led to little pressure for similar developments in the public sector. In this sense, therefore, the structure of Lesotho's economy represents a constraint on the development of the accounting and auditing profession generally in the country. This may have significant consequences, including low demand for accounting and auditing services, and therefore little incentive for individuals to seek to enter the profession.

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**8** World Bank website.

**9** World Bank website.

**10** Kingdom of Lesotho: Selected Issues and Statistical Appendix (IMF Country Report No. 08/13, April 2008).

Lesotho's PRS and PSIRP ought to be positive drivers for change, intended as they are to improve the delivery capacity, effectiveness, accountability and transparency of public services. PFM reform is one of the main elements of the PSIRP. The effectiveness of such 'distant' levers for change, however, depends on the identification of professionalisation as a key component of PFM reform. It has only been with the inception of the DFID-funded PFM reform programme in Lesotho, and the introduction of the CIPFA programme that this connection has been made.

The decentralisation policy adopted by GoL may, in time, create demand for professional PFM practitioners. If districts and communities are to manage the resources allocated to them and, ultimately, collected by them, then they need to have professional staff properly trained in PFM. There is also recognition in government of the need for professional 'uplift' in the public sector in the country, and this also ought to support the creation of an environment conducive to professionalisation.

## Development Partners' Influences

Donors and development partners have signalled a drive towards professionalisation of the PFM function in Lesotho in a number of ways. These include the World Bank's 2007 Public Expenditure Management and Financial Accountability Review (PEMFAR) on the development of PFM capacity in the Government of Lesotho; and Action 1a of the World Bank's Africa Capacity Development Management Action Plan (CDMAP), Strengthening Public Financial Management and Accountability, with its objectives of increasing the number of qualified accountants and auditors in Africa generally, and supporting the development of local training and accreditation institutions.

Analyses of expenditure programmes and other sources have referred to weaknesses in project programming and execution in Lesotho, exemplified by under-spending of the capital budget. Development partners have seen it as essential that government increases its efforts to improve project execution, especially in view of the need to use donor funds within an agreed timescale or lose the funding. To speed up the execution of some domestically financed investments, authorities have started using public/private partnerships (PPPs). Managing PPPs requires careful contract drafting and close monitoring. It also requires staff with relevant finance skills, generally those acquired through the holding of a professional qualification, and this is lacking in Lesotho.

Donors have also consistently argued that strengthening expenditure management would help ensure a good level and quality of spending. The PSIRP has resulted in improvements in this area, including the introduction of a medium-term expenditure framework (MTEF), strengthening budget planning and execution, and public procurement reform. All line ministries were required to prepare budget framework papers for the 2008/09 budget to cover a three-year period. However, due to capacity limitations in line ministries, the full MTEF was piloted in six ministries only. Donor partners have encouraged GoL to extend the MTEF to all ministries as soon as feasible, following the recommendations of the PEMFAR assessment. There is agreement on both sides that the use of the MTEF would help further align the budget with development priorities.

In relation to the decentralisation of powers to districts and communities, the EU Country Strategy Paper 2008–2013 identified as *"the most pressing issue"* the realisation of *"equitable, automatic and robust resource transfer arrangements from Central Government to supplement local revenues, including the establishment of planned District Development Funds at the disposal of the elected local authorities"*. A professionalised PFM function in the country is an essential concomitant to the implementation of these arrangements.

# Towards Professionalisation of Public Financial Management in Lesotho

## The Accountancy Profession

The accountancy profession in Lesotho is in the hands of the Lesotho Institute of Accountants (LIA). The profession has traditionally been heavily orientated towards the private and parastatal sectors and LIA was established under the terms of the Accountants Act of 1977 (as amended in 1984), with the mandate to regulate the accountancy profession in the country. More specifically, LIA exists to:

- determine the qualifications of persons to be admitted as members
- provide for training, education and examination by the Institute or any other body of persons practising or intending to practice the profession of accountancy, and
- set the standards and rules governing the practice of accountancy and ensure compliance with these standards and rules.

The mission of LIA:

*“To develop, regulate and enhance a National Accounting Profession that will ensure local and international recognition for all its members and support them in providing quality services in the public interest”.*

Its vision is:

*“To be, in three years, a national professional body, operating on international standards and practices. Its membership qualifications will be well accepted locally by employers, clients and public at large, regionally and internationally recognised. It will offer full technical support to its members and will attract and retain members through its professionalism.”*

There have been ongoing discussions about a new Accountants Act since it was first proposed in 2005, but no progress has been made.

LIA is guided in its work by a council, elected annually by the members; its composition is laid down in the Accountants Act. Both the Accountant General and the Auditor General of Lesotho are, by virtue of his office, members of the council. The two officers of LIA, the president and the vice-president, are elected annually by the council.

Much of the work of LIA is done through a system of sub-committees, made up of volunteer members of the Institute. This work is coordinated on a day-to-day basis by the secretariat, headed by the chief executive. In early 2010 the secretariat consisted of seven members of staff, in addition to the chief executive, and included a technical manager and two technical officers. There is an extensive sub-committee structure, including a public sector committee.

LIA offers three classes of qualification: Technician, General and Chartered Accountant. Technician accountants are qualified to act as bookkeepers in small- and medium-sized enterprises (SMEs), or as audit assistants. General accountants are qualified to prepare financial statements and tax returns of SMEs, to provide financial management services to SMEs or to act as audit assistants or tax advisors. Chartered accountants are able to prepare financial statements and tax returns for large enterprises, groups of companies and multinational companies, to provide financial management services to such enterprises or to act as an auditor or tax advisor. Admission to membership at these various levels is subject to the attainment of minimum periods of experience. Membership at all levels is divided into two categories: ‘in-practice’, for those with adequate auditing experience, and in ‘other occupations’, for those employed in industry.

Students wishing to become eligible to apply for membership of LIA must complete the qualifying examinations of the Institute. LIA’s current qualifications framework is essentially that of the Association of Chartered Certified Accountants (ACCA) of the UK, and a joint examination scheme agreement exists between LIA and ACCA which allows Lesotho candidates

to sit papers in taxation and business law in accordance with Lesotho law and practice. Tuition for students wishing to take these examinations is provided by the Centre for Accounting Studies (CAS). Students who complete defined stages of the ACCA qualification, with its Lesotho variants, are eligible to apply for automatic membership of LIA. Holders of the qualifications of other bodies in membership of the International Federation of Accountants (IFAC) may also apply for membership of LIA, but each such application is dealt with individually in accordance with LIA's admission criteria.

LIA's strategic development plan covering the period 2009–2011 identified a need to *“enhance public sector accountancy education and involvement in the Institute development agenda”*. It envisaged the development of a qualifications framework for public sector accounting in Lesotho and the commissioning of education and training programmes. In 2009, LIA was successful in obtaining an Institutional Development Fund grant from the World Bank, with the objective of improving its education and training programme for professional accountants. A major component of the grant was to *“develop the LIA qualification system to qualify members for Public Finance Management requirements”*, an objective which has now been broadened to cover the development of a qualifications framework to cover all aspects of the Lesotho economy. As of November 2010 the work in relation to the implementation of this component is still to get under way.

LIA is an affiliate member of the Eastern, Central and Southern Africa Federation of Accountants (ECSAFA), which coordinates the development of the accountancy profession, and promotes internationally recognised standards of professional competence and conduct in the region. LIA is also a member of IFAC. In this way LIA may be seen to be connected to the institutional framework of the PFM international architecture<sup>11</sup> and therefore able to play its role in the wider regional and global PFM system.

In mid 2010, LIA's membership<sup>12</sup> totalled 304. Of these, 66 were in practice and 230 outside practice. Of those in practice, 40 were chartered accountants, eight were general accountants and 18 were technician accountants. Outside public practice, these ratios were reversed, with 82 of the 230 chartered accountants, 46 general accountants and 102 technicians. LIA also had eight life members.

## Accountancy Training Providers

The National University of Lesotho provides degree courses in business and accountancy, and accountancy is taught as a discipline in the technical education system leading to the award of local certificates and diplomas. However, the major provider of accountancy education and training leading towards professional qualifications is the Lesotho Centre for Accounting Studies (CAS). CAS was established in 1977 to complement the formation of LIA and was funded in its early years by what is now Irish Aid. The main activity of CAS throughout its existence has been to provide the tuition to support the professional programmes of LIA, which in recent years has effectively meant following the professional qualification regime of ACCA, for which it is the nationally recognised tuition provider.

## The Public Financial Management Institutional Architecture in Lesotho

The institutional architecture of Lesotho PFM is mapped in Annex 1. This diagram, which is based on the 2009 CIPFA publication *Public Financial Management – a Whole System Approach*, sets out the hierarchy of organisations at international, regional and local level which, either actually or potentially, influence and/or are involved in the PFM process in Lesotho. At international level, bodies such as IFAC (and CIPFA itself) influence the global nature, standards and coverage of PFM, and underscore the importance of professionalism in the process. At the next level are the bodies which operate regionally within the profession itself (such as ESAAG and ECSAFA), or contribute to it through, for example, capacity building. At the lowest level are the in-country institutions such as local regulatory bodies, professional associations and tuition providers (universities, technical colleges and the private sector). To the left-hand side of the diagram are listed the organisations that provide the links running through the hierarchy – primarily donor bodies involved in supporting reform in the PFM sector.

<sup>11</sup> Public Financial Management and the PFM International Architecture – A Whole System Approach (CIPFA, 2009).

<sup>12</sup> Source: LIA website ([www.lis.org.ls](http://www.lis.org.ls)).

In Lesotho, at the country level there are a number of bodies with the potential to influence the quality of PFM, beyond the Government and the legislature. LIA, essentially a body serving the needs of the private sector, has recently sought to widen its scope of activity and influence to include the public sector. In 2008 the South Africa chapter of the Institute of Internal Auditors began providing training to staff from the Government internal audit service. Around the same time the Institute for Development Management inaugurated a programme of training leading to the examinations of the UK Chartered Institute of Purchasing and Supply. CIPFA has also been active in Lesotho since 2006, where it has been working with support from Irish Aid to help professionalise PFM in the country.

## First Steps

By 2004 it had become clear that something needed to be done to ensure a supply of properly trained PFM specialists – accountants, auditors, budget staff – in Lesotho. In 2005 CIPFA was invited to support the DFID PFM reform programme by carrying out a review of a series of then recent reports dealing with PFM and related training needs in Lesotho. The intention was to use this as a basis for assessing the feasibility, suitability and acceptability of introducing a programme of professionalisation. The assessment carried out by CIPFA highlighted the advantages of such a programme over the more traditional approaches to training, involving mainly ad hoc training initiatives, that had been followed in the country. In particular it showed the following:

- Development of a scheme of professional PFM education and training is based on the experience and expertise of a recognised competent professional body. The areas of skills and knowledge are therefore those that the body believes are essential for the education and training of accountants, auditors and financial managers working in government and in the public sector more widely. This knowledge is generally derived from the body's long experience in meeting the education and training needs of its members and prospective members.
- Schemes of professional PFM education and training are designed to equip staff with the skills to perform effectively in the workplace. Such schemes are therefore intrinsically practical in nature, and directly related to the needs of the workplace.
- Such schemes combine education and workplace-based experience and training. The education component essentially provides the knowledge - the conceptual base - on which the practical skills are developed. That knowledge ensures that the skills may be applied in different contexts, and therefore helps to ensure that students are able to apply their skills in a wide variety of contexts, and in a changing environment. Skills are also directly and demonstrably relevant, because they are related to the requirements of the workplace. The scheme produces accountants, auditors and financial managers who are essentially practical in their application of knowledge.
- The areas of knowledge and skills that form the scheme are related to each other: the scheme is structured, systematic and usually progressive in nature. This means that participants may be confident that the scheme is comprehensive, that it addresses all relevant areas of knowledge and skill needed to produce members of staff with the defined competences, and that learning and development occur in a planned and measured way. By way of contrast, ad hoc training is, by its very nature, unstructured and non-systematic. It is unlikely to be comprehensive without undertaking the kind of extensive and time-consuming research and design that has gone into a professional body's scheme. Elements of an ad hoc programme of training may also be contradictory, since there would rarely be any attempt to cross-refer courses to ensure consistency of approach and content.
- Modern, well-designed schemes of professional PFM education and training represent a starting point for a programme of lifelong learning, because successful graduates from the scheme will be encouraged to maintain and update their knowledge and skills for as long as they remain in employment. Ad hoc training contains no such long-term commitment.

CIPFA's recommendation - that a scheme of structured and systematic professional PFM training, covering all of the areas of accounting, auditing and financial management knowledge and skill required by staff working in government should be preferred to an ad hoc approach - was accepted. In the more detailed feasibility study that was carried out, CIPFA identified a number of key characteristics of the environment in Lesotho bearing directly on the professionalisation of the PFM function in the country. These included:

- a demanding strategic change agenda set by the MFDP, with at least 10 major initiatives planned or under way, each of which had some bearing on professionalisation
- an accountancy regulatory environment, as defined in the Accountants Act of 1977, that had been put in place at a time when there was no concept of a PFM profession
- a wider education environment that offered the prospect of introducing a South Africa style approach to qualifications management, and that might therefore affect the way in which professional PFM education and training schemes were designed and operated
- an internal control environment and fiscal discipline that had been independently described as “weak”, and
- a relatively undeveloped human resources function in government, and a Public Services Commission in need of modernisation.

In making its recommendations, CIPFA recognised the challenges posed by these key environmental conditions. To quote from the feasibility report itself:

*“Any one of these change initiatives represents a major challenge for even the most well organised public body. Taken together they constitute a programme for change that will test the quality of the managers in MFDP and their ability to maintain current operations and services whilst implementing this new agenda. To add to this lengthy list [of change initiatives] the introduction of a scheme of professional public sector accountancy and audit training seems almost perverse in nature. Almost every one of these new initiatives will impact directly on the education and training scheme that would have to be introduced, since they will all affect the accounting, auditing and financial management environment in Lesotho. It will therefore be necessary to consider carefully how the introduction of the CIPFA scheme should be managed, taking into account the demands that are likely to be made of managers in MFDP and elsewhere over the next five and more years.”*

The report considered carefully the option of deferring the move towards professionalisation until some future point in time when conditions might be more favourable. However this was rejected, on the grounds that:

- Given the nature and length of the change agenda facing MFDP, it was simply not possible to identify a point in time within, say, the next five years, when more stable conditions might be expected to exist.
- There was an immediate need for professional public sector accountancy and audit training. Deferring its provision for five or more years would increase present problems rather than helping to reduce them.
- The scale and nature of the activity that would be required to obtain approval for introducing the scheme, and for making the necessary adaptations to the scheme elements and courseware, would not reduce by deferring its introduction.

The report concluded that there was no advantage to be gained from deferring introduction of the scheme and, indeed, considerable benefit from introducing it as soon as was practical. The report therefore recommended the implementation of a scheme of professionalisation, based on the adoption and modification of CIPFA’s own International Qualifications Framework,<sup>13</sup> with the Centre for Accounting Studies in Maseru as the local training partner, and with the full involvement of the local professional body, the Lesotho Institute of Accountants. In making that recommendation the report also identified a number of actions that would be necessary to mitigate the risks associated with the key environmental conditions identified, and these were accepted by all stakeholders.

The CIPFA programme in Lesotho was implemented in December 2006, with the first intake of students beginning their studies in January 2007. They enrolled on CIPFA’s International Certificate and Diploma in Public Sector Accounting and Auditing (the ICD). This is a two-stage programme, offering progression from the initial certificate course to the second diploma course. At the certificate stage students study financial accounting, auditing and information systems; there is also a ‘local’ module, ‘the PFM Environment in Lesotho’, that is developed in country and covers all of the country-specific aspects of PFM. The diploma course has a more managerial aspect, consisting of management accounting, financial management and ‘general’ management.

<sup>13</sup> At that time CIPFA’s International Certificate and Diploma in Public Sector Accounting and Auditing.

## Piloting the Scheme

The scheme was formally launched in the country in December 2006, as a pilot version, to run during 2007 and 2008. This was intended to allow one full cohort of students to pass through the certificate level of the scheme, at which point a formal evaluation would be carried out, before a decision was taken on extending the pilot fully. The pilot project objectives were to:

- demonstrate in a practical way the feasibility of operating the CIPFA scheme in Lesotho
- create the capacity locally to operate, maintain and develop the scheme without external support
- stimulate the development locally of the concept of ‘professionalism’ in public sector financial management, which includes auditing
- produce a business plan that would help to ensure the long-term viability of the scheme,
- recommend a plan of action to implement the business plan.

As part of its programme of support, CIPFA provided the student learning materials and other components of its International Certificate and Diploma in Public Sector Accounting and Auditing. This was essential; there are no generally published materials for PFM education courses, unlike the situation in relation to the private sector counterparts. CIPFA also provided assessments, and quality assured the local examination and marking processes, as well as running a number of specific training and capacity development initiatives, aimed at staff of the local education and training provider, the Centre for Accounting Studies.

The first 76 students were enrolled on the programme in January 2007. These were followed by additional intakes in January and June 2008 before the evaluation of the pilot project was carried out. There were then further intakes of students bi-annually up to January 2010 a total of 322 students enrolled on the programme, from the 530 that had been identified as comprising the target training population.

The Centre for Accounting Studies (CAS), established some 30 years before the start of the CIPFA programme with the support of the Irish Government, acted as the local course provider. Examinations management and administration, along with local assessment services, was provided by the Lesotho Institute of Accountants (LIA). Relationships between CIPFA, LIA and CAS were defined and regulated through a joint Memorandum of Understanding involving the three parties. Responsibility for steering and oversight of the pilot was adopted by a project board, chaired by the Deputy Accountant General and with representation from all key government stakeholders, including the PFM Reform Coordinating Unit and, in time, the student body.

The project board met from time to time throughout the life of the pilot and was provided with regular information relating to key aspects of progress, including examination results and student enrolments. Meetings were most common during the period of CIPFA’s missions to Lesotho, and the board found it difficult to carry out its role when CIPFA was not in the country. Part way through the pilot phase the board chair withdrew, and the board was in effect chaired on an interim basis until the appointment of a new Accountant General in early 2010, the previous incumbent having left government service in 2008. The long-term absence of a substantive Accountant General led to significant breaks in the ‘chain of command’, and meant that an important line of communication to the Principal Secretary Finance was weakened.

Most of the activity during the first year of the pilot was devoted to the key tasks of:

- enrolling students and providing tuition to help prepare them for the assessment process
- developing the local courseware, which was undertaken by CAS, with CIPFA’s guidance, during the first half of year one
- providing technical and other capacity development of the staff at CAS and of the local examiners who were recruited and managed by LIA
- adapting the CIPFA Initial Professional Development Scheme (IPDS), which formed the basis for students to acquire the necessary workplace experience
- familiarising managers and workplace mentors with the requirements of the programme generally, the IPDS scheme in particular, and their role in these processes

- providing tuition to the students enrolled on the certificate course
- establishing the assessment system, including putting in place a robust mechanism for its quality assurance
- troubleshooting the inevitable problems that arose during course operation, and
- establishing and building the relationships that lie at the heart of success of an initiative of this kind, including integrating the scheme with the wider PFM component of which it formed a part.

After the first full set of assessments, the performance of the first cohort of students was good, with more than two thirds completing the first certificate course within 15 months of enrolment. The development of the local module, initially perceived by the CAS staff involved as highly challenging, resulted in a much-valued asset that captured the distinctive aspects of PFM in Lesotho.

However progress was not uniform across all fronts. The establishment of a routine system of student records proved problematic, leading to difficulties in capturing, processing and reporting on basic student data. The IPDS was a new concept in Lesotho, to students, to managers and mentors in the workplace and to staff at CAS and LIA. Problems of compliance emerged as a result, that, at time of writing, have still to be satisfactorily addressed. Nonetheless, the project board maintained its determination to see progress being made, and further cohorts of students were enrolled on the programme in the second year.

During the second year of the pilot, effort was directed at:

- implementing the diploma course
- formalising the student enrolment process, in light of the experiences of the first year
- continuing the programme of capacity development that had been started in the first year
- troubleshooting and resolution of problems and issues arising
- preparing for the evaluation of the pilot
- beginning to draw up plans for the continuation of the programme beyond the pilot phase, and
- planning for the extension of the professionalisation agenda from the core education and training scheme, into the profession generally in Lesotho.

Year two saw a decline in student performance, and one that continued through into 2009. Investigations to establish the reasons for this were delayed whilst the formal evaluation of the pilot was carried out, and whilst negotiations for the funding that would be required to extend the programme continued. Integration of the CIPFA programme into the institutional environment was also delayed. Although committed in principle to recognising student achievement, government could not appear to find a mechanism to achieve this. Towards the end of 2009, however, some progress was made, with recognition, in the scheme of service, of students undertaking the parallel programme of the Chartered Institute of Purchasing and Supply in procurement training. Assurances were given at the time that similar treatment would be afforded to CIPFA students but the mechanisms for bringing this about have only just begun to be discussed. There was also little progress made in recognising PFM student achievement more widely in the accountancy and audit profession in Lesotho, with LIA still unable to decide what form of membership ought to be offered to successful CIPFA students. Membership of a professional body is, of course, an essential component of professionalisation.

By the end of the pilot, 57 students had successfully completed the requirements of the certificate course and 12<sup>14</sup> the diploma course. By the end of 2009, 211 students had certificates, and 26 had diplomas. The pilot had enabled a number of valuable lessons to be learned, and these were used to inform the design of the future work programme for the period following the end of the pilot phase. The overall conclusion of the evaluation was that the central objective – of proving the feasibility of operating a scheme of this kind in Lesotho – had been demonstrated, and that therefore the project should continue. In noting this, however, the project board also observed that progress towards the ultimate aim of professionalisation had not been as rapid as had been hoped, and there remained much to be done to achieve this.

**14** Numbers were affected by the short duration of the pilot, which meant that there was very little leeway for the inevitable rewriting of assessments that ought to be anticipated in introducing a programme of this nature in a country like Lesotho.

# Future Plans: Momentum and Sustainability

The implementation of the DFID PFM programme in Lesotho highlighted an urgent need for properly trained PFM staff, to play their part in the design, development, implementation, operation and maintenance of the PFM system and services. Meeting this need occurred alongside other, related, work including the design and implementation of the new IFMIS and the establishment of the new Treasury in MFDP. However, the CIPFA programme has begun to produce trained staff, and it is reasonable to expect that this will continue in the years ahead.

The nucleus of a professional body to act as a focal point for the professionalisation of PFM in the country exists in LIA. That body needs to develop its capacity to move beyond meeting the needs of the private sector to doing so in relation to the public sector. Financial resources are in place to help with this process, in the form of the World Bank Institutional Development Fund grant to LIA, to assist with the development of a local qualifications framework. Funding for this was agreed in mid 2009, and at the time of drafting this case study the tendering process for consultancy support for developing the framework is getting under way with a planned completion date of late 2011. The current CIPFA programme has within its scope stimulating the professionalisation of PFM in Lesotho, and there is a clear and recognised need to integrate this work with the development of the qualifications framework, and to ensure that LIA remains fully involved in and committed to professionalisation more generally.

Following the evaluation of the pilot project, CIPFA identified a number of key outputs remaining to be achieved to give reasonable assurance of the long-term sustainability of professional public sector PFM education and training in Lesotho. These included:

- Completing the process of integrating the scheme into the operations of both CAS and LIA.
- A plan for further capacity development of local institutions.
- The achievement of professionalisation.
- Through the development and implementation of a plan for sustainability, the inculcation of a culture of business planning, with supporting systems, in the relevant institutions. In this context 'sustainability' should be interpreted within the overall envelope of resources that GoL believes to be necessary to achieve its wider policy objectives, including supporting the professionalisation of PFM in Lesotho.
- The creation of a community of independent and interdependent learners.
- The integration of the CIPFA scheme into the Lesotho qualifications framework.
- The development of links with full PFM professional (chartered accountant) qualifications, either within Lesotho (through LIA - the preferred option) or through CIPFA's planned international qualification.

The project board fully accepts the need for these further outputs; however, funding constraints and other implementation issues mean that there has been some loss of continuity in the programme. This has been a particular problem in 2010 with the initial funding agreement with Irish Aid having come to an end and the need to arrive at a new agreement which, given the current state of public finances in Ireland, has had to be for one year only.

Despite these challenges, in early 2010 discussions began through the board on an interim package of measures, designed to maintain the momentum that had been built up. As a substantial contribution to this, CIPFA, as part of its quality assurance function, undertook an in-depth review of the progress achieved to date and, whilst concluding that the scheme had made impressive progress in its first three years, recognised that there remained a number of issues to be addressed. The relative decline in student performance was identified as a particular challenge, which in turn led to recognition of a number of other matters which needed to be put right. To meet these challenges, the stakeholders agreed on two devices:

- an interim (improvement) plan, to be put into effect during 2010/11, to deal with the immediate problems identified, and
- a longer-term strategic/business plan to further raise standards and performance in the scheme.

The principal issues being addressed in the interim plan are:

- aligning the course planning year with the financial year of GoL
- clearing as much as possible of the backlog of students who have achieved part of, but not yet completed, the qualifications through the operation of targeted revision courses
- suspending the planned intake of new students to the scheme to free up resources for the revision courses and the long-term planning exercise, and
- introducing new student enrolment and course record documentation and procedures to broaden and deepen understanding of the links between student performance, background and environment.

At the time of writing, work is still in progress on the strategic plan. However, its main objectives will be to:

- Address the needs of 'fragile' students by introducing a new baseline skills assessment procedure, supported by a focused teaching programme aimed primarily at those without recent study experience and implemented before admission to the certificate stage.
- Provide an alternative qualification in PFM for those unable to cope with the intellectual demands of the ICD scheme. This qualification will be based on the certificate-level local module and will be aimed at capacity development rather than professionalisation as such.
- Introduce a revised course funding mechanism in which CAS and LIA costs will be recovered on a fee per student basis rather than provision being block funded as at present.
- Target specific efforts at improving students' higher-level analytical skills by revising the teaching and assessment arrangements in the 'management' subject at the diploma level.
- Develop a costed three-year programme of course delivery, backed up by an ongoing institutional capacity development package for CAS and LIA, with which to approach donor partners seeking long-term funding to ensure the continuity of the scheme. This programme would see responsibility for the operation of the scheme being progressively handed over to the local institutions, with CIPFA retaining responsibility only for quality assurance of the assessment process.
- Pave the way to sustainability of the course in such a way that, by the end of the three-year period, if necessary, funding support could come from government rather than donors.

Two other developments are worthy of note. Over the past year, the effectiveness of the project board has improved substantially. Whilst it still meets only when CIPFA is in country, the focus on business planning, coupled with the more proactive role of the new Accountant General (who now chairs every meeting), has significantly raised the quality of discussion and led to a much more focused approach to dealing with the issues in hand.

This in turn has led to the second noteworthy advance. GoL has now committed to addressing the long-standing issue of recognising the ICD qualifications in the Ministry of Finance and the Office of the Auditor General. At the time of finalising this case study, draft terms of reference are in the hands of the managements of MFDP and OAG for a study of the entire field of how external qualifications are linked to functional specialisms and levels of seniority within PFM. The study is to be conducted by CIPFA as part of its current consultancy support commitment to professionalisation in Lesotho in January and February 2011.

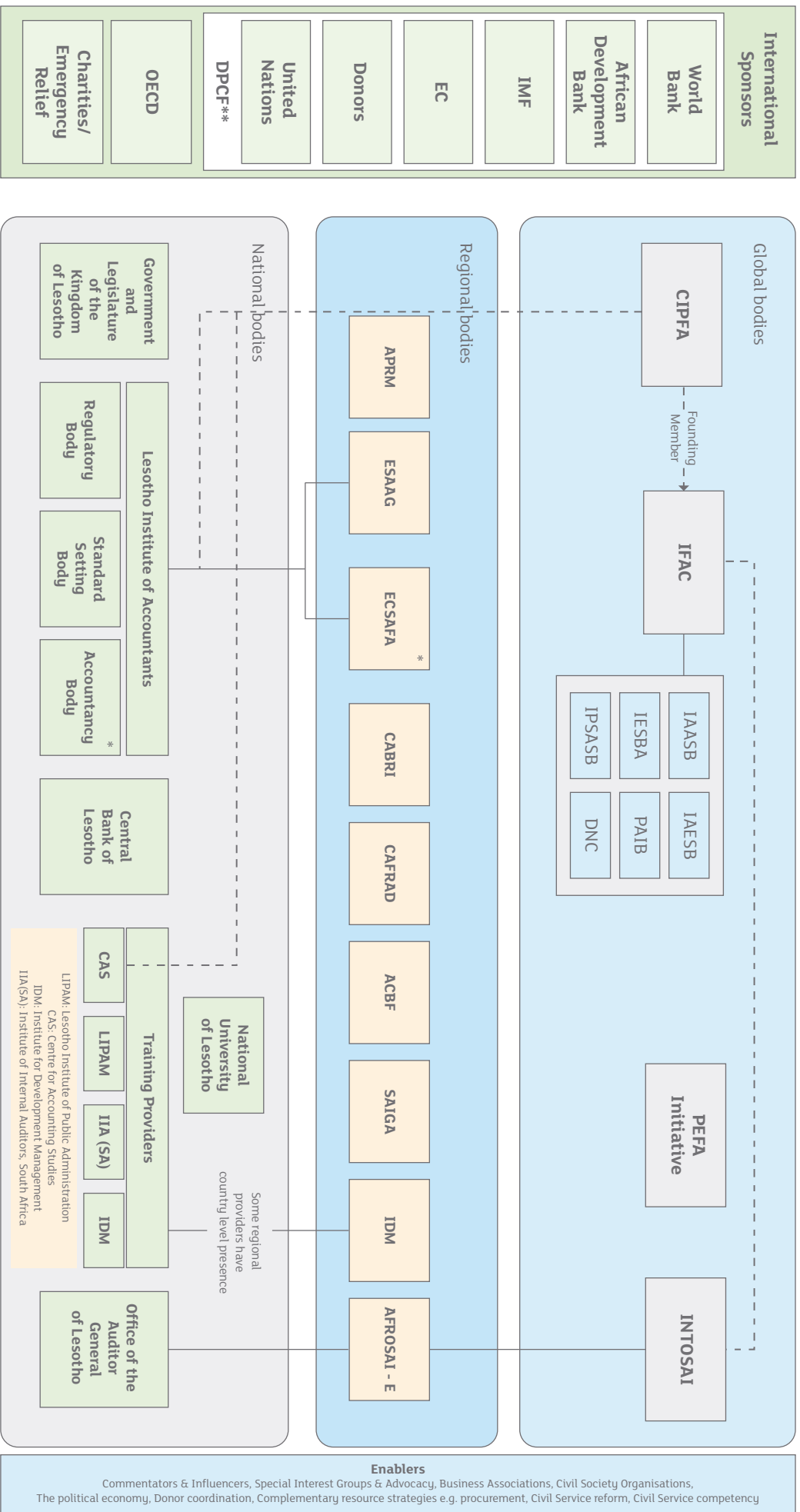
# Lessons Learned

Professionalisation in Lesotho has made significant progress since the enrolment of the first group of students on the CIPFA programme in early 2007. Experience during this time has allowed CIPFA to highlight some of the key factors in achieving impact. These can be summarised as follows:

- Professionalisation of PFM, and the associated provision of education and training, is very different from the essentially short course training that is traditionally carried out in this field. It is concerned as much with inculcating deep, lifelong skills as imparting short-term knowledge, and with generating commitment to lifelong learning rather than the acquisition of short-term competence. Therefore short-term training is not a substitute for professionalisation. To the extent that it diverts funding away from these longer term aims, it may be subversive.
- Professionalisation of PFM in a developing country is a long-term aim. It requires commitment and leadership from key stakeholders, significantly from the Accountant General, the Auditor General, and the Ministry of Finance more generally.
- Delivery of effective schemes of PFM education and training requires the provision of supporting resources, including student learning materials and tutor support materials. These are generally not widely available in published form in PFM subjects; however their production is essential if the scheme is to be successful.
- Projects such as this require a strong steering mechanism, integrated fully into the wider reform and operational environment in the country, and fully owned by government and other key stakeholders. Ultimately this depends on the capability of local staff to drive change, to commit and engage, to attract resources and support, and to do these things whilst managing the transition from a donor-supported environment to one where professionalisation is sustainable without such support.
- Curriculums and learning objectives need to be relevant and applicable both to the country and to the workplace. A strong connection between the qualification framework and workplace experience helps to embed learning and make it relevant, enabling it to be applied in practical ways that help students and their organisation. Managers (who may themselves have no qualification) need to be encouraged to see the benefit of training by demonstrating that the classroom-based activity has clear relevance to the workplace.
- The introduction of a programme of PFM education and training can appear to be threatening to managers and mentors in the workplace. It is important to recognise this, and to take action to ensure that any concerns are dealt with at source.
- A local module, tailored to the country's own circumstances, reinforces applicability. Its creation by local providers can itself be a development experience. In Lesotho at least, the merits are beginning to be seen of offering this as a standalone product, as part of a more generalised programme of PFM capacity building in the country.
- Partnership with local institutions, notably, in this case, the Centre for Accounting Studies and the Lesotho Institute of Accountants, is essential to the achievement of professionalisation. Not only does this help to strengthen the institution's capacity, it also supports its future financial viability and offers donors the prospect of an exit path from dependency on aid.
- A supportive institutional environment is significant. Recognition of qualifications in the Lesotho public service career structure, through competency, appraisal and reward schemes, will incentivise students, and assist with retention that can be an endemic problem in countries with underdeveloped expressed demand for financial management skills.

- Professionalisation is also accelerated when practitioners are able to engage in formal and informal networks, and other mechanisms for learning and growing. Lesotho has made some use of peer networks to develop its practices, although there is scope for a stronger PFM institutional architecture to drive improvement.
- Student performance is key in an initiative of this kind. Without a steady supply of trained professionals, there can be no substantive PFM profession. Given the novelty of PFM training, achieving high standards of student performance is more than usually challenging.
- Achieving the right environmental conditions is important. Integrating the scheme of education and training with the government scheme of service conditions is essential to ensure that students feel fairly treated, recognised for their achievement and, where possible, rewarded for it. Education and training must also be mainstreamed into working life; attending class should not be seen as getting away from work but as helping the student prepare for it. Workplace training and experience should be valued for the contribution they make to improving the quality of work done by PFM staff, not regarded as a burden, to be fitted in if possible alongside the 'real' job of work.
- Continuity of funding for the capacity development and other work required to achieve professionalisation is necessary to avoid a stop/start approach to funding long-term work of this kind. Funds also need to be provided over more than one year; achievement of professionalisation of PFM in developing countries is a long-term, five- to 10-year aim. It needs commitment of funds over a similar period.
- There is an important role to be played in the longer term by a sympathetic, technically competent and relevant external professional body (the 'midwife' role) to help to steer the process of professionalisation, build capacity, provide continuity and maintain momentum.

# ANNEX 1: The PFM International Architecture: Institutional Framework: Lesotho



# Case Study 2- Mozambique

# Country Context

## Demography

The Republic of Mozambique is situated in the southern half of Africa with a 2,800 kilometre eastern coastline on the Indian Ocean. It lies between latitude 10° and 27° south and longitude 30° and 40° east. It covers almost 800,000 square kilometres and is bordered by six countries: Tanzania to the north, Zambia, Malawi and Zimbabwe to the west and Swaziland and South Africa to the south. As a main route for imports and exports to/from its landlocked neighbours to the west, Mozambique possesses many small harbours and three strategic ports – Maputo in the South, Beira in the centre and Nampula in the north – that give their name to vital road-rail transport corridors of crucial importance for the international movement of goods. The country was named Moçambique by the Portuguese after the Island of Mozambique, derived from Musa Al Big or Mossa Al Bique or Mussa Ben Mbiki, an Arab trader who first visited the island and later lived there.

On the basis of the last census in 1997, Mozambique's population in 2006 was estimated to be a little under 19 million, giving a low average population density of only 25 inhabitants per square kilometre. However, estimates by the World Bank in 2009 put the population closer to 22.5 million.<sup>1</sup> Annual population growth is estimated to be about 2.5%. The average age of the population is very low, with a median age of 17.8 years. Roughly one third of the population lives in urban areas. A variety of languages are spoken in Mozambique, but the official language is Portuguese, which is spoken by approximately half the population.

## National Government Politics and Constitution

The country is a former colony of Portugal. It gained independence in 1975 after a long armed struggle and was one of the last countries in the region to do so. A long period of civil war ensued which ended with a UN-backed peace accord in Rome in 1992 between the opposing parties FRELIMO (Frente de Libertação de Moçambique – the Front for the Liberation of Mozambique) and RENAMO (Resistência Nacional Moçambicana – Mozambican National Resistance). A new constitution approved in 1990 established a multi-party system (a revised constitution was approved in 2004, continuing the multi-party system) with the warring factions converting themselves into political movements committed to the democratic process.

Mozambique has a presidential system whereby the president appoints the cabinet and chairs cabinet meetings. This is underpinned by a unicameral National Assembly of the Republic elected by proportional representation with universal suffrage from the age of 18. The two most recent elections were in 2004 and 2009 (both of which were criticised by independent observers as having been lacking in transparency). The Assembly, with 250 seats, is currently dominated by FRELIMO with 191 seats, with RENAMO holding 51 and the recently formed Movimento Democrático de Moçambique (MDM) holding eight seats.<sup>2</sup> The presidency (also last contested in 2009) has always been held by a FRELIMO candidate. Despite the criticisms of the conduct of the elections, Mozambique does now exhibit a high degree of political stability.

<sup>1</sup> World Bank website – Mozambique at a Glance.

<sup>2</sup> AIM (Mozambique News Agency).

## Decentralisation/Deconcentration

Mozambique is divided administratively into 11 provinces (10 regional provinces plus the capital, Maputo, which has the status of a province). Each provincial administration is headed by a provincial secretary who is appointed by, and reports to, the president. Each province has an elective provincial assembly with limited powers of veto over the proposals of the provincial secretariat.

The area of each province is divided up into districts of which there are currently 129, (though the number has varied over the years as boundary changes have been implemented). The structure of these districts reflects that of the provinces with an appointed secretariat working with an elected assembly. Despite the electoral mechanisms, provinces and districts are seen as arms of central government. Districts are further subdivided into administrative posts (postos) and localities (localidades) with limited administrative and consultative functions and many of which date back in area and function to colonial days.

Only a portion of Mozambique presently has genuine local government. There are 33 municipalities covering Mozambique's 23 cities (cidades) and 10 of the 116 towns (vilas) within districts. Over time more local authorities (autarquias locais) are to be established in towns and rural areas. These local authorities have elective councils and are able to exercise a considerable degree of administrative and financial independence albeit within the framework of national laws and regulations. They are also subject to inspection and audit by both the Ministry of Finance and the supreme audit institution.

## Economic Background

Mozambique is primarily an agricultural economy (75% of the population is engaged in this activity) with some extractive industries (primarily coal and gas) alongside. Aluminium is the most important export by value. The country's geographical position means that the port facilities in Maputo are useful for northern South Africa, and Mozambique's more northerly ports act as outlets for landlocked countries such as Zimbabwe. Customs revenues are an important constituent of the Government's budget.

Since the devastating civil war ended in 1992, the country is regarded as having made some important economic gains,<sup>3</sup> achieving an average annual rate of economic growth of 8% between 1996 and 2007, although the current worldwide recession has led to more modest expectations over this and the coming two years. Macroeconomic policy has generally produced results in line with planned outcomes, and economic growth has remained on track despite the various internal and external shocks from which the Mozambican economy has suffered. Despite delays in donor budget support, revenue flows in recent years have often been higher than budgeted, in part because of continued improvements in tax administration.

As a result, the poverty headcount<sup>4</sup> index fell by 15% points between 1997 and 2008, bringing almost three million people out of extreme poverty. From the human development perspective, this has meant a 35% decrease in infant and under-five mortality, and a 65% increase in net primary school enrolment. Inequality has remained relatively low by regional standards, and progress is continuing to be made towards the key Millennium Development Goals of infant mortality and primary school enrolment. However, despite these improvements, Mozambique remains a low-income country with more than half of the population still living at or below internationally recognised poverty levels, and with about 50% of the annual budget still being funded by the international donor community.

<sup>3</sup> CIA Factbook Mozambique Economy.

<sup>4</sup> The proportion of the population living below the poverty line.

## Overall Development Strategy

The Government of Mozambique is pursuing a twin-track development strategy. The first track involves tackling poverty through improvements in the delivery of government services. The second track is liberalising/restructuring the economy to raise economic activity levels and thereby to increase revenue to further boost track 1.

The central plank of development is the national poverty reduction strategy (PARPA – Plano de Ação para a Redução da Pobreza Absoluta - Action Plan for the Reduction of Absolute Poverty) which was initiated in 2000. The first phase ran until 2005 and was replaced by PARPA II, which ran from 2006 to 2009 and consisted of four pillars: human capital, combating HIV AIDS, governance, and economic development (see sidebar). The pillars approach ensured that attention was focused on the functions of social organisation via the state, the development of individual abilities, and the creation of wealth to improve the well-being of citizens.<sup>5</sup> It also made it possible to examine the connections among the functions that are necessary if the central objectives are to be achieved. PARPA II reflected a climate of stability and optimism, foreseeing a reduction of the incidence of poverty from 54% to 45% by the end of 2009.

In the area of public administration, a key aim is to reduce absolute poverty through infrastructure and direct investment and a number of technical units have been established to manage this process. These are:

- UTRESP – Unidade Técnica da Reforma do Sector Público (the Public Sector Reform Unit)
- UTRAFE – Unidade Técnica da Reforma da Administração Financeira do Estado (the PFM Reform Unit), and
- UTREL – Unidade Técnica da Reforma Legal (the Legal Reform Unit).

The Government is implementing a second wave of structural reforms that are intended to build on the favourable macroeconomic climate it has created. The main targets of these reforms are the public sector, fiscal policy, governance and the business environment (including the creation of a favourable environment for small- and medium-sized enterprises). A large number of parastatal bodies are being privatised, and efforts are being made to broaden the tax base in order to capture the informal sector and the extractive industries. Spending in the designated priority sectors of the PARPA is also growing, funded by the increasing flow of foreign aid and from resources made available through debt relief under the Multilateral Debt Relief Initiative (MDRI), from which Mozambique has been a major beneficiary.

Mozambique is highly aid dependent with a complex donor landscape. Budget support is organised through a group of 19 donors (the G19 PAP – programme aid partners; more details are provided under Public Financial Management (PFM) below) who assess PARPA performance using the mechanism of the 'Troika' (a rotating board of three donors plus the EC and the World Bank). Budget support is about a quarter of all donor support<sup>6</sup> with some donors still favouring project support.

Progress in other areas of structural reforms, however, has been slow and there remain significant constraints on the development of the private sector and the reform of the judicial system (not least the absence of an effective accountancy profession). Furthermore, institutional and capacity constraints continue to hinder the delivery of basic services (notably water and healthcare services) so that many important challenges remain to be addressed.

### The four pillars of Mozambique's PARPA II

- Human Capital (sectoral – health education, rural water and social protection – foci for management, service delivery, accountability and financing improvements).
- HIV, Gender and cross-cutting issues (HIV and AIDS, gender, environment, food and nutrition, science and technology, rural development, natural disasters and de-mining).
- Governance (responsive state building, including PFM reform tax collection and public sector reform and reform to civil society).
- Economic Development (reforms to sustain high rates of growth, private sector development, trade, business licensing and infrastructure enhancement).

<sup>5</sup> Republic of Mozambique: *Poverty Reduction Strategy Paper* (IMF Country Report 07/37, 2007).

<sup>6</sup> DFID 2007/8 Country Action Plan.

# Public Financial Management

## Background

On independence, Mozambique inherited the PFM system operated by the Portuguese administration which directly reflected the parallel procedures in Portugal itself. The system was designed largely to sustain the colonial administration, with no provision for delivering public services to the mass of the population. Procedures were slow, over-elaborate and conducted entirely manually. However, the lengthy civil war which then followed delayed any serious consideration of reforming procedures until the late 1980s. By that stage the need for reform was urgent as witnessed by, inter alia, the following analysis produced by the Swedish International Development Agency in 1988:

*“State accounting in disarray, with antiquated laws and regulations, uncertainty about procedures, irregularity, lack of political process in budget presentation and no report on accounts (since 1975). There were serious capacity weaknesses for assessing and devising policies and systems, and a lack of computer literacy.”*

Historically, the PFM system has been controlled by the Ministry of Finance, which operates the treasury function, leads the budget formation process and provides accounting services throughout government. Budgeting has traditionally been carried out using a loosely coordinated bottom-up approach but with the advent of the medium-term expenditure framework (MTEF) the Ministry of Finance is now providing a more directive approach using annual expenditure ceilings based loosely on programme areas.

The Ministry of Finance operates an inspectorate system (Inspector Geral de Finanças - IGF) which has many of the characteristics of an external audit but which actually reports to the Ministry of Finance. The country also possesses a fully-fledged supreme audit institution in the form of the Tribunal Administrativo de Moçambique, which operates, as the name suggests, as a judicial body rather than as just an inspectorate. It follows the mainland European model of external audit possessing investigate and prosecution powers akin to those of a court of law. Its president is appointed by the state president but must also be approved by the National Assembly.

## Public Financial Management Reform

PFM reform is a crucial axis in a broader public sector reform process in Mozambique that was launched as a ‘project’ in June 2001. In 2002 the National Assembly passed a new Budget Framework Law that ushered in a major PFM reform programme. This programme had at its core the development of a state financial management system, the SISTAFE – Sistema de Administração Financeira do Estado. SISTAFE is designed to:

- harmonise treasury management, execution, control and the evaluation of the use of public resources
- institute subsystems to produce timely and reliable information on public sector budget execution and the use of state assets
- support these objectives through an accounting system capable of reconciling budgets to expenditure and income, and
- establish, implement and maintain an efficient and effective internal control system with internationally accepted internal audit procedures.

7 Mozambique State Financial Management Project (SFMP) (Sida Evaluation 04/29, 2004).

Through the implementation of SISTAFE, the aim of the Government has been to establish an efficient and transparent PFM system that facilitates and underpins the qualitative improvements as defined in the objectives of the SISTAFE law. The objectives of the law are:

- increased accountability and transparency of PFM and administration
- increased comprehensiveness of budgets and accounts, including all relevant public sector revenue and expenditure and external funds
- maintenance of fiscal control through increased emphasis on internal control, documentation of routines and processes and accounting of all administrative and financial acts
- implementation of management accounting and financial reporting at agency level, and
- decentralisation of planning and budget execution in the public sector.

The first plan for the implementation of SISTAFE ran from 2002 to 2005 and the technical implementation unit, UTRAFE, was established to direct, coordinate and manage the plan. Donor support was provided through a common fund with Scandinavian countries, in particular Sweden and Norway, playing a significant part. The initial budget was \$27m but the eventual total cost of SISTAFE I was \$29.6m.

However, by the end of 2005 it had become clear that the plan and its deadline were over-ambitious, as, according to SISTAFE quality assurance reports, much still remained to be done, primarily as a result of weak implementation. It was therefore decided to implement a brief six-month bridging programme (costing \$6.6m) while a new plan was prepared. The second action plan for PFM reform 2006-2009 was drafted and approved by the Ministry of Finance, amounting to \$32m plus an additional \$5m envelope for wider PFM reform activities. Heavy emphasis in this second phase of SISTAFE implementation has been placed on developing and implementing appropriate IT systems to support the PFM process (e-SISTAFE).

## Role and Influence of Donors

A group of 19 donors (the G19) is most involved in the PARPA II reforms in Mozambique. The main bilateral donors are Germany, Austria, Belgium, Canada, the European Commission, Denmark, Spain, Finland, France, the Netherlands, Ireland, Italy, Norway, Portugal, Sweden, Switzerland and the United Kingdom; and multi-laterals the World Bank and the African Development Bank. Most of these partners (PAPs) contribute to direct budget support and have collectively signed a number of Memoranda of Understanding (MOU) (the most recently in 2009) with the Government to support reform. In addition there a number of 'associate' PAPs (the United States and the United Nations) who are outside the MOU framework. The International Monetary Fund is an ex-officio member of the PAP group.

PAP tracking and evaluation is carried out through an annual donor aide memoire and report on the PARP pillars (PFM comes under Governance). The Government of Mozambique also evaluates and reports on donor performance annually. Within the PAP group, the most active in PFM have been the Scandinavians (particularly Sweden, with a history of over 10 years of individual support for PFM reform in the 1980s and 1990s before the PAP group was formed) and in more recent times the UK. Despite the best efforts of this donor group, much remains to be done and some donors continue to avoid putting funds through the Government of Mozambique budget (which exacerbates the off-budget revenue problem). In practice, much of the PFM reform programme has been focused through the UTRAFE agency that has implemented SISTAFE system reforms using resources funded by PAP funds from Brazil, another Portuguese-speaking country.

## Performance of the PFM System

SISTAFE constitutes the first comprehensive attempt at reform to replace the old colonial system with one that is more appropriate to modern public administration. As a consequence, evidence is beginning to emerge that the management of PFM in Mozambique is starting to improve, albeit from its very low post-colonial base, as a direct consequence of these reforms.

Mozambique has participated in numerous international performance assessments. A national Public Expenditure and Financial Accountability (PEFA) assessment was carried out in 2004, with a further similar exercise in 2008, although the results of the latter have yet to be published. (At time of drafting this case study, a third PEFA assessment is under way.) Other assessments carried out include the IMF Policy Support Instrument, Article IV (Exchange Obligations under the IMF

Articles of Agreement), various Reports on Observance of Standards and Codes (ROSCs, especially the Fiscal ROSC and the Accounting and Audit ROSC) and World Bank Country Procurement Assessment Reviews. Bilateral donors have also undertaken their own reviews.

Recent published analysis is sparse but the situation, according to the PEFA assessment in 2004, can be summarised as follows:

- The central requirement of PFM was now in place, ie a degree of fiscal discipline such that the budget was a credible document with outturns reasonably close to the approved budget, particularly at aggregate level. There were also steady improvements in the effectiveness of revenue collection and administration.
- Budgetary institutions were developing and beginning to generate the right sort of links between government policy, its resource allocation decisions and final service delivery results. The process of annual budget formulation was linked to plan formulation (preparation of the annual Public Expenditure Survey - PES) and in turn derived from a wider fiscal strategy (the CFMP: the Cenário Fiscal de Médio Prazo – Medium Term Fiscal Framework) and an overall set of government objectives (the PARPA). Links between these four elements were not as coherent and consistent as they should be, but their respective roles had been defined in law and the challenge of achieving more coherence was being addressed.
- There was a clear budget calendar, established by law and regulation, that was generally followed, and the process of legislative scrutiny of the budget was well established, albeit with little in the way of challenges by the parliament.
- Systems of accounting were improving steadily, albeit from a particularly low base.
- e-SISTAFE was improving the quality of bank reconciliation and financial reporting processes.

However, the PEFA assessment also identified a number of severe weak points that were a major source of concern, in particular:

- Weaknesses in internal control systems – payroll, expenditure commitments and procurement processes.
- The absence of an independent basis for a central reconciliation of payroll and personnel records.
- Weak internal controls for non-salary payments.
- Less than 50% of the contracts above the national threshold for small purchases were awarded on an open competitive basis.
- Only a minority of ministries had internal audit units. (At the same time, the report did note that a combination of these internal audits and the work of the IGF meant that over 50% of budget expenditure was covered by internal audit of one sort or another. In 2004, 70% of planned IGF audit inspections were carried out.) However, robust systems of central control were lacking and there was an absence of effective follow-up where irregularities were identified – this was seen as a priority for attention.
- Limited capacity and coverage of external audit with only a quarter of government entities audited annually.
- High levels of off-budget spending financed from departmental revenues and from external project finance, creating problems for the integrity of the budget and the effectiveness of treasury management systems. (Off-budget projects undermine the ability to plan strategically and to cater for costs effectively.)

During 2004 and 2005 a number of actions were initiated to address this last problem, including the creation of a government-donor task force on off-budget spending and the development of a project database covering all support from EU member states in Mozambique. However, the problem persists and will continue until all donors are happy to channel their development funds through the Government budget, which a number continue to be unwilling to do.

The 2004 PEFA report concluded that the budget in Mozambique was now a generally credible document (final outturns were reasonably close to budget). In total, information generated by the PFM system and in-built controls are at least sufficient to ensure aggregate fiscal discipline. However, at the same time the report highlights a number of issues around budget credibility where performance indicators achieved very low scores. These issues, and some recent developments designed to address them, are summarised as follows:

- The mechanism for strategic allocation of resources is not adequately developed. This is evidenced by some large variations between budgeted and executed expenses at the institutional level. 2008 was a particularly challenging year in this regard as government introduced classification by programme for all externally financed expenditure in the budget proposal.

- To further this, the MTEF for 2009–2011 introduced the ‘programmatic classifier’ but its implementation requires further alignment with best practice to achieve anything like full programme budgeting if this is to be the longer-term objective. Furthermore, the MTEF for 2009–2011 was officially approved only at the end of September 2008, several months after budget preparation had started in line ministries.
- The budget proposal for 2009 included new tables (maps) with the programmatic classifier but its interpretation is not easy and additional information is required from MoF.
- The Budget Execution Report for 2008 also introduced for the first time a functional classifier, though this lacks the levels of detail routinely found in other countries. The functional classifier allows for a budget structure that assigns costs to policies and programmes undertaken by public institutions in line with international best practice (Classification of Functions of Government - COFOG - the UN statistical classification). However, in Mozambique, non-specified items are still being included alongside specific functions, so COFOG is not being fully observed. 2008 was marked by an increase in the use of direct budget execution (as opposed to using funds advances, as had been widespread in the past) due to the extension of the use of e-SISTAFE. This IFMIS system has been rolled out to more state institutions at central and provincial level, autonomous institutions and some districts.<sup>8</sup>

At the sectoral level, PFM has been recently reviewed but difficulties of translating findings into concrete actions remain. The 2010 Aide Memoire from the PAP group made the following comment:

*“The public expenditure review (PER) in the sector of agriculture, research and location of spending in the education sector (PETS), and the diagnosis of Public Finance Management in the health sector, show that despite some improvements with the introduction of e-SISTAFE there remain shortcomings and inconsistencies in data availability and financial information on budget execution at the most disaggregated level, coordination between plans and budgets is limited, as well as poor implementation of internal control systems, leading to difficulties in assessing the quality and efficiency of public expenditure.”<sup>9</sup>*

Mozambique has reached a situation in which its reforms – mainly on central financial management processes and the management of revenue collection - are beginning to generate some benefits. Nevertheless, as described above, the PFM sector continues to face significant weaknesses and challenges and overall the picture is very mixed. Key areas for attention are further improvements in revenue collection, external and internal audit (and control), medium-term resource allocation and coordination and state procurement. In addition, when abuses or misappropriation are identified there is limited follow-up to investigate or prosecute within the judicial or administrative system. There is also room for improvements to achieve greater coherence between the Government’s stated priorities and the use of donor resources.

From the perspective of this case study, the key finding from the various evaluation reports is the slow pace of implementation of reform. Many of the issues highlighted (such as the introduction of COFOG classifications and the reform of budgeting procedures) are ones that would almost certainly have been more effectively addressed had there been in place a cadre of high-calibre PFM personnel with a sound understanding of what was required. Training has certainly been undertaken in, for example, the requirements of SISTAFE and e-SISTAFE, but the fact that so many shortcomings in its application remain points up the need for a more fundamental and systematic approach to capacity building (one that creates understanding as well as job competence) than appears to have been attempted so far in Mozambique. This conclusion is developed further in the next sub-section of the study.

## Challenges for Professionalisation

In considering the fundamentals of professionalisation (in whatever discipline), two factors have obvious significance – the demand for professionals; and the supply of professionals. The former arises from the demand from firms and government for the services of professionally qualified personnel (teachers, doctors, lawyers, accountants) and the latter from the capacity of a country’s education and training systems to generate sufficient potential professionals of the right calibre.

<sup>8</sup> PAP 2010 Aide Memoire Annex 4.

<sup>9</sup> PAP 2010 Aide Memoire Annex 4.

In Mozambique, agriculture is the main activity of the majority of population, employing about 75% of total workforce, primarily in small-scale subsistence-type activities. Very small-scale enterprise of this type is highly unlikely to generate the need for an accountancy profession on anything like the scale witnessed in mature economies with a range of medium- and large-scale commercial entities. Development since the end of the civil war, however, has substantially increased the size and complexity of the Mozambican economy (including attracting some international firms) and, all things being equal, might have created market conditions for a significant increase in the number of qualified professionals required. In fact, the internationalisation of the Mozambique economy, while producing noticeable benefits for the country as a whole, has done little for the local accountancy profession apart from exposing the dearth of skilled professionals within the country.

This problem, in turn, is being increasingly recognised as posing difficulties for the Mozambican economy's future growth. The Accounting and Auditing ROSC (2008) concluded:

*“All the corporate entities in Mozambique, including investments with foreign participation, are affected by a serious shortage of qualified accountants and trained accounting technicians. Best estimates are that there are less than 50 fully qualified accountants working in Mozambique (mostly in the Maputo area), and that of these only two are citizens of Mozambique. Most of the corporate financial statements in the country are therefore prepared by accounting technicians whose level of skill and training is variable. At one extreme, a limited number of accounting technicians have completed training, which has not prepared them nearly at the level of a qualified accountant; and at another extreme, many technicians have no formal training. Most of the financial statement audits in the country are primarily carried out by representatives of the major international networks (ie firms). The lack of senior-level local staff within those networks is of concern particularly as regulators lack any capacity to monitor the quality of financial reporting.”*

The ROSC does not deal at all with public sector accounting or auditing.

On the supply side, two factors are important – the education system, and practical training facilities. The foundations for the acquisition of a professional qualification are successively laid at various stages of the education process, and depend upon progress being made from primary to secondary levels and ultimately, for most aspiring professionals, to tertiary level. In Mozambique, enrolment at secondary school level has been increasing since the civil war but it still remains at only about two thirds of the applicable population group, and wastage rates are high. Access to vocational education has improved dramatically since the end of the civil war but tertiary education levels remain well below those of other countries in the region, with an enrolment rate of around 1.5%.<sup>10</sup> There is a low absolute number of graduates, and a high percentage of Mozambicans who acquire tertiary-level qualifications emigrate to OECD countries (45.1%). In the region, this emigration rate is second only to that of Mauritius, and well above the average (17.9%).<sup>11</sup> Furthermore, the small numbers of qualified professionals (across all disciplines) are overwhelmingly concentrated in the south of the country, in part because of access to tertiary-level institutions in Maputo and in part because employment opportunities in Maputo are significantly greater (and better paid) than elsewhere.

Capacity for training accountants is very limited. Both public and private sector universities provide some academic training in accountancy and some practical training is carried out in the offices of local accountancy firms (including those of the international partnerships). The UK Association of Chartered Certified Accountants (ACCA) also has a presence, with tuition provided by small-scale private sector tutorial institutions. However, the costs of all these options are high and funding is restricted and expensive to acquire and there is currently little incentive for Mozambicans to embark on lengthy and expensive commitments to achieve professional status. Taken overall, the overwhelming impression is that the small size of the accountancy profession in Mozambique has more to do with issue of the supply of accountants than demand for them.

Government has been taking steps which could ultimately begin to address some of this imbalance. From 1984, for financial reporting Mozambique adopted the accounting classifications laid out in the Plano Geral Contabilidade (PGC) – which sets out the form of report to be used by business enterprises. This PGC is fundamentally a very simplified version of the Portuguese standardised chart of accounts.

<sup>10</sup> World Bank website.

<sup>11</sup> *Professional Services and Development: A Study of Mozambique*, Ana M. Fernandes (DECRG) and Aaditya Mattoo (DECRG) (Mozambique CEM, 2008).

However, the Ministry of Finance is currently working to replace the PGC with International Financial Reporting Standards (IFRSs). This will standardise Mozambican accounting practice with international norms and may kick-start the process of creating effective demand within the private sector for professionals who can perform the sophisticated reporting processes required. However, to take this step without having the necessary quantum of qualified professionals in place would appear to be rather risky, and in any case the impact of such a move on the size of the profession is likely to take many years to manifest itself.

A further source of stimulus may come through the Government's anti-poverty strategy. PARPA I focused on poverty reduction improvements which could be beneficial in the short term in key sectors (education, health, agriculture and infrastructure). PARPA II has a strengthened emphasis on medium- and long-term economic growth, specifically by attracting foreign investment. (PARPA II, as indicated, also addresses governance issues and makes reference to improving public budgeting procedures and improved transparency under public sector reform.)

In the public sector, donors have focused on improving PFM performance through computerisation of systems and records and direct investment in IT infrastructure. This has been supported by a range of ad hoc training activities related specifically to the new systems and procedures being implemented. However, the slow pace of the implementation of reform and the many technical problems being experienced (particularly the e-SISTAFE development) heavily underscore both the low level of capacity within the PFM field and the absence of any central professionalised group which can understand, manage and drive forward the implementation process. It is to be expected that there will be a realisation in future that if sustainable improvements in performance in PFM are to be brought about, the creation of such a professionalised group will have to become a much higher priority for both government and the donor community.

The other dimension of the professionalisation issue is the presence or otherwise of professional bodies. Reference was made earlier to the presence in Mozambique of ACCA, but being based outside Mozambique, and working in hard currency at developed country costs levels, ACCA is unlikely to have any significant impact on the professionalisation process on the scale required.

In terms of local provision, there are no bodies in existence which come near to resembling the nature of a professional accountancy body as defined by IFAC. In the private sector there is a body, SINECOSSE (Sindicato Nacional dos Empregados de Comércio, Seguros e Serviços), which has a recognised function for the certification of accountants, though it is not exclusively focused on accounting (it is also a workers' union, being a product of the Marxist/socialist era which immediately followed independence) and deals only with accountants at IFAC's accounting technician level. There is no equivalent for the public sector.

Before moving on to look at further developments, it is important to consider why the accountancy profession in Mozambique languishes in this way. As a former colony of Portugal, Mozambique has, unsurprisingly, followed the legacy of the Portuguese approach to accountancy and audit since independence. The European mainland model places relatively little reliance on professional bodies of the Anglophone type and inculcates professionalism through the operation of high-level capacity-building institutions. Furthermore, external audit in particular is seen largely as a judicial function with much closer affinity to the legal profession than to accountancy.

Globalisation and the international standards movement has brought about some modifications in the way Francophone and Lusophone countries approach financial reporting (they have embraced IFRSs, for example), but these changes have so far largely eluded Mozambique. Most other countries being studied in sub-Saharan Africa possess a local professional body (in most cases with IFAC recognition) and whilst there are often formidable obstacles still to be overcome to raise their effectiveness, they represent an institutional approach to professionalism and the maintenance of standards on the ground in country.

The need for such an approach appears scarcely to have been recognised at all in Mozambique with the result that there has been little call for the education and training facilities needed to develop professionals, or the institutional arrangements to ensure that professionals are supported and disciplined and that standards are maintained. Thus the potential demand for accountants generated by the rise of large-scale local and international firms was always going to fail to find a response since there has been no institutional infrastructure in place to drive that demand into effective provision. Because professionalisation in accountancy and audit usually starts in the private sector, it is hardly surprising that it does not exist in the public sector in Mozambique either.

In the context of this study, the challenge for Mozambique now is not, as in many other countries, how to translate existing institutional arrangements serving the private sector into support for professionalising PFM, but in how to create a professional structure for the whole economy virtually from scratch. Mozambique is effectively now at a crossroads – it can continue to follow the ‘European’ model without formal professional bodies; or it can move towards the Anglophone model of professionalisation. Either way, a substantial programme of investment will be needed in education and training infrastructure and in the mechanisms needed to maintain and enforce standards. However, every challenge brings an opportunity, and the position from which Mozambique must now move forward provides a real opportunity for professionalisation to be developed across all sectors of the economy simultaneously rather than, as elsewhere, with the public sector playing catch-up after the institutional arrangements have already been settled.

The institutional architecture of Mozambique PFM is mapped in Annex 1. This diagram, which is based on the 2009 CIPFA publication *Public Financial Management – A Whole System Approach*, sets out the hierarchy of organisations at international, regional and local level which, either actually or potentially, influence and/or are involved in the PFM process in Mozambique. At international level, bodies such as IFAC (and CIPFA itself) influence the global nature, standards and coverage of PFM, and underscore the importance of professionalism in the process. At the next level are the bodies which operate regionally within the profession itself (such as ESAAG and ECSAFA), or contribute to it through, for example, capacity building. At the lowest level are the in-country institutions such as local regulatory bodies, professional associations and tuition providers (universities, technical colleges and the private sector). To the left-hand side of the diagram are listed the organisations that provide the links running through the hierarchy – primarily donor bodies involved in supporting reform in the PFM sector.

What is clear from the institutional architecture of Mozambique, compared with that of other countries being studied in this series, is the paucity of provision for professionalisation within the country. The absence of a credible professional accountancy body both limits the creation of qualified and disciplined professionals within Mozambique, and inhibits the interaction that accountants in the country have with cross-border peers. Less evident, but nonetheless a factor, is the limited range of capacity-building infrastructure for the education and training of accountants which forms part of the overall challenge of balancing supply and demand for accountants in Mozambique which will be considered in the next section.

# Putative Professionalisation Schemes in Mozambique

## Training Routes

This section looks at the current state of provision of professional education, training and accreditation in Mozambique. This in turn leads to a number of ideas about how the situation can be improved, and, more particularly, how the professionalisation of PFM can be integrated with a more general movement towards professionalisation across the economy.

The main providers of education and training for accountants and auditors in Mozambique are as follows:

- Universities: a number of tertiary-level institutions, in the public and the private sectors, offer degree-level studies in accounting and audit; notably, in the public sector, the University Eduardo Mondlane; and in the private sector, Instituto Superior de Ciências e Tecnologia de Moçambique, Instituto Superior Politécnico e Universitário, Portal da Universidade Técnica de Moçambique and St Thomas.
- The Higher Education Institute for Accounting and Audit (Instituto Superior de Contabilidade e Auditoria) is a 'European' model training academy, established in 2005, for accountants and auditors in the private sector.
- Professional offices including international partnerships such as Ernst and Young, KPMG and PwC, and local firms such as RADAM, provide training in house.
- Private tuition providers which undertake tutorial support mostly for external professional- and technician-level qualifications.

Before moving on to look at training routes, it is important to bear in mind that, in the absence of a recognised professional accountancy institute, any 'qualifications' awarded as a result of this training do little other than lay the basis for accreditation by SINECOSSE. There is no membership body, no enforcement of standards and no programmes of continuing professional development (CPD).

Local training/accreditation procedures are rudimentary, and mostly follow one of two routes:

- Route 1 (learning): Trainees normally following commercially produced accounting courses which have been developed in Portuguese in Portugal itself. The material covers the PGC and has recently been adapted to include IFRSs. It contains both private and public sector examples. Training can take place with a variety of providers (including commercial offices) and the training is regarded as completed once three years of attested full-time experience have been accumulated.
- Route 2 (prior experience): Candidates proceeding through this route usually already possess a recognised accountancy qualification from abroad. Rules vary according to the level of the prior qualification held, but involve a combination of local experience and certification of the experience and qualification by three accredited local accountants of at least five years' standing.

An attempt to produce a more rigorous certification programme was undertaken in 2002, but was alleged to have been abandoned by the Government shortly thereafter due to concerns that the certification process could become too far removed from government purview. However, in 2006, a firm of Portuguese consultants was commissioned by the Ministry of Finance to produce a draft qualifications framework for the profession but although the work was completed, there appears to have been no consensus around what was proposed, and no progress appears to have been made since then. The process of identifying the basis for professional qualifications would therefore appear to be still ongoing, and it may take some time to resolve the various differences of opinion amongst the stakeholders involved.

## Professional Institutions

Mozambique currently has no system for qualifying and accrediting accountants beyond the level of what, in IFAC terms, would be classified as accounting technicians. Even holders of internationally awarded professional-level qualifications who apply for accreditation under route 2 are accredited at this level. This accreditation is, as previously indicated, undertaken by SINECOSSE (and joining this body is mandatory for accreditation) and the process is supervised by the Ministry of Finance. SINECOSSE, as well as being the certification body, is also a union of commercial and insurance workers and membership entails 2% of all members' future accountancy earnings going to the union.

Once SINECOSSE confirms that an aspiring accountant has completed the requirements of either of the two above routes (and the bona fides of the company supervising and attesting to the training) and has become a member, the Ministry of Finance issues a licence to the individual to allow him or her to practise and adds his or her name to a list of accredited accounting technicians. The licence is free and lasts for two years, at which time it must be renewed. However, the licensing process, while straightforward for the Ministry of Finance to implement, lacks any form of quality control. No examination or assessment period is required for licensing. Furthermore, SINECOSSE is not an exclusively accounting association - it is a widely based professional association, encompassing many other fields of employment and as such, lacks the capacity and incentive to increase the monitoring of accounting quality and/or implement certification examinations and/or extended performance assessments.

It is clear that SINECOSSE cannot be described in any currently understood sense as a professional body. It lacks a qualifications framework, a specific code of ethics (although there is one in force for any members who work as public officials), a code of discipline and a CPD scheme. Enforcement of professional discipline is confined to prosecution by the Ministry of Finance or the Tribunal Administrativo (acting as a court) for criminal acts relating primarily to procurement, accounting or fund management as part of their institutional mandates. Furthermore, SINECOSSE's dual role as professional certifier and protector of workers' rights potentially presents a conflict of interest – maintaining supervision over standards in accounting is not compatible with its role in defending members' rights. It is doubtful that SINECOSSE would be able, for example, to impose more rigorous requirements on certification if that would result in the disqualification of some of its members.

The relatively new private sector organisation, AMOJOC, (Associação Moçambicana de Jovens Contabilistas) is a not-for-profit professional organisation that has been established to represent the views of accountancy professionals in Mozambique. Established in 2007, AMOJOC is a private organisation which specialises in accountancy issues for the private sector. It has provided training courses, bringing in foreign professionals and experts to lecture on accounting practice, and has been working closely with the Ministry of Finance to prepare for the 2010 switch to IFRS by operating joint training courses. It lobbies for changes in accounting laws, recently requesting the Ministry of Finance to amend the law which limits an accountant to only five clients at a time. AMOJOC is also represented in the board of tax and accounting studies of the Confederation of Business Associations of Mozambique and the Installation Committee of the Association of Accountants and Auditors of Mozambique. This effort has not thus far yielded much by way of results, however, attesting to its current lack of influence with the Government, but the very fact that there is now an organisation which puts forward definitive views on professional accountancy issues is in itself a step forward. However, it does not at present exhibit any of the characteristics of a professional body.

The ROSC (Accounting and Auditing<sup>12</sup>) reported in 2008 that moves were afoot to establish an accounting body (again with a private sector focus) to be called the 'Order of Professional Accountants in Mozambique'. However, since then, little progress appears to have been made despite a long period of discussion at ministry level.

The final player in the field at present is the Association of Accountants and Auditors of Mozambique. This body currently functions as a forum for discussion amongst accountants and auditors, but it does harbour pretensions to becoming a professional body to the extent that it has been recognised as a professional body in formation through temporary membership of ECSAFA. However, this association has been in play for some time and has so far made little progress in the direction of achieving professional body status, suggesting that it is probably not, as presently constituted, the vehicle to take forward future professionalisation.

<sup>12</sup> Republic of Mozambique: Report on the Observance of Standards and Codes - Accounting and Auditing (IMF, 2008).

Taking SINECOSSE and AMOJOC together, there is little to suggest much progress yet towards the establishment of a recognisable accountancy profession in Mozambique. Apart from its other shortcomings, SINECOSSE currently appears too disconnected from the accounting profession to be able to take on this role. It offers very little advocacy for accountancy-specific issues, and it does not offer any training services. AMOJOC does meet some of these deficiencies but it is questionable if it would ever be able (or wish) to take over the certification process from SINECOSSE. However, it could play a role in the development of the Mozambican accounting sector. From the perspective of this study, however, it is a matter of some concern that what activity is in train is almost exclusively targeted at the private sector, with little consideration being given even by government itself to the needs of the public sector.

## Professional Activity and Quality

Given the background and traditions of accountancy and audit in Mozambique, there is a strong case for any move towards establishing a professional structure resembling the Anglophone model. In the end the Government of Mozambique may feel it can manage the situation by continuing to move forward with institutions (such as the Instituto Superior de Contabilidade e Auditoria) already in place and avoid developing a local professional body. However, all the pressures currently on government from industry, commerce and the donor partners is to move towards the Anglophone approach, and the assumption that it will eventually do so underlies the analysis which follows.

A recent satisfaction survey carried out of auditing costs and standards in the private sector in the region compared Mozambique with six other countries in sub-Saharan Africa – Eritrea, Ethiopia, Mali, Senegal, Tanzania and Zambia.<sup>13</sup> The results revealed that while users of audit services in Mozambique expressed satisfaction with the cost of the services being provided, they were the least satisfied (by some way) of the sample countries with the quality of the work carried out. It is not unreasonable to conclude that a country where the highest level of certification is at the accounting technician level will produce audit work which is both inexpensive by international standards and of limited quality, pointing to the need for reform of the certification process (amongst other things) by implementing a more rigorous approach.

This poor quality in turn diminishes the effectiveness of audits, thereby decreasing demand for them. Currently, only 16% of companies undergo annual external audits. This low rate, the lowest percentage in the region, carries even greater significance in the light of Mozambique's laws regarding external audits under which companies categorised as SA (Sociedade Anônima) firms are mandated to perform an external audit at the end of each fiscal year, while the much more common Lda (Limidada) firms are not. (SA firms make up 8-10% of all Mozambican firms; Lda firms make up about 90%.) A hit rate of 16% suggests that only a small minority (less than 10%) of Lda firms carry out annual audits. Whilst these firms are under no obligation to carry out an annual audit, many more might choose to do so if they felt it would be helpful to delivering their business strategies. However, it is likely that consistently poor quality of service means that they feel they gain insufficient value from audit services to justify undertaking them. If the quality of service were raised, the greater demand for audit services (and more competition between providers) could lead to further enhancements in quality (and the need for better training) thus improving financial information and assisting with the more effective allocation of resources in the economy as a whole.

This point is further reinforced by the fact that, despite the problems in respect of the lack of access to tertiary education, more than 2,000 accounting technicians are registered in Mozambique. The problems of dissatisfaction and the lack of take-up of audit provision are therefore to do with quality rather than the availability of audit resources. Furthermore, the absence of a prominent accounting association and the lack of effective quality controls preclude the formation of direct linkages with foreign accounting associations, making it very difficult for Mozambican accountants to work and gain skills abroad and to share experiences and develop transnational solutions to common problems.

It is hard to escape the conclusion from this analysis that the creation and empowerment of a fully-fledged professional accountancy organisation could benefit Mozambique immensely by driving up standards through a properly implemented professional level qualification; and maintaining them through CPD programmes and the application of disciplinary codes. Such a body could help to develop uniformity in practice throughout the economy and work with international professional

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**13** *Professional Services and Development: A Study of Mozambique*, Ana M. Fernandes (DECRG) and Aaditya Mattoo (DECRG) (Mozambique CEM, 2008).

organisations to share experiences. In addition it could lobby and assist the Government in designing more effective regulation, and in constructing strategies to increase the supply of accountants in the economy (associations in the health sector, for example, have already had a noticeable impact on the supply of doctors and medical staff). Such an organisation could also work to increase awareness in both public and private sectors of the benefits to be derived from engaging professional support.

The implications of all this for professionalisation in PFM are also clear. Globalisation, the introduction of IFRSs and the desire of government to create a business-friendly environment will force the pace of professionalisation in the private sector over the coming years. This in turn will place further pressure (to add to that already being applied by donor partners) on government to ensure that its financial management standards rise in line with those in the private sector. This will place the Government of Mozambique in the unusual position of being able to influence directly the development of professionalisation in its interests as well as in those of the private sector entities it seeks to foster. Analysis and comment on the standards of accounting and auditing in each sector are surprisingly similar, suggesting that a common solution is the best way forward.

# Moving Towards Professionalisation

CIPFA's guidance<sup>14</sup> on professionalisation of PFM highlights the need for three key roles that are essential for the process to be successful:

- a local professional body
- one or more local tuition providers, and
- managers and mentors amongst employers.

No detailed study (such as a professionalisation readiness assessment) has yet been carried out in Mozambique so the details of what is actually available to support the professionalisation process are not readily to hand. However, based on what evidence is available, only the second and third of these elements are present, and in both cases are in limited supply.

The traditional role of the professional body, at least in the Anglophone world, is to provide the following facilities:

- A qualifications framework specifying the knowledge, understanding and competences required for accountants to function effectively at various different levels (most commonly accounting technician and professional (chartered) levels).
- A practical training regime setting out the experience required by accountants to reinforce their learning.
- A qualification examination (or examinations) to confirm that trainees have reached the standards required at the level at which they intend to practise.
- A membership structure whereby practising as accountants undertake continuous professional development and are subject to codes of conduct and discipline which provide for, and apply, sanctions against departures by members from specified standards of conduct and competence.

At present there is no local entity in Mozambique which exhibits this range of characteristics. Whilst the option remains not to establish such a body, the analysis set out in the preceding section demonstrates clearly that the current situation is highly unsatisfactory. A professional accountancy body structure would address the situation as part of the normal course of its work. Such an arrangement already exists in Mozambique in the legal sector and there is evidence, as demonstrated earlier in the study, that there is a growing awareness of the need to move in this direction in accountancy and audit. The advantages of establishing such a body would be:

- overall standards of competence in accounting and audit would be raised through the implementation of a systematic and rigorous system of education, training, assessment and accreditation
- the focus would move away from local accreditation at only the accounting technician level and begin to generate accountants with fully-fledged professional skills
- Mozambique would be empowered to determine the qualifications framework and assessment requirements which suited its needs, and would cease to be dependent on international bodies to generate the few professional-level accountants in practice
- government and commercial entities would have access to a source of independent and disinterested advice on issues to do with financial management
- the implementation of CPD programmes would ensure accountants remain up to date and are able to offer relevant and appropriate advice to individual and corporate clients
- codes of ethics and discipline would help address malpractice, through intent or incompetence, and contribute to the detection and control of corrupt practices

<sup>14</sup> *Professionalisation of Public Financial Management* (CIPFA, forthcoming).

- improved status and competence amongst accountants would lead to higher personal rewards leading to increased supply by:
  - offering an incentive to invest money, time and effort in studying, and
  - helping to stem the flow of professionals abroad
- cooperation with similar bodies outside Mozambique would be made possible, facilitating the exchange of ideas and best practice, and
- investor confidence would be raised through the knowledge that standards of financial management were in line with best practice internationally and were being effectively policed – thus boosting the economy further.

It will be noted that none of these advantages refers specifically to the public or the private sector. This is because the case for professionalisation, although usually made initially in respect of the private sector, is no different for the public sector. There is no reason why government and government entities should expect to rely for their financial management needs on personnel who are any less competent or professionally minded than their private sector equivalents. Unreliable and low quality accounting services present a systemic impediment to further development irrespective of their sector. By reducing transparency in public and private sector accounts, poor quality accounting and audit hamper direct investment and thus growth prospects for the entire economy. Poor quality accounting makes economic forecasting difficult, thereby affecting planning and resource allocation in both government and industry, and blunts one of the strongest tools for combating corruption.

Unfortunately, most aspects of professional development in Mozambique have focused on the still nascent plans for the private sector - public sector professionalisation is lagging behind even this modest degree of progress. When progress begins to be made in the direction of establishing an effective professional body, it will therefore be essential that government cooperates fully in the planning and execution of the project and ensures that the requirements of the public sector (which are similar to, but not the same as, the private sector) are fully reflected in the policies adopted. In this they may expect to call further on the already substantial assistance of the donor community.

Reference was made earlier in the study to the existence of tuition providers in accounting and audit in Mozambique. At this stage most are geared to producing accountants at the accounting technician level, and apart from the very small numbers following the qualifications routes of external bodies there is little expertise in place for developing and assessing professional accountants. Furthermore, experience elsewhere shows that however limited tuition facilities are for accountants training for private sector employment, they are even weaker (sometimes non-existent) when it comes to the specialist needs of public sector accountants and auditors. Any move towards establishing a professional body will have to be accompanied by a substantial strengthening of the capacity of these tuition providers (especially in respect of public sector curricula), which should form an integral part of any development project.

The two routes to 'professionalism' described earlier do indicate that there is a tradition of workplace mentoring and support within accounting and audit for trainees. It is not the purpose of this study to assess how effective this is at the present time. However, this is a further area which will need to be reinforced as the demands placed on accountancy trainees through the greater rigour of learning programmes, assessment and accreditation requirements increase. This point is true irrespective of whether training is taking place in the private or the public sector. One aspect of the development of enhanced professional training to be addressed may well be to find ways of exploiting the prior learning and experience of current senior personnel in financial management practice by 'fast-tracking' them to any new qualifications.

The important next step is to gain consensus for moving towards the establishment of a professional body. Much will depend on progress with the design and content of a professional qualifications framework. This has been planned for some time (at least five years) but nothing has yet been achieved. Various names for any professional body have been mooted with 'the Order of Accountants and Auditors of Mozambique' gaining most favour. Twinning with an international IFAC member organisation is being considered, but a body needs to be established before this can take place. Informed sources suggest that the creation of a professional body may take at least three more years due to various local differences in emphasis and direction, but an important first step was taken in October 2010 when the Government approved a proposal to the Assembly to form the Order.

Given the low numbers of accountants of any description in Mozambique the formation of a separate specialist public sector body is likely to be impracticable (and is anyway undesirable in the circumstances). This means that attention must be given at the formative stages of any new body to building suitably robust public sector content into the framework alongside the private sector material and ensuring that the new body adequately meets the needs of both sectors at both pre- and post-qualifying levels.

The external audit function operated through the Tribunal Administrativo is already planned for reform with financial support from the World Bank's Institutional Development Fund. At the time of writing the terms of reference for this work are in draft. This work is planned to involve an audit needs assessment, the establishment of professional education programmes and the setting and accreditation of qualifications through a suitable certifying institute. Some care will be needed to ensure that progress on this front is maintained with an eye on the wider professional and PFM development activities, so that audit and finance functions remain in step without either one advancing too far to the detriment of the other. At the same time, the recognition of the importance of independent assessment and accreditation of learning and competence by a body as potentially influential as Tribunal Administrativo de Moçambique (TAM) could be the breakthrough that is needed to kick-start a wider move in this direction.

Alongside initiatives to develop professionalism, PFM improvement programmes will continue and these will need to take full cognisance of past experiences where progress (especially around budget support instruments) and reform have taken more time than anticipated. DFID<sup>15</sup> has noted that work on PFM has been fragmented. Common activities using pooled funds have now been adopted through the PAP group, but harmonisation of such a big pool of donors is by no means easy. The timescales for SISTAFE have been highly optimistic and the programme has been overly focused on computerisation of existing systems rather than rethinking the systems themselves.<sup>16</sup> Further improvements in aspects of budgeting and re-engineering of systems and, possibly, the introduction of International Public Sector Accounting Standards need to be addressed soon in order to ensure that the public sector is not left behind by developments in the private sector.

In Mozambique professionalisation in PFM has been much discussed but tangible progress has been minimal, primarily due to the lack of comparable progress in private sector professionalisation. This is also a relic of the colonial heritage, post-colonial history, political economy, aid reliance and cultural attributes. Set against this are the improvements in PFM that have been observed by the PEFA assessments. In the absence of a recognisable professional body in Mozambique it is difficult to assess what progress might have been achieved in this direction had this been addressed more directly, but pressure coming from the ROSC, coupled with the changes about to be embraced by TAM, could possibly provide a way forward.

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**15** Evaluation of DFID Country Programme in Mozambique (DFID, 2007).

**16** *SISTAFE at the Crossroads* (SISTAFE Quality Assurance Group Report of the 7th Mission, March 2009).

# Lessons Learned

Mozambique differs from all the other studies being undertaken under the DFID programme in that it:

- has a tradition of public sector accounting and audit which is descended from the European mainland model rather than the Anglophone one found elsewhere, and
- has no recognisable professional body serving either the public or the private sector.

As a result, the lessons learned from the study are quite different from those where the issue is adapting an existing qualification to meet public sector needs. This comparison, however, is not entirely to the detriment of Mozambique, since the absence of fixed points in the professionalisation firmament provide an opportunity for the public and private sectors to move forward on a basis of equality.

The main lessons emerging from this study are as follows.

## Positives

The approach needed in dealing with professionalisation generally, and in the public sector specifically, has to be subtly different in countries where there is no tradition of professional bodies. Recognising this fact is an important first step in ensuring that the right solution will be adopted in the end.

There is evidence of a growing recognition that higher standards in accounting and audit are needed and that professionalisation is one of the ways of achieving them, both within and outside government. There remain a number of diverse opinions on how this should be brought about, and these will take time to resolve, but momentum is beginning to grow.

Although there are serious shortcomings in the training and accreditation of accountants and auditors at present, some of the features of the current system do contain the seeds of potential professionalisation for the future. For example, there are in place a number of tuition providers with experience of training accountants (and some of the material currently in use covers public as well as private sector issues) and there is a tradition of workplace mentoring on which to build.

The absence of an established professional body provides an opportunity for the needs of the public sector to be addressed in parallel with the needs of the private sector as qualifications frameworks and institutional arrangements are developed. The apparently obvious solution of building public sector professional qualifications on the back of existing private sector ones has been shown to have significant drawbacks in other studies (especially Tanzania) so the opportunity for the sectors to work together from the beginning to create a common but diversified qualification structure should be seized with both hands.

Donors have recognised that past piecemeal approaches to addressing PFM issues are no longer valid. Whilst agreement to cooperate through a fund-pooling arrangement may not yet have placed the creation of a professional institute on the agenda for PFM reform, it is a necessary pre-condition for professionalisation which demands patience, consistent, long-term funding and ultimately embraces all aspects of PFM.

The Tribuno Administrativo has recognised that it will raise standards only by linking its training programmes to properly accredited assessments certified by an independent body with experience in the field. This is a major breakthrough in thinking by the body most closely reflecting the 'European' approach to PFM. If carried through into other parts of government, this shift will help provide the momentum for moving other aspects of the work of PFM (budgeting, financial reporting, internal audit) towards professionalisation.

## Negatives

Whilst government has been active in promoting higher standards in the private sector (for example promoting and overseeing the introduction of IFRSs), there appears to be little parallel movement in the public sector. Enhancing levels of transparency and accuracy in financial reporting, as part of a drive to boost investor confidence, and hence investment levels, in the private sector is a perfectly legitimate government policy, but investor confidence also relies on governments themselves being able to plan, allocate and manage their resources effectively and bear down on corruption and malpractice. A one-club approach based on improving private sector practices alone will not fully address this need.

There is a further downside to current government policy. The introduction of the mandatory use of IFRSs for SA companies, without raising the competency of those charged with producing and auditing the required statements, is actually, at least in the short term, likely to make current problems worse. The basis and content of IFRSs are designed to evince the highest levels of transparency and accuracy in financial reporting, but without personnel who are able to deal with the underlying assumptions and techniques involved in their production, the risk is that there will be a decline rather than an improvement in the quality of financial reporting.

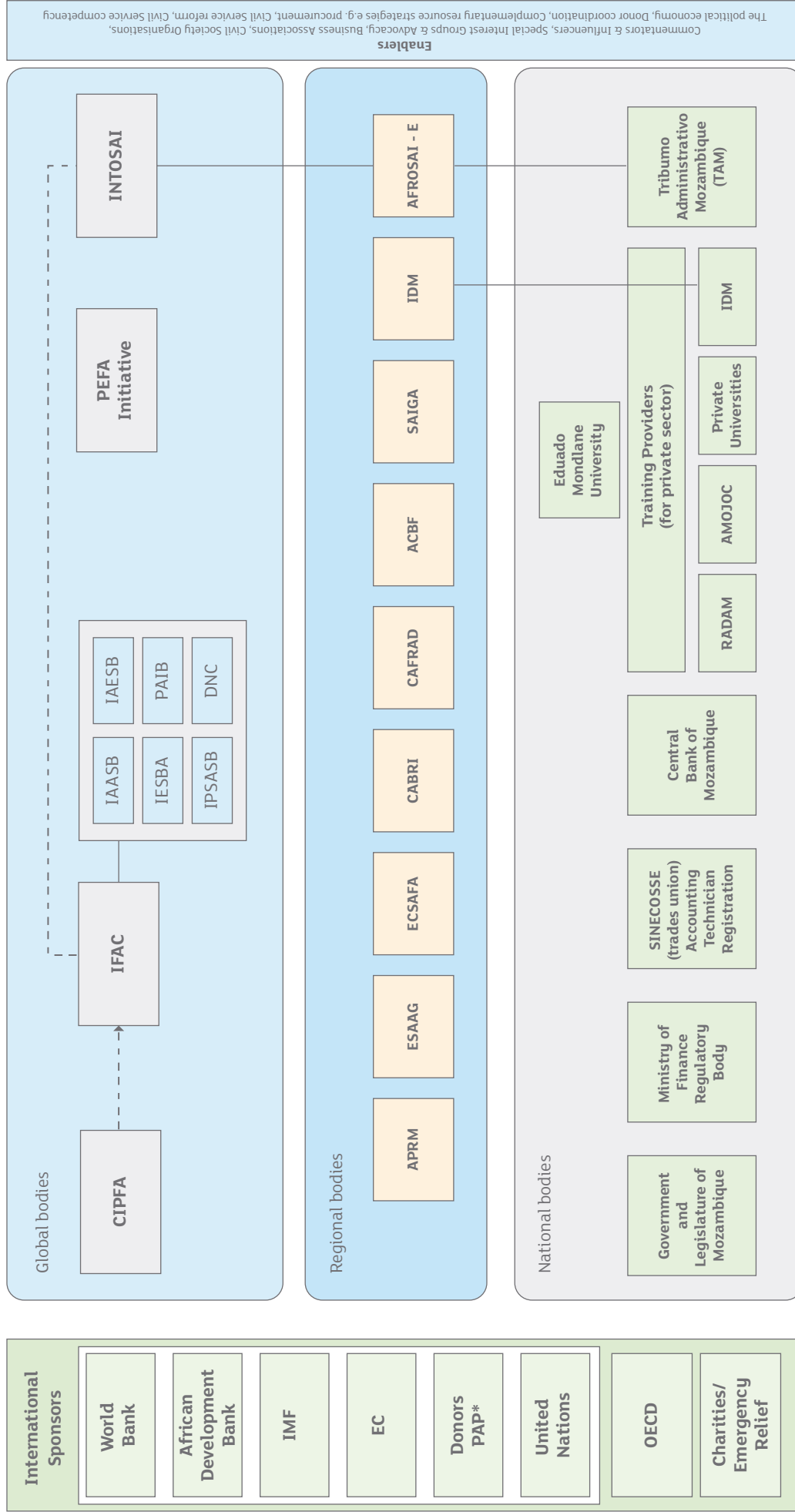
Donors have recognised that capacity shortages amongst PFM staff are seriously slowing down the reform process. However, whilst substantial resources have been made available for training under the SISTAFE project, this has largely been aimed at short-course provision focusing on specific job-related skills. Evidence from around the world shows that the impact of such training is short-lived and that without the presence of a cadre of officials with a wider understanding of the aims, objectives and instruments of PFM, much of this investment will be wasted.

Despite the evidence of enthusiasm for professionalisation in some places, actual progress remains funereally slow. The development of professional standards of competence and behaviour in accountancy in Mozambique has been on the agenda for many years but so far no entity has emerged which has been able to offer leadership in establishing the necessary intellectual and institutional frameworks. Feedback received during the course of compiling this study suggests that it will be some years yet before this situation is resolved, with a number of vested interests vying for the adoption of their favoured solutions.

Linked to this again is the 'Portuguese' factor. Mozambique, despite sterling efforts to internationalise its culture and economy, still remains closely linked to the former colonial power (the only direct flights to Maputo from Europe, for example, are from Lisbon). Systems of public administration still remain heavily influenced by Portuguese practice and assistance with the maintenance of current professional practice in accounting and audit comes from Portugal. For all its putative advantages (see above), the concept of the all-embracing professional body is not widely understood in Mozambique and will take time to gain favour.

The overall message is crystal clear. Irrespective of which sector is considered, the standard of accountancy and audit practice in Mozambique is in urgent need of improvement. Current institutional arrangements appear unable to bring about the changes needed and the answer to most of the challenges identified looks to lie in the direction of establishing an accountancy professional body along Anglophone lines. However, there remains a formidable array of challenges in the way of adopting this solution in anything like the near future, and until an institutional champion for this approach emerges, which can wield greater influence on the situation than any of the current bodies in the field, the existing uncertainties will remain. At the same time, this inertia presents a substantial opportunity for government and donors either to act as that champion, or at least to provide the impetus to assist one to emerge. The reward for doing so will be to ensure that, unlike so many other countries where accountancy and audit have professionalised only in the private sector, the process moves forward in Mozambique with the sectors working together on an equal footing.

# ANNEX 1: The PFM International Architecture: Institutional Framework: Mozambique



\* Programme Aid Partners  
 Germany, Belgium, Canada, the EC, Denmark, Spain, France, Finland, The Netherlands, Ireland, Italy, Norway, Portugal, UK, Sweden, Switzerland, AfDB, WB  
 NB: No professional body established yet (for private or public sector)



# Case Study 3- Tanzania

# Country Context

## Demography<sup>1</sup>

The United Republic of Tanzania is a nation in central East Africa bordered by Kenya and Uganda to the north, Rwanda, Burundi and the Democratic Republic of the Congo to the west, and Zambia, Malawi and Mozambique to the south. The country's eastern border lies on the Indian Ocean. The name Tanzania derives from the names of the two states Tanganyika and Zanzibar which united in 1964 to form the United Republic of Tanganyika and Zanzibar, which later the same year was renamed the United Republic of Tanzania (although Zanzibar still retains a significant amount of autonomy in legal and administrative matters). Tanzania lies between longitude 29° and 41° east, and latitude 1° and 12° south, and covers an area of 945,203 square kilometres. The predominant local language is Swahili but business and judicial affairs are conducted in English, which is the main instructional language in schools. The population at the time of the 2007 census was 37.45 million but by 2009 was estimated to have grown to 43.74 million<sup>2</sup>. In the four years 2005 to 2008 annual GDP growth averaged about 7%.<sup>3</sup>

## National Government Politics and Constitution

The country is a former colony of the United Kingdom. At the time of independence in 1961 it became part of the East African Federation, but on the break-up of the federation existed for a number of years outside any regional grouping. However, it is now a member of the East African Community and is planning to become one of the member states of the new East African Federation.

Constitutionally Tanzania is a democratic republic with an elected president and a parliament. At the union level the National Assembly is a unicameral parliament of 323 members. This includes 232 members elected by constituencies on a first-past-the-post basis, 75 women members nominated by proportional representation from the political parties, five members elected by the Zanzibar House of Representatives and 10 members nominated by the president. Elections for both the presidency and parliament are held every five years, the most recent being in October 2010. The electoral process is dominated by Chama Cha Mapinduzi (the Revolutionary Party), which has held the presidency and significant majorities (86% of the seats following the 2005 election) in all parliaments elected since independence, a factor which has contributed to the relatively peaceful transition of power throughout the country's history. The political process broadly follows the UK model with the president appointing a prime minister who then forms a government by choosing ministers from amongst the majority party in parliament. Zanzibar retains an elected assembly (the House of Representatives) of 81 members with an electoral process and frequency of elections similar to those of the Union Parliament.

The country has a five-level judiciary combining the jurisdictions of tribal, Islamic, and British common law, and a constitution that provides for a clear separation of powers between the executive, the legislature and the judiciary.

<sup>1</sup> Source: World Bank website.

<sup>2</sup> Source: Tanzania Department of Economic and Social Affairs.

<sup>3</sup> Source: World Bank website.

## Decentralisation/Deconcentration

For administrative purposes, Tanzania is divided into 26 regions (of which five are in Zanzibar), with each region being further subdivided into districts, of which there are 127 in total (though this number changes regularly as boundaries are re-drawn). The existence of deconcentrated government entities is referred to in the Tanzanian constitution but their powers and responsibilities are not clearly defined. The regions are largely administrative arms of central government operated by a regional secretariat appointed by central ministries and these appoint district commissioners to oversee the delivery of services at local level. However, the districts do have elected councils (in some cases more than one) which are elected on a multi-party basis and which in turn elect a mayor to preside over their work. In rural areas in particular, there is further democratic activity below the district level in the form of villages and ward development committees which act as a focus for community development, albeit with very limited powers. In all more than 10,000 bodies of various types are active within what could be broadly described as the local government (sub-regional) sector in Tanzania. Control of funding, and the distribution of responsibilities across the various tiers of deconcentrated government, however, remains in the hands of central government, although some of these powers are exercised in Zanzibar by its autonomous government under the union arrangements. Although part of government policy under the Local Government Reform Programme (LGRP) initiated in 1999, fiscal and administrative decentralisation are moving only slowly.

## Economic Background

Situated on long-established trade routes between south Asia and Africa, the Tanzanian economy has always been open to trade both by sea and by land with a variety of trading partners. The relative stability of the country has also made it potentially attractive to foreign investment. However, poor management of resources, especially in the parastatal sector, has significantly diminished these natural advantages. Economic growth, though impressive in recent years at over 7% per annum, is widely thought by most commentators to be substantially less than might have been achieved with better economic management.

The Tanzanian economy depends heavily on agriculture, which constitutes approximately 25% of GDP and accounts for about 85% of employment. There are small but growing tourism and manufacturing industries and there are substantial deposits of minerals which remain to be exploited. However, between 35% and 40% of GDP in recent years has still been accounted for by donor assistance in the form of project funding and budgetary support to government.

Tanzania is a founder member of the East African Community (established in 2000 with Kenya and Uganda, and since joined by Rwanda and Burundi). Discussions are currently ongoing with its partners over the development of an East African Common Market and, ultimately, monetary union.

After many years of socialist experimentation, significant measures have been taken to liberalise the Tanzanian economy along market lines and encourage both foreign and domestic private investment. Beginning in 1986, the Government of Tanzania embarked on an adjustment programme, abolishing many economic controls and attempting to encourage more active participation of the private sector in the economy. The programme included a comprehensive package of policies which reduced the budget deficit and improved monetary control, substantially depreciated the overvalued exchange rate, liberalised the trade regime, removed most price controls, eased restrictions on the marketing of food crops, freed interest rates, and initiated a restructuring of the financial sector. As a result the per capita GDP of Tanzania grew by more than 40% between 1998 and 2007. However, Tanzania is still classified by the World Bank as a low-income country with more than one third of the population living below the international poverty line, a proportion which is declining only very slowly. Tanzania qualified for debt relief under the enhanced Heavily Indebted Poor Countries (HIPC) initiative, and debts worth over \$6bn were cancelled following implementation of the Paris Club 7 Agreement. Despite this, Tanzania still has substantial external debt (\$7.9bn in 2008) and the servicing of this debt absorbs about 40% of total government expenditures.

## Overall Development Strategy

Tanzania's development strategy is encapsulated in the document *The Tanzania Development Vision 2025*. This states that by 2025 Tanzania should be a nation imbued with five main attributes. These are as follows:

- High quality livelihood.
- Peace, stability and unity.
- Good governance.
- A well educated and learning society.
- A competitive economy capable of producing sustainable growth and shared benefits.

In 2005 these aspirations were given concrete form through incorporation in the five-year *National Strategy for Growth and the Reduction of Poverty* (NSGRP). Ten fundamental principles of the strategy were defined and its objectives were grouped into three principal clusters (see sidebar).

### The three clusters of Tanzania's NSGRP

- Cluster I: Growth of the economy and Reduction in Income Poverty: broad-based and equitable growth is achieved and sustained.
- Cluster II: Improvement of Quality of Life and Social Well-Being: quality of life and social well-being, with particular focus on the poorest and most vulnerable groups, improved; and inequalities in outcomes (eg education, survival and health) across geographic, income, age, gender and other groups reduced.
- Cluster III: Governance and Accountability: good governance and the rule of law; accountability of leaders and public servants; democracy and political and social tolerance; and peace, political stability, national unity and social cohesion deepened.

Implementation of NSGRP, and related initiatives, is currently being supported by a wide range of development partner (DP) agencies, most of them through the Tanzania Donor Partner Group (DPG), which is made up of 17 bilateral and 21 multilateral donors (including a number of United Nations agencies) operating in the country.<sup>4</sup> Increasingly, the programmes supported by the DPs have followed a Sector Wide Approach (SWAp), with multi-donor participation and coordinated financing of agreed interventions. A joint multi-donor working arrangement (the Joint Assistance Strategy for Tanzania (JAST)) is also in place. The DPG is responsible for taking forward the 2005 Paris Declaration on Aid Effectiveness for Tanzania, in addition to its donor coordination role. The DPG provides the opportunity for development partners to discuss their current and planned activities, to coordinate programmes and to promote efficient and effective delivery of development projects. The World Bank currently has 20 operations in Tanzania, including projects in transport, energy, housing, agriculture and higher education, and is involved in SWAps in the health and education sectors.

Tanzania is a member of the Africa Peer Review Mechanism (APRM), which aims to help member countries improve their governance, through a process of peer review, based on country self-assessment. Self-assessment covers four themes:

- Democracy and political governance.
- Economic management.
- Corporate governance.
- Socio-economic development.

The self-assessment process covers issues in relation to:

- standards and codes: the extent to which the country has adopted international accounting and auditing standards and other relevant international instruments including the principles for payment systems, best practices for budget transparency and national and international principles of corporate governance
- promotion of sound PFM generally, and
- efforts to fight corruption and money laundering.

<sup>4</sup> These include the EU (member states (especially the UK and Germany) and the European Commission), the World Bank, the International Monetary Fund, the African Development Bank, and the UN agencies Food and Agriculture Operation (FAO), the International Fund for Agriculture Development (IFAD), the Joint United Nations Programme on HIV/AIDS (UNAIDS), the United Nations Development Programme (UNDP), the United Nations Children's Fund (UNICEF) and the World Health Organisation (WHO). Significant bilateral assistance has also been received from China, Korea, Norway, Japan and the United States.

There is widespread recognition that initiatives like peer review and peer-assisted learning can be powerful drivers for change. Tanzania's participation in the APRM could be a positive force for PFM reform. However, progress in implementing country reviews has been slow: the official APRM website lists only 11 studies concluded and published, at time of writing, and does not include Tanzania.

# Public Financial Management

## Background

On independence, the United Republic of Tanzania (as it soon became) inherited the PFM system devised in colonial times by the British. This system was designed to meet the needs of the colonial administration rather than to support the delivery of services to a mass population of users and was therefore poorly adapted to the new approaches needed. However, priorities for the use of developmental funds during the first 30 or so years of independence was for the provision of basic services, particularly in education, health and agriculture, and little attention was paid to a PFM system which was becoming less and less able to cope with the burdens being placed on it. However, as in a number of other countries it became clear around the turn of the century that steps were needed to upgrade the PFM system to make it more fit for purpose and concerted attempts began to be made to improve the situation. This reform process is described in more detail in subsequent sections of this case study.

The PFM system in Tanzania follows conventional Anglophone country lines with the Ministry of Finance and Economic Affairs (MoFEA) taking the lead in the provision of most of the services required. This includes budgeting, accounting, the treasury function, debt management and, where it exists, overall direction of the internal audit function. It also exercises wider responsibilities for the control and regulation of the economy and the conduct of foreign economic relationships. The Tanzania National Audit Office (NAO) is responsible for the provision of the external audit function and operates entirely independently of MoFEA, reporting to the National Assembly. The post of Controller and Auditor General is a constitutional one and he/she, once appointed, can be dismissed only by resolution of the National Assembly.

## Public Financial Management Reform

The Government in Tanzania has long recognised that poor service delivery has impeded achievement of its development goals, through inefficient service provision, the mismanagement of limited resources, and weak control measures facilitating corruption. As a result, it has instituted a series of strategies designed to deal with the major causes of poor service delivery and thereby to make substantial inroads into the levels of poverty still endemic in significant parts of Tanzania. The details of the latest manifestation of this process, the National Strategy for Growth and Reduction of Poverty (NSGRP), was described earlier in the case study, but other reform projects aimed at lifting performance across the civil service generally, and in PFM in particular, have coalesced around this central strategy.

Cluster III of NSGRP is the one which deals specifically with improvements in governance. In more detail it sets out to pursue the following goals:

- *Structures and systems of governance as well as the rule of law are democratic, participatory, representative, accountable and inclusive.*
- *Equitable allocation of public resources with corruption effectively addressed.*
- *Effective public service framework in place to provide foundation for service delivery improvements and poverty reduction.*
- *Rights of the poor and vulnerable groups are protected and promoted within the judicial systems.*
- *Reduction of political and social exclusion and intolerance.*
- *Improved personal and material security, reduced crime, eliminate sexual abuse and domestic violence.*
- *National cultural identities enhanced.*

Source: NSGRP, chapter 5 section 3.

Of these, the two with the greatest implications for PFM are goals 2 and 3 (although all the goals in one way or another demand the effective use of financial resources) which are further clarified in the strategy document as follows:

### Goal 2

- *Public resources are allocated, accessible and used in an equitable, accountable and transparent manner.*
- *Institute effective regulations and mechanisms regarding petty and grand corruption.*

### Goal 3

- *Administrative systems of public institutions are managed transparently and in the best interests of the people they serve.*
- *Decentralisation by devolution institutionalised and implemented to enhance public ownership of the development and poverty reduction process.*

Source: NSGRP, box 5.13.

It is clear from these statements that PFM will need to play a central role in supporting the drive to reduce poverty through improved governance and service delivery, by providing instruments through which financial transparency can be increased, resource allocation made more equitable and better planned, and corruption identified and rooted out.

The mechanism by which this central role for PFM is to be provided is the Public Financial Management Reform Programme (PFMRP). This programme entered its current stage in late 2008 through the launch of PFMRP Phase III. However, the history of such programmes goes back to 1998 with Phase I,<sup>5</sup> which focused on minimising the leakage of resources, strengthening financial control and enhancing accountability by reforming budget processes and introducing a computerised Integrated Financial Management System (IFMS).

Following an evaluation of the outputs from Phase I, Phase II was introduced in 2004 and brought together a number of disparate elements of PFM reform under a single umbrella, channelling donor financial inputs through a 'basket' fund. Phase II was based on a total of 10 components as follows:

- **Component 1 – Policy Analysis and Development – Mandate:** to strengthen the Government's fiscal forecasting and policy development; improve debt policy formulation and debt management; strengthen domestic revenue policies and related legal instruments; and strengthen the expenditure framework and its management.
- **Component 2 - External Resources Management - Mandate:** to increase the amount of external finances recorded in the Government's budget and exchequer system; and to strengthen the Government's capacity to manage and account for external resources.
- **Component 3 – Budget Management – Mandate:** to improve planning and budget preparation for better expenditure outcomes; and to establish a more effective mechanism for budget execution and monitoring, including expenditure tracking.
- **Component 4 – Treasury Management and Accounting – Mandate:** to enhance staff capacity to support the computerised IFMS; to broaden the application of the computerised IFMS; and to broaden the application of the computerised accounting system across government.
- **Component 5 – Procurement - Mandate:** to establish and build capacity in procurement; and to improve records management.
- **Component 6 – Information Technology Services – Mandate:** to enhance the use of information technology services as a means to improve decision making and service delivery; and to improve records management.
- **Component 7 – Investment Management – Mandate:** to help government maximise returns through prudent investment management and preservation of capital; to transfer ownership of certain public enterprises to the private sector; and to ensure that reporting provided on the Government's investment portfolio is accurate and meaningful.

<sup>5</sup> *Public Financial Management Reform Programme – Strategic Plan* (Tanzania Ministry of Finance and Economic Affairs, June 2008).

- **Component 8 – Administrative Support Services – Mandate:** to enhance the institutional and human resources capacities within the Government to conduct the financial management function; and to improve ethical conduct.
- **Component 9 – External Audit Services – Mandate:** to promote good governance and accountability, thereby strengthening the management of the National Audit Office, improving the quality of audits, and enhancing the NAO's independence and effectiveness.
- **Component 10 – Programme Leadership Coordination Monitoring and Evaluation – Mandate:** to ensure that overall PFMRP is effectively led, managed, publicised, monitored and evaluated.

Again, the outputs were reviewed at the end of the phase and whilst there had been clear improvements in the way donors had worked together to promote the aims of the work, the overall outcome in development terms was adjudged as disappointing, with insufficient progress made in gaining ownership for the changes being introduced and in establishing a coherent strategy for reform.<sup>6</sup>

Phase III was therefore introduced in November 2008 with a more strategic perspective built into its design with the intention of bedding the PFM reform process within the institutional arrangements of government, thereby gaining ownership of the strategy and outcomes. The vision and mission statements for PFM reform overall were specified as follows:

- **The PFMRP Strategic Vision:** to excel in and sustain financial management and accountability, fiscal control and provision of quality treasury services.
- **The PFMRP Mission Statement:** to achieve and maintain sound financial management, resource mobilisation and allocation, public debt management, and government asset management through developing robust fiscal and monetary policies, efficient and effective provision of treasury services and enhancing professionalism.

Within these strategic parameters, PFMRP III has established a number of goals for PFM in Tanzania. These goals are to:

- maintain aggregate fiscal discipline and accountability (fiscal discipline)
- allocate resources in accordance with government priorities (allocative efficiency), and
- promote the efficient delivery of services (technical efficiency).

The end goal for PFMRP is therefore defined as the *“development of accountable and transparent institutional management and operational arrangements for aggregate fiscal discipline, strategic prioritisation of expenditure and improved performance during budget execution”*.<sup>7</sup>

As might be expected for any activity under Cluster III of NSGPR, PFMRP is linked to three other substantial institutional reform programmes within the overall sphere of good governance – the Public Service Reform Programme (PSRP), the Legal Sector Reform Programme (LSRP) and the Local Government Reform Programme (LGRP). All these programmes address the issue of enhanced service delivery through institutional change brought about by capacity development in key strategic and operational areas. Only by linking these programmes together can the wider and more ambitious goals of Cluster III be effectively achieved and PFM reform play its central part in addressing poverty through support to service delivery.

Following the review of the outcomes of Phases I and II, the approach adopted to implementing the strategy has been to build a number of ‘platforms’ for reform to serve as a tool for sequencing and coordinating the work required. In all, five platforms have been identified, each linked to one of the goals:

- fiscal control (fiscal discipline)
- modernisation of systems (allocative efficiency)
- operational best practice, (allocative efficiency)
- policy into practice, (technical efficiency), and
- delivery performance (technical efficiency).

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<sup>6</sup> *Public Financial Management Reform Programme – Strategic Plan* (Tanzania Ministry of Finance and Economic Affairs, June 2008).

<sup>7</sup> *Public Financial Management Reform Programme – Strategic Plan* (Tanzania Ministry of Finance and Economic Affairs, June 2008).

The major objectives of the first two platforms are considered to have been achieved through Phases I and II of PFMRP and the Government of Tanzania has therefore prioritised the third platform for PFMRP III. Platforms 4 and 5 will be delivered through subsequent phases of the programme and are provisionally scheduled for implementation by 2017 and 2022 respectively.

In this context, therefore, the planned outputs for PFMRP overall include:

- accurate and improved cash forecasting
- predictable external funding flows
- improved predictability of resources availability to local government authorities (LGAs)
- comprehensive cash management and improved government banking arrangements
- a strengthened accounting system through IFMS improvement, including improving the linkage between the Epicor system of GoT and the Oracle system of the Bank of Tanzania (BoT), and improved debt management
- enhanced control over all public investments
- improved credibility of the medium-term expenditure framework
- internal audit control system in ministries, departments and agencies (MDAs), and regions/LGAs strengthened
- increased compliance with improved financial laws and regulations
- improved decentralised payroll processing and pension administration
- improved procurement operations in MDAs, regions and LGAs
- government budget structure reviewed and simplified for reporting
- improved linkages between policy priorities and resource allocation
- improved tracking, monitoring and value for money auditing of public expenditure
- improved linkages between SBAS (Strategic Budgeting Allocation System), IFMS and the National Adaptation Plan (NAPA) to facilitate planning, budgeting and reporting for MDAs and LGAs
- improved capacity of MDAs, regions and LGAs in budget performance monitoring, accountability and transparency
- strengthened functional capacity of external audit services
- improved capacity of parliamentary oversight committees and commissions including Public Accounts Committee, Local Authorities Accounts Committee and the Parastatals Accounts Committee and through establishing a policy review unit in the parliament
- Zanzibar: support for the National Audit Office of Zanzibar, the Ministry of Finance and Economic Affairs and the House of Representatives
- establishing an effective media programme that improves interaction between citizens and key accountability institutions across government. This includes parliament, central government, regions government and local government Authorities, and covers print media, TV and radio
- enhance the capacity of PFM training institutions: support for the primary training institutions in the country delivering PFM training, including the National Board for Accountants and Auditors (NBAA), the Institute of Financial Management (IFM), Institute of Accountancy Arusha, Tanzania Institute of Accountancy and others, and
- enhance the capacity to coordinate the implementation of the PFM programme through monitoring, evaluation and reporting.

As indicated, Phase III of the programme will address the requirements of platform 3. The objective of platform 3 is defined as *“to guarantee greater predictability and availability of medium term resources to executing agencies utilising operationalised ‘best practice’ PFM systems, which demand delegated financial autonomy and accountability in MDAs and LGAs by 2010”*. The planned outputs for Phase III are:

- accurate and improved cash forecasting
- predictable external funding flows
- a clear set of robust PFM policies
- an efficient tax administration
- modalities for predictive LGAs funding in place
- comprehensive cash management
- IFMS coverage extended
- control over all public investments
- a phased executable budget with performance measures
- a qualified internal audit workforce
- improvements in financial rules and regulations
- a comprehensive payroll with decentralised processing
- decentralised procurement operations
- a knowledgeable and trained PFM workforce, and
- a training needs assessment in MoFEA.

The implementation of PFMRP Phase III is again being carried through with the joint support of donors through basket funding arrangements, with DFID providing a major share of the funds. Under the joint donor operating arrangements (the Donor Partner Group), donors have established a PFM group to work with government and to assist with the process of monitoring and evaluating progress.

In the context of this paper, two aspects are of particular note. The first is the commitment in the FMRP mission statement to the professionalisation of the PFM workforce. It is clear from the analysis carried out on the outcomes of phases 1 and 2 that without institutionalising change in the way PFM is carried out, the objectives of the reforms will never be realised in full, if at all. Experience throughout the world, and not only in relation to PFM, has shown that professionalisation has a significant role to play in achieving and embedding such institutionalised change.

The second is the recognition of the need to go outside the PFM function itself and strengthen the institutions that support it. If professionalisation is to be achieved, an infrastructure for the promulgation and enforcement of standards will be needed, as will the capacity to develop the necessary skills and behaviours that will make it effective. Only by strengthening the professional and capacity-building institutions can government hope to raise the standards and status of the human resources it needs to deliver the outcomes it desires.

## **Role and Influence of Donors**

Donors and development partners have signalled the desirability of professionalisation of the PFM function in Tanzania in a number of ways. These include the World Bank’s various PEFA assessments and support for the various stages of the PFMRP – as indicated earlier, professionalisation is now integral to the mission statement of PFMRP III. Many donor partners have contributed to this process, including the World and African Development Banks, DFID and the governments of Norway, Denmark, Germany and Japan, amongst others. A World Bank Institutional Development Fund grant has funded the development of a qualifications framework for government accountants and auditors.

Tanzania has long been seen as a prime target for the development of PFM capacity through Action 1a of the World Bank's Africa Capacity Development Management Action Plan (CDMAP), Strengthening Public Financial Management and Accountability. The objectives of CDMAP are to increase the number of qualified accountants and auditors in Africa generally, and to support the development of local training and accreditation institutions.

Donors have also consistently argued that strengthening expenditure management will help ensure a good level and quality of spending. Various reform programmes in public administration and PFM have resulted in improvements in this area, including the introduction of a medium-term expenditure framework (MTEF), strengthening budget planning and execution, and public procurement reform. Line ministries are now required to prepare budget framework papers for their annual budgets covering a three-year period. DPs have encouraged the Government to improve the effectiveness of MTEF following the recommendations of the PEFA assessment, to strengthen the links between government development priorities and long-term budget commitments. Donors have also pointed to the need for the Government of Tanzania to substantially upgrade the role, independence and professional capacity of internal audit, and significantly enhance the democratic scrutiny of budgets and expenditure by improving the regularity of reports and strengthening parliamentary institutions.

## Performance of the Public Financial Management System

Over the years there has been considerable analysis of the PFM system in Tanzania, carried out by the International Monetary Fund, the World Bank, DFID, international consultancy firms and others. The overall conclusion from these analyses has been that the PFM system in Tanzania has been showing considerable signs of improvement over recent years - in the period 2004 to 2008 there was substantial progress in some key areas such as external audit, procurement reform and revenue reforms, and progress has generally been assessed as better than that of some other countries in the region.

However, it still has some distance to go to comply with standards required to ensure appropriate levels of transparency and accuracy in the published financial statements of the Government. The most authoritative recent statement on this matter has come from the World Bank in the form of their Public Expenditure and Financial Accountability (PEFA) Assessment carried out in 2008/09. It concluded that although some aspects of the PFM system were showing noticeable improvements compared with previous assessments, there were many other aspects where progress remained slow or stalled and that further substantial upgrading was required.

A further source of analysis of the deficiencies of the PFM system is provided in the strategic plan (completed in June 2009) for the current phase of the PFM reform programme. In Section 3 of the plan no less than 21 issues are listed as requiring to be addressed in this and subsequent phases of the programme. These issues, and the concerns expressed in the PEFA report, are summarised in the sidebar.

### A PFM system in need of improvement

- Weak relationships between government policy and budget allocations in both medium-term and annual budgets.
- Budgeting procedures and classifications remain inadequate and hamper the quality and credibility of the final budget.
- Persistent deviations between budgets and recorded actual expenditure.
- Payment procedures within line ministries, and between line ministries and the Ministry of Finance, can be slow and cumbersome.
- Cash management procedures are weak and poorly executed.
- Bank reconciliation procedures are inadequate and susceptible to long delays in execution.
- Capacity in internal audit and procurement is unsatisfactory and internal audit independence needs strengthening.
- Lack of capacity in the Department of the Auditor General leading to mixed standards of reporting and limited parliamentary response.
- Failure to make effective use of new, IT-based accounting systems and procedures.
- The capacity of institutions supporting PFM training and HR development needs substantial strengthening.

The picture painted by these expressions of concern, coupled with a range of comments made in reports on various aspects of service delivery, show a PFM system which is in need of a substantial lift in capacity. As described, the third phase of PFMRP is now in train and it contains elements designed to address some of these difficulties, but based on progress from previous phases of the programme it is unlikely that all these issues will all have been resolved during its lifetime. Furthermore, efforts to improve human capacity in various parts of the PFM structure have largely been confined to short-course training which, though effective in addressing specific technical and procedural issues, does little to raise capacity in the long term as it fails to address the need to create the necessary professional skills.

Analyses of expenditure programmes and other sources have referred to weaknesses in project programming and execution in Tanzania, exemplified by poorly constructed budgets lacking credibility, wide variations between budgeted and actual expenditure and regular under-spending of the capital budget. Development partners have seen it as essential that government increases its efforts to improve project execution, especially in view of the need to use donor funds within an agreed timescale or risk the loss of the funding. To speed up the execution of some domestically financed investments, authorities have also turned to the use of public/private partnerships (PPPs). Managing PPPs requires careful contract drafting and close monitoring. It also requires staff on the Government side with relevant finance skills, generally those acquired through the holding of a professional PFM or accountancy qualification, and this is lacking in Tanzania.-

## Challenges for Professionalisation

In considering the fundamentals of professionalisation (in whatever discipline), two factors have obvious significance – the demand for professionals; and the supply of professionals. The former arises from the demand from firms and government for the services of professionally qualified personnel (teachers, doctors, lawyers, accountants) and the latter from the capacity of a country's education and training systems to generate sufficient potential professionals of the right calibre.

Dealing first with supply, progress in the successful building of any profession, of course, depends not just on the work of the professional body(ies) concerned but on the human raw material delivered to it by the country's education system. Like all developing countries, Tanzania has concentrated heavily in the education sector on raising enrolments and standards at the primary level. Whilst secondary education gross enrolments rates are rising too, the still relatively low rates (less than 70% of the relevant age group with substantial drop-out rates) at this level mean that the number of prospective students with the appropriate educational attainment levels for a programme of professional education and training is much lower than can be expected in more mature economies. This problem is then compounded further by the very low enrolment rates for the population age groups in tertiary education in Tanzania (still less than 2%). International Education Standard 1 (IES 1) of the International Federation of Accountants (IFAC) stipulates that entry requirements to a programme of professional accounting education should be at least equivalent to that for admission to a recognised university degree programme. Secondary and tertiary education enrolment rates in Tanzania mean this has proved very difficult to achieve in practice, particularly given the ongoing shortages identified by the local profession.

On the demand side, Tanzania's economy is largely based on agriculture and light manufacturing.<sup>8</sup> Mining and tourism are potential areas for expansion but remain relatively underdeveloped at present. There has also been a major programme over the last few years of privatising government-owned industries and utilities. There is therefore a substantial private sector operating within Tanzania. However, the organisation with by far the largest turnover in the country remains government, and approximately 35%<sup>9</sup> of this turnover is funded by budget and project support funds from external donors, a proportion which has remained at around this level for some years.

Since independence, professionalisation has made very little progress in taking root in the accounting and auditing profession. Tanzania has followed the historical pattern in developing countries of the private sector leading professional accountancy development, accelerated in recent years by the demands of privatisation and globalisation. In the private sector, some degree of momentum has been achieved through the establishment and operations of NBAA (see next section),

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<sup>8</sup> Tanzania: Selected Issues and Statistical Appendix (IMF Country Report No. 04/284, September 2004).

<sup>9</sup> World Bank 2009 PEFA Report.

but even here it is widely acknowledged, not least by NBAA itself, that the number of new accountants attaining technician or professional status is inadequate for the needs of the country. The gap has been partially filled by 'importing' qualified accountants and auditors from other countries (with a third of NBAA membership consisting of 'foreign' associates) and by the presence of international professional bodies, but even with these added to the domestically generated stock there remains a substantial shortfall.

In the public sector the situation is even more difficult. With politicians attempting to secure their power base, professionalisation would not appear to be a natural vote winner. In countries like Tanzania, citizens want to see more basic achievements, such as peace and food security, and steps to increase employment and economic health. Concerns to improve professionalism in PFM would therefore appear to be at best arcane and to be of very limited priority when measured against these more pressing needs. This inhibits the emergence of a natural champion for professionalisation from within the Government, an important factor in encouraging and supporting its growth.

The drive to professionalise in the private sector has therefore had little impact on the public sector despite the requirements in the Auditors and Accountants Registration Act (which established NBAA) for NBAA to support all sectors of the economy (this issue is examined in more detail in the next section). Unquestionably, the Certified Public Accountant (CPA(T)) qualification awarded by NBAA is, by reputation, one of the stronger local professional qualifications in accounting and audit in sub-Saharan Africa, and both the Accountant General and the Controller and Auditor General have regularly trained members of their staff for the qualification (and have on occasions sought to recruit qualified CPAs in the market). However, the skewed nature of the content and delivery mechanisms for CPA(T), coupled with the inability of government to retain professionally qualified staff, has meant that much of the benefit from this investment has accrued to the private sector (and to organisations abroad) rather than to PFM. It can be argued that there is a net benefit to the Tanzanian economy as a whole from this investment through increasing the total number of qualified accountants overall, and that as a significant proportion of the work of private sector auditors and consultants is directly or indirectly (for example through donors) with the public sector, some of these benefits ultimately find their way back to government. Even so, the return on investment being achieved by government from its professional training programmes is exceedingly low.

# Towards Professionalisation of Public Financial Management in Tanzania

## The Accountancy Profession

The accountancy profession in Tanzania has traditionally been heavily orientated towards the private sector. The local professional body, NBAA, was established in January 1973 under the terms of the Auditors and Accountants (Registration) Act No 33 of 1972 as amended by Act No 2 of 1995, with the mandate to regulate the accountancy profession in the country. NBAA is a full member of IFAC and the Eastern, Central and Southern Africa Federation of Accountants (ECSAFA), which coordinates the development of the accountancy profession, and promotes internationally recognised standards of professional competence and conduct in the region. More specifically, NBAA exists to:

- determine the qualifications of persons to be admitted as members
- operate examinations for admission to membership
- coordinate and validate education and training arrangements aimed at preparing candidates for NBAA examinations, and
- set the standards and rules governing the practice of accountancy in Tanzania and ensure compliance with these standards and rules.

NBAA is guided in its work by a governing board, members of which are appointed by government. The chairman of the governing board is appointed by the President of the Republic for a three-year term and may not normally serve more than two terms. The rest of the board members are appointed, again for three-year terms, by the Minister of Finance and Economic Affairs. The Controller and Auditor General is not permitted to serve as a board member (as a not-for-profit parastatal, NBAA is audited by the Tanzania NAO) and the current Accountant General is not amongst the appointed members.

Much of the work of NBAA is carried out through a system of sub-committees, made up of volunteer members. In all, there are six such sub-committees:

- executive
- audit
- technical services
- education and publications
- membership, ethics and compliance
- public sector.

### The Vision of NBAA

To meet the challenges of the market by ensuring that its members and students are equipped with relevant knowledge and skills to the best international standards.

### The Mission of NBAA

NBAA is a regulatory body committed to the continuous transformation of the accounting profession through development, promotion, and good conduct. This will be accomplished through:

- setting high quality standards for the profession
- regulating registration of members and students
- monitoring accountancy training and conducting professional examinations
- regulating the conduct of members and students, and
- providing continuing professional development programmes to enhance members' professional knowledge and skills.

This work is coordinated on a day-to-day basis by the secretariat, headed by the executive director. In mid 2010 the secretariat was divided into four line departments (corporate services, member services, education and training, and technical services) and two staff units reporting to the executive director (internal audit and legal services). The four departmental heads, together with the chief legal officer and the senior marketing officer, form the board's management team under the leadership of the executive director. NBAA funding comes from a mix of membership fees, charges for services and government grants (which amount to approximately half the board's annual income).

NBAA offers three classes of qualification: technician, approved accountant and professional accountant. Technician accountants are qualified to act as bookkeepers in small- to medium-sized enterprises, or as audit assistants. Approved accountants can produce financial reports for smaller enterprises and act as audit seniors. Professional accountants are able to prepare financial statements and tax returns for large enterprises, groups of companies and multinational companies, to provide financial management services to such enterprises and to act as auditors or tax advisors.

Admission to membership at these various levels is also subject to the attainment of a minimum period of experience of three years, and arrangements exist to provide admission to qualified members of other IFAC-registered bodies. Membership at the full professional accountant level is divided into two categories - those in public practice (CPA-PP) for those with adequate auditing experience, and in 'other occupations' for those employed in industry or commerce.

Students wishing to become eligible to apply for membership of NBAA must complete the qualifying examinations of the board and complete a period of approved relevant service. The NBAA qualification structure is administered by the board leading at the professional level to the achievement of the status of Certified Public Accountant, Tanzania (CPA(T)) (equivalent to chartered accountant status elsewhere). It is a feature of NBAA, however, that many of its would-be members actually study for the qualification without being employed in the finance sector (a substantial proportion of these being unemployed graduates holding relevant degrees) and enter the profession only once the examination diet has been completed. These aspirant members are then required to complete the period of service before the CPA(T) qualification is actually awarded.

At present, NBAA carries out both of the principal regulatory functions – certification and professional discipline of individual accountants and auditors; and the development, promulgation and enforcement of national and international accounting and audit standards for business entities. However, it has recently been agreed that the World Bank will fund the cost of a consultancy by the Institute of Chartered Accountants in England and Wales (ICAEW) to produce a Report on the Observance of Standards and Codes (ROSC) in Tanzania, which seems likely to lead to a recommendation for the separation of the professional and business regulatory functions.

NBAA has a five-year strategic plan. The plan is reviewed on an annual basis and updated in accordance with progress to date and any new issues emerging not covered by the original plan. The plan is focused primarily on improving the performance of NBAA in achieving its mission and goals - in particular, on enhancing the level of support provided to students and members, and raising the efficiency of NBAA operations to achieve maximum value for money.

According to NBAA's annual report for 2008/09, NBAA's membership<sup>10</sup> totalled 3,590. This total was made up of:

- 379 certified accountants in public practice
- 888 certified (authorised) public accountants
- 495 approved accountants
- 190 accounting technicians, and
- 1,638 graduate accountants (undergoing training and experience requirements).

NBAA has a remit to serve all parts of the Tanzania economy (both public and private sectors) but has recognised for some years that it has not been serving the public sector as well as it has the private sector. It has for some time, therefore, been seeking to strengthen its support for and influence within the public sector, in part by amending its qualifications framework to increase the proportion of public sector related material to be covered and examined.

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**10** A number of requests were made to NBAA to verify/update these figures (and other information taken from its website) but no response was received.

In addition to NBAA, the UK Association of Chartered Certified Accountants (ACCA) has a presence in Tanzania offering both training and examination facilities. About 150 qualified ACCA members are active in Tanzania though not all of them are Tanzanian citizens. Those who are practising as auditors in Tanzania would also have to register with NBAA. The UK Chartered Institute of Public Finance and Accountancy (CIPFA) has also been active in Tanzania in recent years in supporting the development of the public service aspects of the NBAA qualifications.

## Accountancy Training Providers

A number of education and training providers in accountancy exist in both the public and the private sector. For a number of years, NBAA operated its own training establishment, based in Arusha in Northern Tanzania, but since the mid 1990s NBAA has left all actual education and training provision to a mixture of private and public sector universities, technical colleges and tutorial institutes. Rather than active involvement in the delivery of education and training, NBAA now concentrates on accrediting these educational institutions to prepare students for NBAA examinations. There is some limited provision for the teaching of public sector accounting and audit in the academic institutions but it is understood that take-up in these subjects is very low.

## The Public Financial Management Institutional Architecture in Tanzania

The institutional architecture of Tanzania PFM is mapped in Annex 1. This diagram, which is based on the 2009 CIPFA publication *Public Financial Management – A Whole System Approach*, sets out the hierarchy of organisations at international, regional and local level which, either actually or potentially, influence and/or are involved in the PFM process in Nigeria. At international level, bodies such as IFAC (and CIPFA itself) influence the global nature, standards and coverage of PFM, and underscore the importance of professionalism in the process. At the next level are the bodies which operate regionally within the profession itself (such as ECSAFA and the Eastern and Southern Africa Association of Accountants and Auditors General (ESAAG)), or contribute to it through, for example, capacity building. At the lowest level are the in-country institutions such as local regulatory bodies, professional associations and tuition providers (universities, technical colleges and the private sector). To the left-hand side of the diagram are listed the organisations that provide the links running through the hierarchy – primarily donor bodies involved in supporting reform in the PFM sector.

## Context

PFM does not exist in isolation. Reform of PFM, to be successful, has to work alongside wider reforms to the public sector, in particular efforts to improve the overall management of human resources in government and to raise capacity within the civil service right across government. These requirements exist in a number of contexts which impinge on PFM. First, to attract and retain skilled workers, the civil service must offer competitive packages of salaries, working conditions and pension rights which are at least competitive overall with those of the private sector for similar skills and experience. Secondly, reward structures within the civil service have to reflect the skills (and skill differentials) brought to the workplace by qualified professionals.

As described, programmes of civil service reform have been in progress in Tanzania since the early 1990s, initially through the Civil Service Reform Programme (CSRP) and more recently through PSRP. However, progress in addressing the more intractable issues of Civil Service performance, capacity and pay structures has been slow and particular emphasis is now being laid on building the capacity of government entities to formulate policies; decentralising human resources processes and systems; retaining quality staff through adequate remuneration and incentives; institutionalising performance management systems; and increasing public sector accountability.<sup>11</sup> PSRP ought to be a positive driver for change within PFM, working alongside the PFMRP, but evidence to date shows that the impact has so far been limited, with the attraction and retention of qualified professionals in PFM remaining a significant problem.

The deconcentration policy adopted by the Government of Tanzania should, in time, also create strong demand for professional PFM practitioners, something which is already recognised by NBAA. If district authorities and villages are to manage the resources allocated to them and, ultimately, collected by them, they need to have professional staff properly trained in PFM.

<sup>11</sup> Tanzania – *The Story of an African Transition* (IMF, 2009).

Cluster III of Tanzania's NSGRP envisages far-reaching reforms to increase both the efficiency of the civil service (central and local) and its accountability to the public. At the heart of the reform programme, for both central and decentralised agencies, is a requirement for a thorough overhaul of accounting systems and financial management procedures, not least to eliminate the potential for corruption. The cumulative implementation of the IFMS system is an important step in this direction.

## First Steps

Unlike many other countries, the enabling legislation (the Accountants and Auditors Registration Act of 1972) does place on NBAA a responsibility for the public as well as the private sector. However, the Act heavily emphasises the regulatory role of NBAA, and does not provide explicitly for members of the profession working in PFM. The result is that over the years since 1972, NBAA has created an environment in which the emphasis in its work is primarily on creating accountants who can ensure compliance with traditional private sector regulation through the fostering of skills in company financial reporting and auditing. This trend has been exacerbated in recent years by globalisation and the presence in Tanzania of a number of significant multinational players both within the profession and in the wider economy.

The logic of the above analysis is To address the currently unmet needs of PFM NBAA's approach to the accreditation, registration and qualification of accountants within Tanzania needs to be altered. NBAA itself came to recognise this some time ago, partly because it realised it was not effectively fulfilling its mandate to support the public sector, and partly through the influence of donors and other external bodies attempting to encourage higher standards in PFM. What was lacking was the necessary resources to help it make this transition.

The initial manifestations of NBAA's concern about this lack of progress in professionalisation in PFM came in the early 1990s when, following discussions between MoFEA, the then Department of the Auditor General and NBAA, an approach was made to the Overseas Development Administration (ODA) of the UK. ODA, which was already funding a number of ad hoc training initiatives in PFM in Tanzania, commissioned the British Council to conduct a small consultancy study to see how the existing CPA(T) qualification might be modified to reflect the needs of government. This work was carried out by consultants from CIPFA in 1991 and they recommended the substitution of two of the existing papers at the final level of the CPA(T) qualification (on taxation and private sector financial reporting) with papers on public policy and finance and public sector accounting and audit respectively to be sat by public sector candidates only. A small capacity development support package to assist NBAA and the teaching institutions to deal with the new curricula was also proposed. This proposal was initially accepted by all the stakeholders involved (including the secretariat of NBAA), but when it was put to the full NBAA board it was rejected, the reason given being that the Board wished to retain a uniform qualification for all CPA(T) accountants.

No further specific attempts to deal with PFM professionalisation were made until the arrival on the scene of the World Bank's PFM Staff Capacity Development Initiative (SCDI). This initiative, launched in 2007, was the bank's first step in developing a coordinated response to the perceived shortage of professional staff in PFM throughout sub-Saharan Africa (not just in Tanzania). The SCDI analysis stated that there was a shortage of qualified accountants in the PFM sector because:

- public sector employers were unable to attract and retain qualified professionals, and
- there were deficiencies in the supply process with unsuitable curricula and weak local professional bodies.

Based on the IFAC International Education Standards, the SCDI document identified the building blocks of a qualifications framework which needed to be applied to the development of cadres of professional accountants and auditors at both initial professional education and continuing professional development stages in countries throughout the region. However, although it put these building blocks in place, SCDI needed to be fleshed out with some specific detail about how a professional accountancy qualification for public servants differed from one for accountants and auditors in the private sector. This meant that in addition to the qualifications framework there needed to be a statement of the necessary learning outcomes required of public sector accountants and auditors. These learning outcomes could not be developed in isolation from the real needs of public sector bodies, which meant that a research project would be needed to identify these learning outcomes and relate them to the qualifications framework.

The bank recognised that any such research project would have to be conducted in a single country, but that if a return was to be recouped on the investment made, its outcomes would need to be applicable, with relatively minor adjustments, across as much of Anglophone sub-Saharan Africa as possible. This necessitated two features of the research – a regional dimension to its conduct, and a country with a stable political environment and an existing local professional qualification on which to base it.

To address the regional dimension, the bank favoured implementation through a combination of regional bodies of accountants and auditors. It therefore helped to establish a partnership between ESAAG, the Federation of Accountants and Auditors General of West Africa (FAAGWA) and the African Association of Supreme Audit Institutions (English) (AFROSAI-E). The partnership was encouraged to put a proposal to the bank's Institutional Development Fund for a grant to carry out this work, and the grant was agreed and made active in 2008.

Through the offices of the partner organisations, an approach was then made to NBAA to ask if it would be prepared to act as host to the research project. Tanzania was chosen because it met the two criteria specified above. The fact that it had attempted to address this issue in the past (albeit unsuccessfully) was also taken into account. NBAA readily agreed to work with the partner organisations and a study was launched to develop a PFM qualifications framework for Tanzania, as the pilot study for the region, with two objectives:

- the study would inform the SCDI by defining the steps needed to build successful PFM professional qualifications integrated with an existing private sector based qualification, and
- the output from the study could be rolled out to other countries in similar circumstances once it had been acted upon in Tanzania.

The study went ahead, with an interim report in mid 2009 and a final report in February 2010.

## Developing the Professional Qualifications Framework

As previously noted, successive Accountants General and Controllers and Auditors General had attempted over time to develop a cadre of PFM professionals by both recruiting and training CPA(T) accountants. However, it had become clear that professionalisation via this route was not feasible for two main reasons. First, accountants and auditors working in government encountered only a limited range of the circumstances the NBAA curriculum had been designed to address and were thus at a substantial disadvantage in the CPA(T) examinations. The result was a very high attrition rate amongst those being trained. Secondly, those accountants who did succeed in obtaining the qualification, or who were recruited into the public sector after they had acquired the professional qualification, rarely stayed for more than a short period in government service before moving or returning to the private sector for the generally better salaries and working conditions on offer. The answer to both these challenges was therefore seen to be qualifications containing material relevant to the public sector which would both make the qualification easier to obtain (because trainees would be more familiar with it) and would make qualified accountants less relevant to private sector employers and therefore less likely to be lured away.

Before starting work, however, two further steps were needed. The first was to 'package' the research – to set down a strategy for how the work would be carried out and how it would be applied once completed. It was decided to designate the research as the 'SCDI Pilot' project, the implication being that once it was completed, the outcomes would be replicated elsewhere. The pilot was seen, therefore, as the start of a three-stage process to:

- identify the necessary learning and qualifications frameworks in Tanzania
- roll out the findings in Tanzania, and
- roll out the findings to other countries in the region.

The other necessary step was to identify consultants to carry out the work. The partnership therefore approached CIPFA as the only professional body in membership of IFAC which was specifically dedicated to working in the public sector. CIPFA agreed to carry out this work in partnership with its sister organisation in South Africa, the Institute for Public Finance and Auditing, and work started in December 2008.

The study was broken down into a number of stages.

**Stage 1** - establish a matrix of learning outcomes.

Seven thematic areas were identified, covering:

- planning, budgeting and budget execution
- accounting and financial reporting
- auditing, both internal and external
- procurement ('supply chain management')
- public finance and administration
- information technology (cross-cutting), and
- self-management, management and leadership (cross-cutting).

**Stage 2** – identify distinguishable levels of activity.

The four most clearly distinguishable levels of activity likely to be undertaken by staff working in PFM were defined as:

- finance clerk
- technician
- section head, and
- chief financial officer.

**Stage 3** – attach learning outcomes.

For each of these occupational levels, learning outcomes were identified wherever possible in the form of a matrix. In some cases, some occupational levels were not thought likely to be involved in particular thematic areas so these cells were left blank. Once the matrix had been completed in outline, the specific learning outcomes were drafted and inserted.

**Stage 4** – apply the matrix to Tanzania.

The existing NBAA qualifications structure of 29 individual subject areas (covering all levels from accounting technician to full professional status) was analysed against the content of the matrix. On completion of this exercise it was possible to identify the areas where the current curriculum was deficient in respect of meeting the PFM learning outcomes for both professional accountants and accounting technicians. The following tables were produced:

## Current NBAA Content Matched to PFM Learning Outcomes Matrix

Matrix	Existing NBAA Curriculum	Comment
Planning, Budgeting and Budget Execution	<b>Not sufficiently covered</b>	Costing covered at both levels, but budgeting (particularly as a policy tool) very limited
Accounting and Financial reporting	<b>Acceptable</b>	Basics of accounting well covered at technician level. Private sector well covered but very limited public sector coverage
Auditing	<b>Acceptable</b>	Reasonable coverage
Procurement	<b>Not sufficiently covered</b>	Barely touched at technician level
Public Finance and Administration	<b>Not sufficiently covered</b>	Public finance and taxation covered from private sector perspective
IT	<b>Acceptable</b>	Acceptable
Self-management, Management and Leadership	<b>Acceptable</b>	Basics of self-management covered at technician level. Management at professional level acceptable

Equally it was possible to identify subject areas in the NBAA qualifications structure which had no, or only partial, equivalence amongst the PFM learning outcomes. The applicable table follows:

## NBAA Current Content not Matched in PFM Matrix

NBAA Subject	Comment
Business Law	40% Company and partnership law
Research, Consultancy and Reporting	25% Consultancy
Corporate Finance	58% purely private sector
Entrepreneurship	100% private sector
International Finance	55% purely private sector
Public Finance and Taxation	80% private sector perspective

**Stage 5** – recommending the way forward.

Based on this analysis, the study recommended a number of possible ways in which the necessary PFM learning outcomes could be merged into the NBAA qualification structure (at both technician and professional accountant levels) as follows:

**Model A** - incorporate public sector issues into one or more modules that could form part of the standard CPA syllabus to be taken by all candidates.

**Model B** - structure the CPA syllabus into specialisations (or streams) which would mean that public sector issues might replace, for example, company taxation for those working in the public sector.

**Model C** - NBAA offers two different qualifications, one for the private sector and one for the public sector.

The advantages and disadvantages of each were set out and discussed in the course of a workshop, at the end of which it was emphasised that the choice of model to be adopted was for NBAA to decide in consultation with its local stakeholders. However, the recommendation of the consultancy team, based on the balance of these advantages and disadvantages, was that NBAA should adopt Model B. A table, showing how a 'streamed' option might work (identifying new PFM subjects and the existing subjects they would replace) and confining the streaming only to the final stage of each qualification, was provided to NBAA to assist with its deliberations.

## Implementation

The findings of the consultants were considered by the Education and Publications Committee of NBAA in October 2009. The recommendations in respect of the learning outcomes and the comparison of the NBAA curriculum with the PFM matrix were accepted. Models A and C were rejected, but although the recommendation relating to the adoption of Model B was accepted in principle, the committee indicated that it wished to investigate further how the PFM learning outcomes could be incorporated into the curriculum before proceeding to implementation. There was particular, if somewhat surprising, resistance to the 'streaming' option from the Office of the Accountant General.

NBAA then requested a local training consultancy to research a possible alternative approach. By late 2009, a revised ('streamlined') qualification structure had been developed which reduced the total number of subjects to be covered for the professional accountant level qualification from 20 to 16 by removing significant quantities of material from existing subjects and replacing some of it with material relating to the PFM learning outcomes. One completely new subject, public sector accounting, was proposed amongst the 16, and all subjects (less any exemptions granted) would be mandatory for all candidates for the qualification.

The ESAAG/FAAGWA/AFROSAI-E partnership and the study consultants were then asked to comment on this proposal by NBAA. Both concluded (in February 2010) that the NBAA option (Model D) failed to address the needs of the public sector (a number of the learning outcomes identified in the study had been incorporated in the revisions, but many had not) and also risked diluting the private sector content. Neither party was convinced that a wholesale and radical revision of the curriculum in such a short time without proper consultation with the wider NBAA membership could be considered valid.

After some delay a meeting was convened in July 2010 between the partnership, the World Bank and officers of NBAA. Invitations to this meeting were issued to the Accountant General and the Controller and Auditor General – in the event neither attended, though the Controller and Auditor General was represented by one of his deputies. The meeting explored the options now on the table. Members of NBAA staff argued that a significant number of its members wished to maintain the flexibility of a single, universal qualification, citing in particular the number of CPA(T) students who attempted the qualification whilst unemployed and wanted to keep open the option of choosing either sector for their eventual careers. The international participants, and the Controller and Auditor General's representative, argued that the only way forward which would be fair to all stakeholders, pending a much more extensive review of the qualification structure, was to adopt Model B. This was eventually agreed subject to a full meeting of stakeholders to be held in September 2010.

Similar arguments were followed again at the September meeting, which was attended by the Accountant General (and representatives of the Controller and Auditor General) together with a substantial number of members of the NBAA board and other senior CPA(T) holders, and representatives of education and training providers. On this occasion the sentiment of the meeting (led by the Accountant General) was that Tanzania wished to maintain a single, uniform qualification in which all curriculum subjects would need to be passed by all CPA(T) holders. However, it was also clear that a significant number of those at the meeting who supported a unitary qualification were nevertheless not satisfied with Model D either, and NBAA was instructed to look again at the whole issue of absorbing the PFM learning outcomes into the curriculum.

At the time of finalising this case study, no substantive progress had been made in introducing either an accounting technician or a professional accountant level qualification of direct relevance to the PFM sector. Whilst Model D remains on the table, the levels of compromise it imposes on both public and private sector learning outcomes are clearly not acceptable

to a significant number of stakeholders (including the Controller and Auditor General). However, the matter is now in the hands of the NBAA to see if they can produce a further model which will meet the sentiment of the September meeting and at the same time satisfy the needs of both sectors of the economy.

In the context of this paper, the outcome of this process has the following consequences:

- Tanzania is no nearer to meeting the goal stated in the FMRP III mission statement of professionalising the PFM sector.
- The PFM sector remains woefully short of staff of the calibre needed to deliver the ambitious outcomes of the NSGPR and the FMRP itself.
- Any progress to be made in the direction of professionalisation of PFM in the future will be subject to significant delays while NBAA goes through a further deliberative process and/or government and donor partners identify and develop an alternative strategy.
- The adoption of a common qualification will demand across-the-board changes in teaching and learning material requirements, and in examination emphasis and content. These changes will impact on both training providers and NBAA, disrupting existing training programmes and creating uncertainty for trainees (and employers) in both sectors. The rejection of the streaming option means that donor funds earmarked for capacity development, quality assurance support and student bursaries under that option may not now be available to facilitate this conversion process.
- The adoption of a common qualification, even if it does address all the necessary PFM learning outcomes, and MoFEA/NAO trainees are successful in achieving it, will still not address the need of the PFM sector to retain qualified staff, since they will remain just as attractive to private sector employers as they are at present.

However, on the positive side, the SCDI now has the necessary body of research it needs to be able to start to address PFM professionalisation issues in other countries in the region. The final report on the study, *Piloting a Regional Public Financial Management Staff Capacity Development Initiative*, has been circulated to accountants general throughout the region by ESAAG. Particular targets for rolling out the lessons learned would appear to be Rwanda, Namibia and Zimbabwe, all of which have identified major problems with staff capacity in PFM. Others are also likely to emerge relatively quickly. The possible emergence of a multi-donor trust fund, headed by the World Bank, to provide the resources needed to address this issue could provide a further stimulus to moving forward.

# Lessons Learned

Tanzania was chosen as a target for PFM professionalisation as part of a longer-term strategy which has developed at both national and international level. At the national level, the key governance reform plans recognise the centrality of transparent, effective and efficient PFM as a basis for improving service delivery and attacking endemic poverty. The need to raise capacity within PFM has been recognised by both government and donor partners as one of the essential pre-conditions for any substantial progress. Internationally, the sponsors of SCDI saw Tanzania as a natural home to develop PFM professionalisation methodologies on the basis that it already possessed a mature and stable professional qualification supporting the private sector, and a regulatory body which had, and recognised, a (substantially unfulfilled) statutory responsibility for supporting the public sector.

The disappointing outcome described earlier therefore comes as something of a salutary shock on the road to wider PFM professionalisation. It is clear that however carefully crafted, consensually developed and well funded proposals for change may be, they may at some point run into the forces of inertia, in whatever form they manifest themselves. To avoid this happening at the next stop on the line it is therefore important that the necessary lessons are learned about what has been gained and lost in the SCDI pilot in Tanzania.

## Positives

The research has clearly demonstrated that there is a significant body of knowledge, understanding and competences required for accounting technicians and professionals working in PFM which is not common with the knowledge, understanding and competences required in the private sector. It also showed that while some learning outcomes may appear similar for trainees from both sectors, the differences in context require quite distinct treatments in teaching and assessment. This clearly underscores the need to develop arrangements for the PFM sector which are differentiated from those traditionally found in respect of private sector qualifications.

Equally, there is a significant body of knowledge, understanding and competences required for practitioners in the private sector which has little or no relevance in the PFM sector, but, it is important not to exaggerate these differences. The study showed that with a relatively limited range of structural changes (all of them confined to the final stage of the technician and professional qualifications), an unashamedly private sector biased qualification can be adapted to serve the purposes of PFM. Under the Model B proposal, 80% of the written curriculum material remained common to the two streams although, as suggested above, the adjustments in teaching and assessment needed do increase the underlying differences in the common curriculum areas as well.

The SCDI now has in place a body of research that will permit it to move on to other countries in the region with a solid foundation on which to build the professionalisation process.

The learning outcomes framework will also provide a basis which can inform the development of new, or the revision of existing, international qualifications in PFM.

When the time is ripe, Tanzania, and specifically NBAA, has a body of research and practical guidance to help it to evaluate its existing qualification structure and address the public sector learning requirements in a more constructive way than has been possible so far.

The Government and donor partners in Tanzania have a basis in due course to develop capacity-building programmes within PFM by following up a number of the key areas addressed in the framework. Whilst short-course training is not a substitute for systematic professional development, adherence to the learning outcomes specified in the study will at least ensure that some of the building blocks needed for subsequent professionalisation will be put in place.

## Negatives

In considering the negative conclusions, it should be borne in mind that these points are not intended to be criticisms of the way the study and its aftermath were conducted. All parties were agreed that the approach adopted was the right one at the time and whilst it is possible, with the passage of time and the accumulation of events, to question some of the assumptions which underlay that confidence, the conduct and outcome of the study met the highest international development standards.

With the benefit of hindsight, Tanzania was not the best place to conduct the pilot. The very characteristic which brought the pilot to Tanzania – the stability and sound reputation of the CPA(T) qualification - turned out to be its Achilles heel when the membership of NBAA decided they did not wish to embrace significant change. This was particularly so given that NBAA had rejected proposals some years earlier which were substantially less radical than were likely to emerge from this study. It would now make sense to see what can be achieved with the PFM learning framework in a country with a less well-established professional body.

A wider, but linked, implication of this lies in the nature of a professional body. The great strength of such a body is that it is an agglomeration of members who, in most senses, ‘own’ the qualification which it offers and exploit that qualification as the basis on which they earn a living. Perhaps it should not be surprising, therefore, that at least some of them would regard an intervention of this nature as an intrusion, and perhaps as a threat to their livelihood. It should be possible to allay fears of this nature through a consultative process, but in the event none of the parties (including NBAA itself) saw this as necessary. The result was that to many NBAA members the proposals came out of the blue, and prompted resistance based not so much on the merits or content of the proposals themselves as on the fact that there had been little or no consultation with them during the implementation of the project.

An undertaking such as this will succeed only if there is active participation in the developmental process from all stakeholders. Whilst the consultants made every effort to achieve a consensual outcome, the repeated absence from workshops of representatives of the Accountant General’s department should have rung more warning bells than it appears to have done, and maybe prompted a change of approach to ensure that views from this quarter were sought earlier and had a less devastating impact on the outcome when they came. There were also several contributions from participants in the September stakeholder meetings criticising NBAA for failing to consult widely enough before embracing the principle of a streamed option.

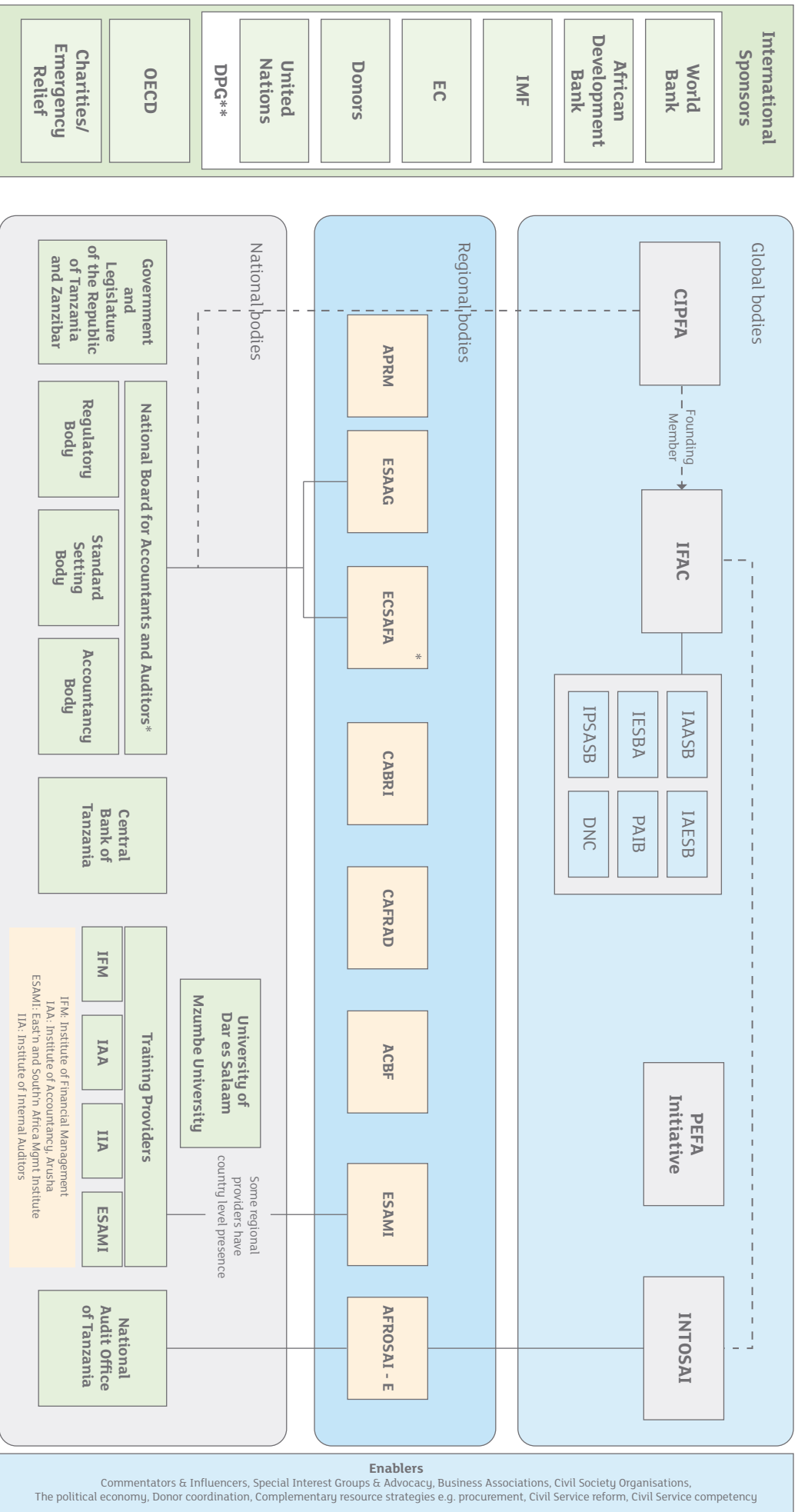
There was no single champion of change from within the country. The Controller and Auditor General (a former executive director of NBAA) was throughout an enthusiastic supporter of streaming but because of pressure of work was rarely able to attend project events in person. The Accountant General was clearly not well disposed to the ideas under consideration and absented herself and her department from almost all of the deliberations. NBAA throughout gave the impression that their support was at best conditional on what was being proposed, which left the impression that the only real enthusiasm for change was coming from ‘foreigners’ (the partner organisations, the consultants and the World Bank). The lesson here is that before embarking on any such process again in any country, clear commitments to change must come from the key players (who will normally be the Accountant General and Auditor General) and undertakings given that they will directly (if not in person, then at least through senior staff) support and contribute to the consultative process.

Going straight from a full private sector professional qualification to a full public sector professional qualification may have been too much to attempt in one stride. The logic on which the Model B recommendation was based was impeccable, but still failed to convince the Accountant General. For the future, it might be worth giving consideration to starting with a lower level but specific qualification in PFM (such as the CIPFA International Certificate and Diploma) until a critical mass of pre-professional accountants and auditors has been put in place, and then to move on to full professionalisation with those who have demonstrated their capacity to cope with the demands of a full professional qualification.

Related to this, the discussion about implementation in Tanzania concentrated almost entirely on the professional accountant level. As a result, emotions were aroused and defensive instincts activated. More success in the short term might have been achieved had the changes recommended to the technician level qualification been given priority – by common consent, the major needs of, particularly, the accounting function in government, especially in countries where accruals accounting is not yet in place, is for competent accounting technicians who can handle the more complex processing of transactions, and oversee the work of accounts clerks.

Despite the wide range of models presented to NBAA there was no Plan B. It was always assumed that NBAA would be happy to proceed with Model B (models A and C were never likely to find favour) and no fallback position was in place in the event that the NBAA membership wanted none of the above. When this happened there was no alternative strategy in place to address urgent PFM capacity development needs and the result is the current hiatus referred to in the previous section of this paper. For the future, it will be important to have in reserve a plan to deal with a similar outcome – possibly one of the ideas set out in the two immediately preceding paragraphs, or some other plan based on an assessment of the professional environment and the track record of government in PFM reform. An assessment of the readiness of the PFM system for professionalisation in the country (evaluating the capacity of the local professional and tuition support infrastructure, and the extent of government support) could be conducted before formal negotiations on implementation start, and this may provide guidance by identifying where potential problems and weak links are likely to be encountered.

# ANNEX 1: The PFM International Architecture: Institutional Framework: Tanzania



\* Mainly private sector

\*\* Tanzania Development Partner Group

# Case Study 4- Nigeria

# Country Context

## Demography

Nigeria, officially the Federal Republic of Nigeria, is a federal constitutional republic comprising 36 states and its Federal Capital Territory, Abuja. The country is located in West Africa and shares land borders with the Republic of Benin to the west, Chad and Cameroon to the east, and Niger to the north. Its coast in the south lies on the Gulf of Guinea on the Atlantic Ocean and the country lies between latitude 4° and 14° north and longitude 3° and 15° east. The name Nigeria is taken from the Niger River, which traverses the country from its north-west border to the Gulf of Guinea in the south east.

The three largest and most influential ethnic groups in Nigeria are the Hausa, the Igbo and the Yoruba. As will be demonstrated more clearly later in this study, the fragmentation of Nigeria's geographical, ethnic and cultural identity lines is effectively balanced by the country's federal structure and the strong emphasis of the federal government on representing six geopolitical zones and different ethnic and cultural identities. The official language is English but no less than nine regional languages (three of which are regarded as 'major') are recognised in different parts of the country.

Nigeria is the most populous country in Africa and the eighth most populous in the world. The precise number is a matter of dispute but the United Nations estimated the population in 2009 to be 154.7 million people. The annual population growth is estimated at around 2.4%.<sup>1</sup> It has the third-largest economy in Africa and the second largest in sub-Saharan Africa. As a former colony of the United Kingdom, it is a member of the Commonwealth of Nations. Nigeria is a major regional power, but at the same time it has some of the poorest development indicators in the world.<sup>2</sup> However, it continues to be a leading player in the African Union, the New Partnership for Africa's Development, and in the Economic Community of West African States. Its importance as a regional powerhouse has important implications (not least Nigeria's potential as a regional thought leader in the professionalisation of public financial management and its impact on service delivery standards).

## National Government Politics and Constitution

Nigeria gained independence from the United Kingdom in a reasonably peaceful transition in 1960. However, what followed up to the end of the century was a period of almost continuous instability with a series of military coups, regional civil wars and other disturbances. In 1999, nearly 16 years of military rule came to an end with the adoption of a new constitution and a peaceful transition to civilian government. Since then, enormous challenges have faced successive administrations in their attempts to institutionalise democracy, including an economy dominated by petroleum, ethnic and religious tensions and widespread corruption. Despite the fact that both the 2003 and the 2007 presidential elections were marred by significant irregularities and violence, Nigeria is currently experiencing its longest period of civilian rule since independence. The elections of April 2007 marked the first occasion in the country's history that power has been transferred from one civilian government to another.

The executive branch of government is headed by the President of the Republic. He/she is elected by popular vote for a four-year term through universal suffrage from the age of 18, and is eligible for a second term. As provided for by the constitution, the president is the head of state, the chief executive of the federation as well as the commander-in-chief of the armed forces.

<sup>1</sup> World Bank website.

<sup>2</sup> The United Nations Development Programme's Human Development Report 2009 ranked Nigeria at the bottom of the 'medium development' group and in 158th place out of 182 UN member states that were assessed.

The Federal Government comprises 19 federal ministries each headed by a minister who reports to the president. The president and his ministers form the Federal Executive Council, with the president as the chairman. This body initiates the policies and programmes of the Federal Government and ensures that they are properly implemented after they have been passed into law by the legislature. The system follows the USA model with the president appointing and assigning responsibilities to ministers directly - ministers are not allowed to serve in the legislature whilst they are in office. An unusual feature, however, is that the constitution explicitly urges the president to appoint his ministers from across all 36 states of the federation.

The legislature comprises a bicameral National Assembly consisting of the Senate (109 seats, three from each state plus one from Abuja - members elected by popular vote to serve four-year terms) and the House of Representatives (360 seats; members elected by popular vote to serve four-year terms). The most recent elections for both houses were held on 21 April 2007 with the next to be held in April 2011. The president is not a member of the National Assembly, but he may attend any session of the Assembly, either to deliver an address on major national issues, including fiscal measures, or to make such statement on the policy of government that he considers to be of crucial national importance.

Because of its ethnic and religious diversity, Nigeria's current political parties are pan-national in character (though this does not preclude the continuing pre-eminence of the dominant ethnicities). The major political parties at present include the ruling People's Democratic Party of Nigeria, which holds 223 seats in the House and 76 in the Senate (61.9% and 69.7% respectively); the opposition All Nigeria People's Party has 96 House seats and 27 Senate seats (26.6% and 24.7%). There are also about 20 other minor opposition parties registered. Independent observers have consistently criticised recent Nigerian elections as flawed, but these flaws have not so far undermined the continuation of the democratic system as restored in 1999.

There are four distinct systems of law in Nigeria: English law, which is derived from its colonial British past; common law, a development of its post-colonial independence; customary law, which is derived from indigenous traditional norms and practices; and Sharia law, used in the predominantly Muslim north of the country. The country has a well-established formal judicial system with various tiers of courts in the regions and at Federal level with the highest judicial authority being the Supreme Court of Nigeria. The language of the formal court system is English.

## Decentralisation/Deconcentration

Nigeria operates a federal system of government, so by law there is a significant degree of decentralisation of service provision and responsibilities. The 36 states that make up the federation are divided into a total of 774 local authorities, the respective powers of the three tiers of government being set out in the 1999 constitution. (Nigeria is also divided into three regions (West, North and East) in the constitution.)

The governance arrangements of the states reflect those of the Federal Government. Each state elects a state governor, who appoints ministers (commissioners) to make policy and deliver services through a state executive council. Each state also has an elective state assembly and again members of the state executive are not allowed to sit in the assembly. At local government level, a similar system applies, albeit on a much smaller scale, with the chairman of the authority being directly elected and appointing his executive committee, with an elected council providing the 'legislative' and scrutiny functions. In recent years, states have grown in importance relative to the other tiers of government and there is growing pressure on the Federal Government to allocate more, and more clearly define, their rights and responsibilities. At the other end of the scale, capacity and effectiveness in local government are generally very low.

Under a procedure established by the constitution, a federal account allocation committee, meeting monthly, uses a revenue allocation formula to share federally collected revenues between the federal level, the 36 states (plus the Federal Capital Territory), and the 774 local governments of the nation. The formula has been subject to many changes over the years through political and judicial interventions but currently about 55% of total revenues are allocated to the Federal Government, 25% to state governments, and 20% to local government authorities. Sub-national governments depend very heavily on such federal transfers, having little income of their own - most states' internal revenues are less than 10% of their total revenues. Dependency of local governments on federal transfers is even higher. There is something of a mismatch, however, between responsibilities and resources. In the words of the International Budget Partnership, "*resources allocated to sub-national government by the Constitution do not match the enormous responsibilities assigned to them*".

## Economic Background

With an estimated population of about 155 million, Nigeria is the largest market for goods and services in Africa. Its Gross Domestic Product was estimated as \$353.2bn in 2009. With a per capita Gross National Income in 2008 of \$1,160, it is classified by the World Bank as an upper middle income country. But Nigeria's economy is struggling to leverage the country's vast wealth in fossil fuels to reduce the widespread poverty that has been estimated to affect about 57% of its population. The World Bank has estimated that, as a result of corruption, 80% of energy revenues benefit only 1% of the population.<sup>3</sup>

In the last decade, Nigeria has benefited from debt restructuring arrangements. The most notable occurred in November 2005 when Nigeria won Paris Club approval for a debt-relief deal that eliminated \$18bn of debt in exchange for the buying back of \$12bn - a total package worth \$30bn of Nigeria's then total \$37bn external debt. The deal subjected Nigeria to stringent IMF reviews of its economic and fiscal policies. The large debt relief secured from the Paris Club for Nigeria in 2005 provided fiscal space to increase social expenditures. Other ambitious initiatives were launched to increase transparency and to reduce corruption in the management of public finances, and civil service reform was begun, although progress in this area has been mixed. The Economic and Financial Crimes Commission successfully convicted a number of high-level politicians of corruption, and recovered embezzled funds.

Over most of its life as an independent nation, Nigeria has suffered from political instability, corruption, inadequate infrastructure, and poor macroeconomic management. Nigeria's former military rulers failed to diversify the economy away from its excessive dependence on the capital-intensive oil sector, which provides 95% of foreign exchange earnings and about 80% of budgetary revenues. However, from around 2003, there has been a substantial and wide-ranging reform agenda in Nigeria with fiscal management at its heart. A notable development occurred in 2003 when a team of technocrats introduced far-reaching changes in Nigeria's planning, budgeting and financial management system, and took firm steps to deal with corruption. Most importantly, Nigeria's budget was de-linked from fluctuations in oil revenues by introducing in 2004 a budget system based on a conservative reference price for oil, with excesses saved in a special account (the Excess Crude Account). This helped to better manage the impact of the oil price booms that occurred towards the end of the decade.

An important step was taken in 2007 with the passing of the Fiscal Responsibility Act, the stated objective of which is *"to provide for prudent management of the nation's resources, ensure long-term macro-economic stability, secure greater accountability and transparency in fiscal operations within the Medium Term Fiscal Policy Framework, and the establishment of the Fiscal Responsibility Commission (FRC) to ensure the promotion and enforcement of the nation's economic objectives"*. The FRC's functions include the dissemination of *"such standard practices including international good practice that will result in greater efficiency in the allocation and management of public expenditure, revenue collection, debt control and transparency in fiscal matters"* and *"undertake fiscal and financial studies, analysis and diagnosis and disseminate the result to the general public"*.

Since 2008 the Government has begun showing the political will to implement the market-oriented reforms urged by the International Monetary Fund (IMF), such as to modernise the banking system, to curb inflation by blocking excessive wage demands, and to resolve regional disputes over the distribution of earnings from the oil industry. Based largely on increased oil exports and high global crude prices, GDP rose strongly in the period 2007 to 2009. The then President Yar'adua pledged to continue the economic reforms of his predecessor with emphasis on infrastructure improvements, infrastructure being seen then as the main impediment to growth. The Government is working towards developing stronger public/private partnerships for electricity and roads. There was also an impressive level of foreign direct investment in 2009 at a level of \$11bn. The IMF projects 2010 annual growth to attain 7%, higher than the 3% estimated for 2009. During 2009/10, the global financial meltdown had a dampening impact on macroeconomic growth, although the impact has been less severe than in several other African countries.

<sup>3</sup> World Bank website.

A recent economic assessment of Nigeria was provided by the IMF's 2009 Article IV report.<sup>4</sup> The IMF staff assessment was that increased confidence in economic prospects had been reflected in improved growth and lower inflation. Non-oil growth had averaged over 9% from 2004 to 2008, as agriculture, telecommunications, construction, and financial services expanded. Although inflation had accelerated in 2008 in response to rising global food and fuel prices and the loosening of monetary conditions, it remained below rates prevailing earlier in the decade. Real incomes had risen significantly, suggesting that poverty was likely to have fallen. Official estimates of poverty are based on the Nigerian Living Standard Survey, which was last conducted in 2004, making it difficult to assess accurately the impact of recent developments.<sup>5</sup>

## Overall Development Strategy

In May 2004 the then President Obasanjo launched Nigeria's National Economic Empowerment and Development Strategy (NEEDS), in which a reform agenda was clearly articulated. NEEDS is effectively Nigeria's own country-led poverty reduction strategy and has been formed on the basis of harmonised and aligned support from the international development community.

NEEDS comprises three key strategies (see the box below), the third of which is reforming government and institutions to restructure, right-size, re-professionalise and strengthen government. The aspiration is to improve service delivery to poor people, eliminate waste and fight corruption.

### The Key Strategies of NEEDS

- **Empowering people.** By allowing the private sector to thrive, NEEDS creates opportunities for employment and wealth creation. It empowers people to take advantage of these opportunities by creating a system of incentives that reward hard work and punish corruption, by investing in education, and by providing special programmes for the most vulnerable members of society.
- **Promoting private enterprise.** The private sector will be the engine of economic growth under NEEDS. It will be the executor, investor, and manager of businesses. The Government will play the role of enabler, facilitator, and regulator helping the private sector grow, create jobs, and generate wealth. Deregulation and liberalisation will diminish governmental control and attract private sector investment.
- **Changing the way the Government does its work.** NEEDS aims to restructure the Government to make it smaller, stronger, better skilled, and more efficient at delivering essential services. It seeks to transform the Government from a haven of corruption to an institution that spurs development and serves the people. The number of government jobs will decline, and the cost of running the Government will fall dramatically, as in-kind benefits for civil servants, such as subsidised housing, transport, and utilities, are monetised. Reforms and regulations will be implemented to ensure greater transparency and accountability. Reforms and regulations will be implemented to ensure greater transparency and accountability, and corrupt practices will be outlawed. Government activities and budgeting will be informed by a framework that connects policy with government income and expenditure.

Nigeria has witnessed a significant effort by donors to harmonise their support. After a period of close and positive partnership between the World Bank and DFID, the donor partnership has expanded under a second phase to include the United States Agency for International Development (USAID) and the African Development Bank. Thus the World Bank's Country Partnership Strategy (CPS) is now a four-partner strategy accounting for over 80% of Nigeria's development assistance. The CPS covers fiscal years 2010–2023 and focuses on three themes aimed at transforming and diversifying Nigeria's economy. These are i) improving governance; ii) maintaining non-oil growth; and iii) promoting human development. The themes were identified by government and re-affirmed during stakeholder consultations.

<sup>4</sup> IMF's surveillance of the economic and fiscal policies of its members in its present form was established by Article IV of the IMF's Articles of Agreement ([www.imf.org/external/pubs/ft/aa/index.htm](http://www.imf.org/external/pubs/ft/aa/index.htm)).

<sup>5</sup> The results of the 2009 Nigerian Living Standard Survey will not be available until 2010. World Bank analysis of the General Household Surveys suggests that real incomes in the formal and informal sectors increased significantly between 1999 and 2006.

To achieve better governance, the CPS focuses on how Nigeria's development partners can help the Government of Nigeria to strengthen its own systems over the long term. Governance is both a core and a cross-cutting theme, an integral part of virtually every form of support. Governance support aims to address five areas:

- transparency and accountability
- participation
- sector governance
- capacity development, and
- judicial reform and democratic governance.

The implementation of the NEEDS and CPS strategies has undoubtedly had beneficial effects on Nigeria. Until the advent of the recession triggered by the banking crisis in the developed world, Nigeria's economic performance was improving on almost every front and growth rates were not far from double-digit levels in a number of years. Nigeria even improved its position on the international Corruption Index thanks to the efforts of successive presidents to tackle this issue. However, structural reforms in government and the economy have proved hard to achieve and the levels of absolute poverty have declined very little. Service delivery at all levels of government continues to be a major problem, and the promised improvement in the capacity of the civil service remains elusive.

# Public Financial Management

## Background

On independence, the Federal Republic of Nigeria inherited the PFM system devised in colonial times by the British. This system was designed to meet the needs of the colonial administration rather than to support the delivery of services to a mass population of users and was therefore poorly adapted to the new approaches needed. Through the periods of alternating military and civilian rule up to 1999, little was done to develop or reform the machinery of government, with PFM being no exception, and the history of the period was marred by extensive corruption, and by the mismanagement and widespread misappropriation of public resources.

The return to civilian rule in 1999 ushered in a number of serious attempts at administrative reform, in particular as part of the NEEDS programme. Initial progress was slow but from about 2003, improvements began to be seen, with new laws and regulations governing procedures in budgeting, cash management and procurement; and the degree of financial discipline being exerted by the Federal Government in particular was tightened up considerably. However, the institutions of PFM have altered little from the time of independence and these are described below.

## Federal Ministry of Finance

The Federal Ministry of Finance has the overall responsibility for the management and control of all finances of the Federal Government as prescribed by the constitution. However, certain financial matters are regulated by other laws created by the National Assembly such as the Finance (Control and Management Act of 1958, as amended) as well as the Annual Appropriation Law, the Supplementary Appropriation Law and the Allocation of Revenue Act of 1981, as amended. The ministry's mission is stated to be *"to manage the nation's finances in an open, transparent, accountable and efficient manner that delivers on the country's development priorities"*. Its main services include:

- the collection of government revenue and the formulation of tax policies
- the quarterly release of appropriated funds
- formulating and implementing fiscal policies and processing tariff matters
- preparation of annual accounts of ministries, extra-ministerial departments, etc
- budget formulation, preparation, implementation, monitoring and evaluation
- managing the international economic relations of the country
- managing the country's foreign and domestic debts
- processing applications from public institutions for foreign exchange
- monitoring projects financed by bilateral and multilateral institutions
- regulating the capital market, and
- involvement in the management of corporate entities in which the Government has an interest.

## Office of the Auditor General

The Auditor General for the Federation is the head of the supreme audit institution (SAI) and is responsible to the legislature but also takes directives from, and cooperates with, the presidency on matters relating to the audit of government accounts and agencies.

The functions and scope of independence of the SAI are spelt out in the relevant provisions of the Audit Act of 1958, which established the office, and in subsequent constitutional provisions, particularly the 1999 constitution. These provisions, together with section 24 of the Finance (Control and Management) Act of 1958, the Financial Regulations of 1976, the Audit Guide, the Audit Standards and the Civil Service Rules, have emphasised, guided and increased the scope and the independence of the auditing process.

These statutory documents, especially the current provisions in the 1999 constitution, impose certain duties and responsibilities on the SAI. For example, Section 85(2) states:

*“The Public Accounts of the Federation and of all Offices and Courts of the federation shall be audited and reported on by the Auditor General, who shall submit his report to the National Assembly; and for that purpose, the Auditor General or any person authorised by him in that behalf shall have access to all the books, records, returns and other documents relating to these accounts.”*

The Auditor General is not authorised to audit the accounts or appoint auditors for government statutory companies and corporations. The Auditor General, however, is to provide such bodies with: i) a list of qualified auditors from which they shall appoint their external auditors; ii) guidelines on the levels of fees to be paid; and iii) comments on their annual accounts and audit report.

The SAI head can be removed only on constitutional grounds of serious incapacitation or improper conduct.

The SAI is divided into four operational departments:

- the ministerial department deals with the audit of accounts of ministries and other agencies of government and all financial statements
- the extra-ministerial department is responsible for vetting the audited accounts of government companies, corporations, agencies, commissions, and other authorities
- the project monitoring and evaluation department conducts value-for-money and performance audits
- the revenue audit department is responsible for auditing revenue due to the Government.

## Performance of the Public Financial Management System

The most definitive pronouncement on the performance of the PFM system in Nigeria has come through the conduct of a Public Expenditure and Financial Accountability assessment carried out in 2004 and summarised through the Munich archive of the Research Papers in Economics organisation in 2006.<sup>6</sup> This paper acknowledged that advances were being made in reforming procedures with the aim of increasing transparency, improving efficiency and effectiveness and promoting financial discipline, but concluded that less progress was being achieved in actually implementing the changes these reforms implied. The main criticisms voiced in the report were:

- low efficiency of budget spending
- over 40% of government funding being off-budget
- leakages in government spending through corruption, undeterred and undetected by weak and ineffective accounting, budgetary control and audit systems

<sup>6</sup> *Stocktaking the Reforms in Public Financial Management*, Lev Freinkman and Michael L. O. Stevens (MPRA Paper 10154, lodged in August 2008).

- inefficient systems for collecting revenues
- weak and outdated internal control procedures
- little effective follow-up when irregularities are detected in respect of both internal and external audit, and
- weak human capacity generally in PFM throughout government.

In the absence of any published Public Expenditure and Financial Accountability assessment other than one conducted at the level of a single state, other sources of information have been consulted. A further source of evaluation is the International Budget Partnership, in whose opinion the budget system requires fundamental reform in order to bring about real transparency and accountability. Weaknesses have been reported in a number of areas including:

- a legal framework that does not promote transparency
- a lack of clarity in terms of the roles and responsibilities of different parts of the executive
- insufficient availability of information to the public
- low capacity and weak systems in the budget process
- weak management and information disclosure of extra-budgetary activities, and
- insufficient participation of civil society in the budget process.

Efforts are reported to have been made to address these weaknesses. The World Bank website contains a paper<sup>7</sup> that notes that, since January 2004, the Nigerian Federal Ministry of Finance has taken an initiative to improve transparency at all levels of government, particularly the sub-national level. Every month, it publishes the federal, state, and local government shares of revenue from the country's federal account.

Recent developments give further cause for concern over Nigeria's public finances in one of the key areas where progress appears to have been made in recent past – fiscal discipline. Towards the end of March 2010, the annual budget was passed by the National Assembly, and signed into law by the acting president in April 2010. It marks a substantial increase from the 2009 initial expenditure proposal of \$20.6bn, which has risen to the current \$30.7bn. Whilst the Executive had favoured a lower budget, the legislative arm was strongly in favour of expansive spending, probably in view of the electoral cycle. Such an expansionary budget raises fears about a growing deficit which government is expecting to close through bond financing, intensification of revenue collection by the tax authorities, and a round of oil licensing. During the 2010 budget year, government is scheduled to raise its first sovereign bond in the London market.

Perhaps the greatest concern about the budget relates to slowness of implementation. As of December 2009, the 2009 budget had been implemented to the extent of only 50%, with, significantly, an even lower proportion for capital expenditure. Late approval of the budget, lack of capacity and bureaucratic holdups have been the factors that have often been cited for the slowness and low implementation levels of the budget. Although the budget department has announced a new results-based policy framework, budget implementation remains a major challenge.

The treasury departments of the Federal Ministry of Finance (the Office of the Accountant-General of the Federation) and of the state ministries of finance (the accountants-general of the states) are statutorily required to produce statistical data on the flow of funds in the country. However the reports produced have traditionally suffered from long delays in their production. This, along with a shortage of properly trained and qualified PFM specialists, has meant that most governments have been unable to produce their accounts on a timely basis.<sup>8</sup>

## Reform of Public Financial Management

Over the past decade PFM has been a key priority for international development support. The World Bank has supported a wide range of PFM reforms including external audit, financial reporting, revenue management, financial management information systems and procurement. DFID support has targeted the strengthening of macroeconomic management, with particular reference to strengthening budgetary processes at both federal and state levels, tax reforms, and improvements to public expenditure management and debt management.

<sup>7</sup> *Nigeria's Experience Publishing Budget Allocations: A Practical Tool to Promote Demand for Better Governance* (World Bank, October 2008).

<sup>8</sup> Public Finance Statistics, National Bureau of Statistics ([www.nigerianstat.gov.ng/index.php/pages/sectorStatistics](http://www.nigerianstat.gov.ng/index.php/pages/sectorStatistics)).

A number of reform initiatives are either under way in Nigeria at present, or are expected to be implemented in the near future. These include:

- the Economic Reform and Governance Programme (ERGP)
- the State Accountability, Responsiveness and Capability (SPARC) project, financed by DFID, and
- the National Strategy for Public Service Reform.

There is also DFID's Federal Public Administration Reform programme, currently in procurement, that has PFM reform within its scope and that therefore may impact on the education and training of PFM staff in Nigeria.

The Civil Service Administrative Reforms component of the ERGP supports a progressive transformation of the federal civil service through a combination of initial, systemic reforms, and the restructuring, including downsizing, of key agencies as pilots for a later broadening of reforms. It aims to improve the Federal Government's economic and financial management systems and processes, and firmly establish a reform process of the federal civil service to improve professionalism and the Government's ability to deliver services. This programme includes provision for capacity building in financial management for relevant staff including through support for the Federal Treasury Academy (FTA).

The SPARC project, a partnership between the Federal Government and DFID that started in September 2008, is intended to build on the reforms initiated by the State and Local Government Programme and aims to enhance the efficiency and effectiveness of selected state-level governments' use of public resources. SPARC focuses on three main areas: policy; PFM and civil service reform; and strengthening the Federal Government's support, and incentives, for better performance in state-level governments.

The NSPSR is built on four pillars, pillar three of which is PFM reform. Central to that reform effort will be the creation of properly trained PFM specialists, with a central role envisaged for the FTA.

### Public Financial Management Related Components of the Economic Reform and Governance Programme

The Public Resource Management and Targeted Anti-corruption Initiatives component supports reforms of the financial management and procurement policies and processes, in parallel with institutional strengthening of the key public resource management and procurement agencies. On the revenue side it supports the Federal Inland Revenue Service and the Nigeria Customs Service in further defining certain aspects of their administrative reforms and capacity building.

The component aims to:

- modernise financial management and accountability arrangements
- streamline and modernise public sector procurement procedures, and
- address inefficiency and weak capacity and corruption in domestic revenue collection.

As noted earlier in this case study, the Federal Government is already strengthening fiscal policy including through the implementation of an oil price based fiscal rule. It has also initiated development of a medium-term expenditure framework. Separately, activities are under way, funded by USAID and from the Government's own resources, to strengthen the capacity of the budget office. The two sets of activities will complement each other in strengthening overall public resource management. The component will also include support for the targeted anti-corruption efforts of the Economic and Financial Crimes Commission.

Activities to improve the Government financial management systems include:

- Progressively introducing a Government Integrated Financial Management Information System (GIFMIS). This will include strengthening the Office of the Federal Accountant General's (OAGF) IT capacity, the acquisition and deployment of integrated PFM software, and the development and implementation of additional ICT infrastructure (a wide area network to link the OAGF HQ and line ministries/agencies/federal pay offices).

- Improving cash management by strengthening the institutional framework and capacity for cash management and through utilisation of the GIFMIS cash planning system.
- Improving financial reporting through adoption of the cash model of International Public Sector Accounting Standards (IPSASs) and design and implementation of departmental financial performance reporting systems.
- Reviewing and modernising internal audit arrangements.
- Building capacity in financial management for relevant staff including through support for the FTA.

Activities to strengthen external audit include:

- restructuring the OAGF in line with a new audit law
- reviewing and modernising audit approaches, and
- building capacity for staff of the OAGF and strengthening its IT capacity.

Activities to strengthen financial reporting include:

- the full adoption and dissemination of international standards relating to financial reporting, including International Financial Reporting Standards and International Audit Standards (IFRSs/IASs), IPSASs and ISAs
- reviewing the Nigerian Accounting Standards Board (NASB) Act 2003 to create a financial reporting council and addressing current institutional weaknesses in regulation, compliance and enforcement of standards
- strengthening the technical and professional capabilities of the NASB and the Securities and Exchange Commission, and
- improving business ethics, accounting and auditing standards and the contents of higher institutions' accounting curriculum.

Procurement reforms include:

- preparing regulations in line with the new Procurement Law and translating the law and regulations into the three main national languages to allow wide dissemination
- supporting the establishment and effective take-off of the Public Procurement Bureau as the procurement regulatory body
- training and capacity building in public sector procurement, including strengthening oversight capacity, and public enlightenment, and
- preparing national standard bidding documents.

## Challenges for Professionalisation of Public Financial Management

In considering the fundamentals of professionalisation (in whatever discipline), two factors have obvious significance – the demand for professionals; and the supply of professionals. The former arises from the demand from firms and government for the services of professionally qualified personnel (teachers, doctors, lawyers, accountants) and the latter from the capacity of a country's education and training systems to generate sufficient potential professionals of the right calibre.

On the supply side, two factors are important – the education system and practical training facilities. The foundations for the acquisition of a professional qualification are successively laid at a various stages of the education process, and depend upon progress being made from primary to secondary levels and ultimately, for most aspiring professionals, to tertiary level. In Nigeria, enrolment at secondary school level has been increasing over the last decade but the most recent estimate by the World Bank<sup>9</sup> put the current net enrolment rate at only 26% of the applicable population group, and wastage rates are high. Enrolment in tertiary education is more encouraging by sub-Saharan African standards at 10%. Even so, for a complex and expanding economy such as Nigeria's, even this rate produces a low absolute number of graduates, and in any case a significant percentage of Nigerians who acquire tertiary-level qualifications are known to leave the country to find work elsewhere.

<sup>9</sup> World Bank Education Statistics.

Capacity of the right quality for training accountants is very limited. Universities and technical colleges do provide some academic training in accountancy (though standards of provision are variable), but practical postgraduate training in accountancy and related subjects is in relatively short supply (see the next section). Membership of the two main accountancy professional bodies totals about 40,000 which, relative to a population in excess of 150 million, is a relatively small number. Furthermore, although both bodies have members in the public sector, their main objectives are to serve the needs of the private sector and their initial qualification structures, and their continuing professional development (CPD) programmes, emphasise private sector knowledge and skills.

With respect to demand, Nigeria, with its large oil and related industries, does have the potential to create a significant level of demand for accountants. However, the oil industry accounts for only 25% of economic activity with much of the rest of the economy revolving around subsistence-level agriculture. The result is that the demand push for accountants is not as strong as might at first be expected and this is reflected in the fact that monetary rewards, outside the few firms with international audit status, are poor compared with those for other professionals. This tends therefore to impact on the quality of graduates seeking to join the profession and means that many of those who do succeed in acquiring accountancy qualifications leave the profession. Add to this scenario the difficulties that governments have in emerging economies of attracting and retaining professionals of any sort, and the challenge for the professionalisation of PFM is readily apparent.

# Towards Professionalisation of Public Financial Management in Nigeria

## The Accountancy Profession

The accountancy profession in Nigeria is dominated by two bodies: the Institute of Chartered Accountants of Nigeria (ICAN) and the Association of National Accountants of Nigeria (ANAN). Both bodies are in practice self-regulating, with memberships that elect governing council members. Members of both bodies may carry out public audit, under different pieces of legislation and with different scope, and are to be found in both the public and the private sector. ICAN is the larger of the two bodies, with 27,000 members as against ANAN's 16,000.

In the case of ICAN, the Government of Nigeria appoints five members to the 25-member council; however in practice ICAN nominates the appointees whom the Government confirms. ANAN's governing council is elected by its members and includes representatives of the Auditors General of the Federation, State and Local Government, and universities and polytechnics.

ICAN awards a chartered accountant certification. It is a member of the International Federation of Accountants (IFAC), and it has strong international foundation and relationships. ANAN has a number of international affiliations, and is a member of the International Association for Accounting Education and Research.

Both ICAN and ANAN recognise a number of foreign professional accountancy bodies. Members of these bodies who practise in Nigeria normally apply for ICAN membership and are admitted after undergoing a one-week intensive programme plus an oral examination covering Nigerian corporate and tax laws.

The IMF Report on the Observance of Standards and Codes (ROSC) of June 2004 noted that ICAN's capacity needed to be strengthened. ICAN's lack of financial resources had left the organisation without the appropriate infrastructure to properly carry out all its functions. ICAN had a well-organised secretariat, but also relied heavily on volunteer members. There was judged to be very weak capacity for research, audit standard-setting, and the monitoring and enforcement of compliance with standards. The ROSC also identified a shortage of qualified accountants generally in the private sector, although this did not appear to be restricting competition in the audit market.

The larger firms audit most of the listed companies in Nigeria. The big four international accounting firms audit about 90% of listed companies, while the 15 national firms with international affiliation audit the remaining 10%.

The ROSC concluded that the Nigerian professional accountants' *Code of Professional Conduct* needed updating and mandatory application. All ICAN members are expected to follow ICAN's *Code of Professional Conduct* despite having no obvious legal requirement or guidance for its mandatory application in Nigeria. Issued in 2000, ICAN's Code was judged to need updating in vital areas, such as the auditor's independence, to bring it in line with the IFAC *Professional Code of Ethics*, which was significantly revised in 2003. ANAN requires its members to comply with its *Professional Code of Conduct*, which is drawn up in accordance with IFAC requirements. At the time of writing the Code was being further reviewed to ensure that it remains in line with best international practice.

## Regulation and Standards

The Nigerian Accounting Standards Board (NASB) sets local accounting standards under the Nigerian Accounting Standards Board Act of 2003. Established in 1982 as a private sector initiative housed in ICAN, NASB became a government agency in 1992 and reports to the Federal Minister of Commerce. Its membership includes representatives of government and relevant interest groups, and ICAN and ANAN each nominate two members to the NASB. An adequate due process is followed in standard-setting.

The ROSC noted that NASB lacks adequate resources to fulfil its mandate. As a government agency, NASB has relied mainly on government subventions and has been exposed to serious budgetary constraints that prevented it from discharging its statutory role and affected its effectiveness. Legislation now allows NASB to earn income outside the Government. There is a dire need to hire additional staff, retrain existing staff, offer attractive remuneration packages, and procure equipment.

Both the main accountancy bodies issue auditing guidelines for use by their members in practice. However none of the 15 International Auditing Practice Statements issued by IFAC has been adopted in Nigeria. ICAN has advised its members to use International Standards on Auditing in their engagements, but has not yet issued a definitive statement instructing members to adopt International Accounting Standards.

There is no separate statutory regulator of the audit profession in Nigeria.

## Ensuring Compliance with Accounting and Auditing Standards

In the view of the ROSC, there was no effective mechanism to monitor and enforce requirements for accounting and financial reporting provided for in the Companies and Allied Matters Act 1990 (CAMA). CAMA empowers the Registrar of Companies at the Corporate Affairs Commission to regulate compliance with its financial reporting presentation requirements. There was however no capacity at the Corporate Affairs Commission to effectively fulfil this function. It is a legal requirement to file a copy of the audited financial statements and directors' report with the Commission. There was, however, no rigorous enforcement of timely filing. Financial statements of non-listed public and private companies are not readily available. It seems most companies simply do not comply with the filing requirements, and sanctions are not applied. Thus there are significant weaknesses in the enforcement mechanism, which is accentuated by a degree of corruption and poor recordkeeping by the Corporate Affairs Commission. CAMA requires that the audit committee review audited financial statements and report to the shareholders. However, authorities and others have not assessed the effectiveness of audit committees, making their capacity to monitor unknown.

The Securities and Exchange Commission (SEC) is not yet effective in monitoring compliance with financial reporting requirements and enforcing actions against violators. On behalf of the SEC, the Nigerian Stock Exchange monitors compliance with financial reporting requirements of companies whose equity or debt securities are publicly traded. The SEC's capacity to effectively monitor compliance with accounting standards is inadequate, but it is currently under reorganisation. There have been a few instances where companies have been suspended from the Nigerian Stock Exchange for breach of financial reporting requirements. However, SEC enforcement is weak, and administrative sanctions and civil penalties are not adequate to deter non-compliance.

The Nigerian Stock Exchange approves annual financial statements of the listed companies before publication. It reviews submissions by companies for compliance with the listing requirements, which include accounting standards and disclosure required under CAMA. The audited financial statements of a listed company are only published after approval of the Stock Exchange, and de-listing is the only sanction for non-compliance.

## Regional Dimension

ICAN is one of 10 members of the Association of Accountancy Bodies in West Africa (ABWA), which was inaugurated on 10 August 1982 in Lagos, Nigeria by the then president of IFAC, as a sub-regional organisation of IFAC in West Africa. The ICAN members are:

Anglophone countries

- The Institute of Chartered Accountants, Ghana
- The Institute of Chartered Accountants of Nigeria
- The Institute of Chartered Accountants of Sierra Leone
- The Gambia Association of Accountants
- The Liberian Chartered Institute of Certified Public Accountants

Francophone Countries

- Ordre des Experts Comptables et Comptables Agréés de Côte d' Ivoire
- Ordre National des Experts Comptables du Cameroun Bilingual
- Ordre des Experts Comptables et Comptables Agrées du Benin
- Ordre National des Experts Comptables et Comptables Agrées du Niger
- Association Togolaise des Experts Comptables Diplomas.

ANAN has applied to become a member of ABWA. The headquarters of ABWA was initially located at the ICAN Secretariat in Lagos, Nigeria, until May 2002 when it was moved to the ICAN building in Abuja.

ABWA's vision is *"to be the foremost regional accountancy body in Africa"*. In its mission statement, ABWA states that it *"will continue to strengthen the accountancy profession in West Africa by enhancing the technical competence and ethical standards of members for effective service delivery by adopting best practices in the public interest, as well as contributing to the development and sustainability of the regional economies"*.

The objectives of ABWA are to:

- develop and enhance the accountancy profession in West Africa and thereby improve governance, eliminate waste and corruption, reduce poverty and enhance the standard of living of the peoples of the West African sub-region
- provide for the development of professional ethics and standards in member bodies, and
- act as the centre for dissemination of information on accounting standards and development of accountancy thoughts and practices in West Africa.

In July 2006 the Africa region of the World Bank published its Capacity Development in Africa Management Action Plan (CDMAP) covering the periods FY06–FY08. Under CDMAP Action 1 of this plan, the bank proposed support for a new capacity development programme for PFM practitioners in 18 countries in Africa, including Nigeria. That support was to include establishing, as needed, sustainable regional or country-specific institutions and training programmes. The programme was designed with two particular purposes:

- To assist with the training of 5,000 accountants in PFM in 14 countries. The training would be conducted at local and regional institutions using curricula designed with support from the Bank and using Institutional Development Fund grants and as part of investment credits and grants.
- Growing the capacity of local training and accreditation institutions. Here the bank pledged support for the establishment of accounting institutes in three countries (Rwanda, Mozambique and Ethiopia) and support to two regional institutions, ECSAFA and ABWA.

The CDMAP Action 1 coverage extends to Nigeria, where, in 2006, the bank anticipated a need to train 1,000 PFM staff under this initiative.

A restructuring of this project has taken place, as a result of which the project close date was extended to 28 February 2013. In making the case for that restructuring, the project sponsors noted the work being done by CIPFA in the African PFM SCDI pilot in Tanzania, and the potential relevance of that work to Nigeria in the context of the aims of the ERGP. The project paper anticipated a roll-out to Nigeria in 2010, *“by which time it is expected that the FTA in Orozo would be refurbished and suitably staffed to start administration of the PFM scheme so that the scheme will be fully implemented between 2010 and 2013”*. The paper also observed that the FTA was seeking to put in place a twinning arrangement with a *“suitable institution”*, an initiative discussed later in this document.

The institutional architecture of Nigeria PFM is mapped in Annex 1. This diagram, which is based on the 2009 CIPFA publication *Public Financial Management – A Whole System Approach*, sets out the hierarchy of organisations at international, regional and local level which, either actually or potentially, influence and/or are involved in the PFM process in Nigeria. At international level, bodies such as IFAC (and CIPFA itself) influence the global nature, standards and coverage of PFM, and underscore the importance of professionalism in the process. At the next level are the bodies which operate regionally within the profession itself (such as the Federation of Accountants and Auditors General of West Africa (FAAGWA) and ABWA), or contribute to it through, for example, capacity building. At the lowest level are the in-country institutions such as local regulatory bodies, professional associations and tuition providers (universities, technical colleges and the private sector). To the left-hand side of the diagram are listed the organisations that provide the links running through the hierarchy – primarily donor bodies involved in supporting reform in the PFM sector.

## Accountancy Training Providers

The Nigerian College of Accountancy is a postgraduate professional college set up to *“train and polish Nigerian accountant graduates into matured and seasoned accountants”*. The college is the training arm of ANAN. The organisation is charged, among other things, with:

- advancing the science of accountancy in Nigeria
- determining the standards of knowledge and skill to be attained by persons seeking to become members of the accounting profession, and
- promoting the highest standards of competence, practice and conduct among members of the profession.

Its stated mission is *“to build a Centre of Excellence for the teaching of Accountancy, not only in Nigeria, but also in Africa ... and to inculcate standards of integrity, probity, honesty and good conscience in Nigerian professional practice”*.

FTA was established in 1973, to train staff for what is now the Office of the Accountant General of the Federation, the Federal Inland Revenue Service and the Office of the Auditor General. The FTA was set up by administrative decision and there is no evidence of any specific legal basis for its establishment or powers. In time the FTA began to issue certificates to successful graduates of its programmes. These became the basis for promotion and upgrading of staff in the relevant departments.

Another relevant contextual factor is the recent establishment of the Public Service Institute (PSI). Although not involved in the training of accountants as such, the PSI's vision is to become a *“world class centre of excellence in transforming public sector governance, management and leadership development”*. The PSI will, therefore, have some potentially valuable linkages with PFM education and training.

## Professional Education and Training

To qualify as a chartered accountant (ie an ICAN member), 30 months' supervised skilled training is required. This training must be in an audit environment. Prospective ANAN members must undergo a two-year practical accountant-in-training programme following a period of academic study, including one year spent at ANAN's Nigerian College of Accountancy.

The ROSC highlighted a weakening of professional education over the last two decades. ICAN's main professional entry requirement is in line with IFAC, and tertiary institutions are assessed for accreditation to meet the same requirements. ICAN's qualifying examination syllabus covers all areas recommended by IFAC International Education Guideline (IEG) - prequalification education, assessment of professional competence and experience requirements of professional accountants; however, the information technology content is still deficient. ICAN's syllabus is reviewed every five years.

Generally since the late 1980s, lack of investment in education, low quality of educators, and diminution in the value system at tertiary institutions has adversely affected the quality of education. Where national accounting and auditing standards are not available, international standards should be taught. However, most educators had neither professional qualifications nor necessary practical experience. Unavailability of affordable, up-to-date learning materials further hampers education provision.

Although the practical experience requirement was adequate, the ROSC highlighted a lack of resources for assessing this experience gained during training. CPD programmes, whilst compulsory, were not effectively monitored and enforced for members not in public audit practice.

## Reform of the Federal Treasury Academy

The FTA has recently produced a strategy paper that identifies a number of deficiencies that have affected the its ability to achieve its full potential. These include the following issues:

- It has no legal mandate and therefore no clear or authoritative mission, purpose, scope of operation or locus within the wider framework of government and education and training in Nigeria.
- It is managed as an administrative unit of the OAGF. Partly as a consequence of this it is not properly constituted as an education and training institution, nor is it fully integrated into the wider education and training community in the country.
- The campus and other facilities of the FTA have not been properly maintained over time.
- The staff working at the FTA have no education and training or related academic background, being administrative officers of the OAGF.
- The FTA has been operating intermittently over time and, during the last 12 months has been virtually inactive, with few students.

These deficiencies have been highlighted with the implementation of the ERGP and the SPARC projects. Both of these initiatives are intended to have significant impact on PFM in Nigeria; the ERGP in particular has identified a role for the FTA in the education and training of PFM staff, and anticipates it being "*refurbished and suitably staffed*" to begin the implementation of appropriate PFM education and training schemes between 2010 and 2013. There is a clear and pressing need to take action to ensure that the FTA is able to play its full role in supporting PFM reform in Nigeria.

The FTA strategy paper identifies issues that need to be addressed in both the short and the longer term. In the short term the paper recommends that:

- a governance structure ("*administrative organisation*") be put in place, taking it out of the management structure of the OAGF, establishing a governing council and appointing key senior staff to a management team
- refurbishment of the FTA premises and library be undertaken

- a new staffing structure be designed and implemented, whilst current staff assigned to the FTA be properly posted or seconded while recruitment of permanent staff takes place, and
- current syllabus and assessment arrangements be evaluated with a view to ensuring that these meet current international standards.

In the longer term the strategy paper identifies the need to:

- create a permanent legal framework for the FTA and define its vision, mission and purpose
- carry out a training needs assessment of staff at the FTA and, by implication, implement a staff training and development strategy and plan
- schedule the training courses that are to take place at the FTA, to help ensure that the facilities are fully utilised
- prepare a comprehensive proposal for upgrading the existing facilities;
- establish relationships with relevant accounting and PFM institutions, including CIPFA, IFAC, ICAN, ANAN and local universities
- develop a website for the FTA, and
- prepare a longer-term 'road map' for the phased future development of the FTA.

Over 2009/10, discussions took place between ICAN and CIPFA aimed at supporting the professionalisation of PFM in Nigeria. A key development in this dialogue was the visit to CIPFA in June 2009 by a delegation led by the Accountant General of the Federation of Nigeria (AGF), following which the AGF asked CIPFA to assist the Government of Nigeria and FTA as follows:

*“Nigeria has decided to have a twinning arrangement between its FTA and CIPFA for the purposes of agreeing a syllabus that would allow some reciprocal acceptance with CIPFA either by levels or by subjects, quality assurance arrangement for the examinations of the FTA and advice on development strategy and administrative structure for the FTA and an accreditation body proposal. This fits with the (Africa) Staff Capacity Development Initiative (SCDI) philosophy for a Qualifications Framework (QF) for the public sector, tailored to country circumstances.”*

In response to this request, senior CIPFA staff visited Abuja in August 2009 to meet key stakeholders and develop proposals on how CIPFA might best provide the support that had been requested.<sup>10</sup> Following consideration of the resulting CIPFA proposals, the AGF wrote to CIPFA in March 2010 confirming that he wished to move forward with the twinning arrangement as quickly as possible, and that it was to be done on the basis of adopting CIPFA's existing international qualification with modifications to reflect the PFM system in Nigeria. CIPFA and ICAN should jointly award the qualification, and it should be built from the Accounting Technicians' Scheme for West Africa with a variant for PFM at the last stage. In choosing this option, the AGF indicated that an arrangement of this kind should provide the critical mass needed at the technician level, and that the final professional level should lend itself to a much easier reciprocity arrangement. CIPFA was requested to revise its proposals and produce new documents reflecting this choice of option.

CIPFA recognised that implementing the reforms that FTA accepted it required - and with which CIPFA agreed - would take time to put into effect, and even when in place, would result in a facility with the capacity to train fewer than 300 students a year under the current training course structure. Given the scale of demand,<sup>11</sup> and the need to respond to that demand in a reasonable timescale, it was clear that other approaches to training provision needed to be considered. In particular, other resources in Nigeria, including the 100 or so universities in the country, could be exploited to design an effective solution to the challenge of training PFM staff.

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**10** In a related regional initiative, the Africa Staff Capacity Development Initiative (SCDI), in late July 2009 the World Bank and the AGF asked CIPFA to draft, as a matter of urgency, a professionalisation scheme for adoption by FAAGWA member countries. CIPFA had already been contracted by the English-speaking African Organisation of Supreme Audit Institutions (AFROSAI-E) on behalf of a joint venture comprising FAAGWA, ESAAG and AFROSAI-E, to develop a pilot PFM professionalisation scheme. This was initially developed on a pilot basis for Tanzania, with the understanding that it could be offered to other African countries, including Nigeria, if those countries so wished. CIPFA prepared a draft scheme which was sent to FAAGWA on 7 August 2009, as agreed.

**11** Although there have been no formal estimates made of the likely target training population, it is known that there are around 3,000 members of staff in the federal accounting cadre and some 1,500 staff in the Office of the Auditor General.

Having been invited by the AGF to offer comments on the FTA's updated curriculum and syllabuses, CIPFA concluded that:

- the curriculum, syllabuses and related material were expressed in considerable detail, and the entire package was comprehensive in its scope
- the curriculum was very much orientated towards a traditional accounting programme, which is a narrower field of knowledge than PFM
- a very high volume of learning is to be achieved throughout the courses and questioned whether this was really necessary, suggesting that some of the planned learning be handled through other means, for example by developing a preparatory programme of studies to be completed by students who do not have the necessary academic background to enter the full programme
- there is repetition in the syllabus at different levels, without any indication of changes in the progressive depth required
- the basis on which particular subjects have been assigned to specific modules is not always clear, and there is some scope for rationalisation, so as to more closely match the learning outcomes with what might reasonably be expected of learners at the various stages, and
- overall, the expectations implied in these modules create a very demanding test for students and the curriculum as currently structured does not adequately respond to the need to provide specialist PFM education and training in Nigeria.

The essence of the AGF's request was for CIPFA to twin with the FTA and:

- agree a syllabus for the courses to be provided by the FTA that would lead to a qualification to be awarded jointly by CIPFA and ICAN
- provide quality assurance arrangements for the FTA's examinations
- give advice on the FTA's development strategy and administrative structure, and
- support the capacity development of the FTA, to help it implement the development strategy and the new administrative structure.

CIPFA has agreed to make available its experience, expertise and other resources in relation to the professionalisation of PFM education and training in Nigeria. A twinning arrangement with the FTA will incorporate, inter alia:

- advising on the overall design of the education and training programme required to support the provision of the training and related services by FTA
- advising on the governance, organisational structure and systems needs of the FTA, in both the immediate and the longer term, to enable it to play its part in the professionalisation of PFM in Nigeria; and on the job descriptions and personnel specifications of the staff that will be required to enable the FTA to operate effectively and efficiently
- helping to ensure the quality of the services to be provided by the FTA through the design and development of courseware, including resources to be used by both students and tutors involved on the course
- advising on and providing resources in relation to the capacity development of the FTA and its staff, and in relation to other key stakeholders involved in the professionalisation of PFM
- making available technical and other relevant resources to FTA
- providing advice on how to ensure the longer-term sustainability of the FTA and PFM professional training more generally in Nigeria
- providing strategic and business planning advice and other services to FTA and in relation to the PFM professionalisation programme more generally in Nigeria
- designing and implementing appropriate systems, and making available resources, in order to quality assure the services provided by FTA.

# Future Plans, Momentum and Sustainability

The previous sections of this case study have highlighted a number of key factors that are relevant to the professionalisation of PFM in Nigeria. First, Nigeria's development policy recognises the centrality of the role of the public service in the fight against poverty and corruption. Of particular importance is the need for the nation's public finances to be managed with greater efficiency, effectiveness, transparency and accountability. This need will only be met if there is a cadre of public financial managers that operates in a professional manner within a framework of discipline and ethics.

Secondly, Nigeria's key development partners – both multilateral and bilateral – are engaged in supporting the Government of Nigeria in its efforts to reform and modernise the public service in general, and the PFM function in particular. Underpinning that commitment is an increasing recognition of the need to develop and maintain an approach to PFM reform that is relevant to the country's specific environment, compatible with international norms and standards and sustainable beyond the lifetime of particular development interventions.

Historically, Nigeria's accountancy profession has been heavily focused on the needs of commerce and industry with less attention paid to PFM. The profession now recognises that it is necessary to provide professional and technician-level qualifications that fully reflect and respond to the context in which public sector accountants, auditors and financial managers operate in Nigeria. This development is in accordance with the World Bank's SCDI initiative that aims to promote and support the development and implementation of a public sector accountancy qualifications framework across a range of pilot countries in Africa, including Nigeria.

The capacity of the relevant education and training providers needs to be strengthened to ensure that the enormous capacity development needs of the PFM system in Nigeria are effectively addressed in a sustainable manner. This has been recognised by the Accountant General of the Federation, who sees an effective twinning arrangement between the FTA and CIPFA as the way forward. This is seen as having the potential to lead to similar arrangements with a wider range of training providers in Nigeria.

Nigeria's distinctive mix of religious, ethnic and geographical factors present particular challenges for the delivery of efficient and effective public administration and, within that, PFM and PFM reform. These challenges point to the need for a realistic approach to what can be done, and solutions that truly reflect the circumstances of the country. Donors, government and the PFM community more widely tend to approach the design of PFM reform armed with a range of standard weapons; a new IFMIS, reorganisation of the treasury function, introduction of training to meet specific technical needs and other initiatives. In extreme cases, *“automated systems, particularly IFMIS, have become synonymous with PFM reform, seen by some as even drivers of reform”*.<sup>12</sup> To an extent this is understandable and even desirable. The knowledge that particular interventions have worked elsewhere and in the past gives some comfort that they may do so again in the current environment and in the future. Implementing tried and tested solutions is efficient and a potentially economical use of resources, and this is a particular benefit in countries where the required expertise is scarce and in heavy demand. However it is important not to allow experience and the drive for economy and efficiency to impair the identification of solutions that truly meet the circumstances of the country concerned.

<sup>12</sup> Pretorius, C. and Pretorius, N. (2008) *Review of Public Financial Management Reform Literature*. London: DFID.

The size of Nigeria's economy may be expected to result in the availability of resources to devote to reform generally and PFM reform in particular that may be denied to poorer countries. At the same time, scale brings its own management, and therefore PFM, problems. Multi-level government makes demands of PFM in a number of ways: devising fair and equitable schemes for making transfer payments to sub-national tiers of government; ensuring that the funds transferred are used in the way intended; coping with the demands of large-scale infrastructure projects; ensuring the supply of sufficient numbers of properly trained and experienced PFM specialists throughout all spheres of government. In the case of Nigeria these problems are further compounded by the dependence on oil and oil-related revenues, and the volatility that this can imply for government revenues. Whilst these are further reminders of the fact that one size does not fit all, they are also reasons why professionalisation of PFM is such an imperative in an environment like this.

This study has referred to the mismatch that exists between the financial resources provided to the states and municipalities in Nigeria and the requirements placed on them in relation to service expectations. In such circumstances there is a clear need for professional PFM specialists who are trained to provide basic budgeting, accounting, auditing and control services in government. However there is an equal need for a relatively smaller number of key individuals with the higher-level skills to support the innovation and performance improvement that is part of the solution to circumstances where demand for services exceeds supply. In designing the approach to professionalising PFM in Nigeria and countries like it, therefore, this dual urgency should be taken carefully into account.

The design of PFM reform programmes is a developing science. Although the availability of data from PEFA and related assessments is contributing to a growing body of data on which to base decisions, *“assessment of PFM reform progress has been hampered by the lack of performance-based indicators”*.<sup>13</sup> Current thinking amongst donors is to build on existing capacity rather than to impose external solutions. The initiative being undertaken to provide support to the FTA is consistent with that approach. Analysis of the PFM reform literature, for example that carried out to support the DFID review referenced elsewhere, reveals a lack of professional skills, rather than managerial skills, as a serious constraint on PFM reform. The need for professionalisation has been reflected in a number of ways in Nigeria, not least of which is in the NEEDS. Capacity development is also a theme of a number of the key programmes under way or about to be launched in Nigeria, including the ERGP. The support to be provided by CIPFA, along with the joint qualification to be developed with ICAN, has the potential to be the first step on the path towards professionalisation of PFM in Nigeria.

A significant feature of public service reform in Nigeria has been the development of public/private partnerships (PPPs) for key infrastructure elements such as electricity and roads. Providing advice on the financial aspects of initiatives like this, and auditing their implementation and effectiveness, requires relatively sophisticated inputs from properly trained PFM specialists. The significant shortage of these key individuals in Nigeria is likely to bring its own challenges to the adoption of PPPs in this critical way.

Like many of its African neighbours, Nigeria suffers from highly undeveloped human capital. This can cause difficulties when seeking to put in place schemes of education and training for PFM specialists based directly in IFAC International Education Standards. Here, again, design of the professionalisation programme needs to reflect the situation on the ground, rather than a rigid application of standards whose roots lie in the more developed countries of the world.

There is a general expectation that significant improvements to PFM can be made in developing countries by adopting international standards, including International Public Sector Accounting Standards for accounting and International Standards of Supreme Audit Institutions for auditing. However as experience in Nigeria shows, other factors may be limiting achievement, for example the low rate of budget execution referred to earlier in this case study. Introducing 'better' accounting and auditing standards will do little to achieve PFM reform where the problem lies much further upstream than this.

<sup>13</sup> Pretorius, C. and Pretorius, N. 2008 *Review of Public Financial Management Reform Literature*. London: DFID.

The international accounting and auditing community has an important role to play in helping to achieve improvements in PFM in countries like Nigeria. The establishment of ABWA as an IFAC regional sub-group ought to be a positive factor, as should the existence of an IFAC member body, ICAN, and a prospective member body, ANAN, in the country. However, all three of these bodies have found it difficult to achieve traction in pursuit of their respective missions. ICAN's developing relationship with CIPFA, embodied in 2010 in a Memorandum of Understanding, has the potential to be of value here. However, other action will be necessary to revitalise these components of the PFM institutional architecture, to enable them to play their full part in PFM improvement.

Where increases in the supply of accountants and auditors have taken place, it is worrying that, as has been the case in Nigeria, it appears to be so difficult to retain staff in the profession. There is widespread recognition that one benefit of professionalisation of PFM staff is that it produces trained staff that are less likely to be lost to the private sector than is the case when staff are qualified to become members of essentially private sector bodies. If there is a problem of leakage of staff trained in private sector disciplines, then this adds to the challenge.

The 2004 ROSC noted that "*Unavailability of affordable, up-to-date learning materials further hampers education*". That situation, which is commonplace in many if not all sub-Saharan African countries, is particularly problematic for the education and training of PFM specialists. Given the extent and significance of this deficiency in the education and training system, serious consideration ought to be given to solving this problem on a regional or even pan-African basis.

# Lessons Learned

Nigeria exhibits a range of characteristics which is unique amongst the countries examined in this series of case studies. The strongly federal nature of the governance system, the distinct geographical ethnic and religious mix of the population and an economy unbalanced by oil revenues which, through inefficiency and corruption, have yet to benefit many ordinary Nigerians create a series of issues for the management of public finances which makes Nigeria stand out from the others. As a result the lessons learned from the study further underline one of recurring themes of this work, that the imposition of 'one-size-fits-all' solutions to issues such as professionalisation in PFM will not work, and approaches need to be substantially tailor-made to the developmental needs of the country concerned.

The main lessons emerging from this study are as follows:

## Positives

The size and scale of the Nigerian economy provides a realistic opportunity to apply the necessary resources to the reform of the PFM system and, as part of that, to fund and sustain the cost of creating the necessary cadre of professionals to guide the process of addressing the formidable challenges involved.

There is evidence of a growing recognition that higher standards in accounting and audit are needed and that professionalisation is one of the ways of achieving them within government.

Nigeria already has in place an infrastructure of professional accountancy institutes on which to build the professionalisation of the PFM sector.

Nigeria is part of an increasingly important regional network of accountancy and audit bodies and interest groups which are playing, and will continue to play, an important role in internationalising the professionalisation of PFM with benefits accruing both to Nigeria and potentially to other countries in the region.

Donor partners have recognised that the professionalisation of PFM is now a priority area and that continuing simply with standard policies of technical improvements supported by ad hoc training will not achieve the sustainable improvement in PFM performance which is needed.

There is also recognition that whatever approach is adopted to professionalising PFM in Nigeria, it must match the needs of the country and cannot be brought about by importing solutions which have been tried elsewhere. The decision by ICAN and FTA to develop a joint qualifications framework with CIPFA reflects this distinctiveness of approach.

A plan of action for achieving professionalisation is beginning to emerge. The nascent relationship with CIPFA, coupled with the commitment of the major stakeholders in the Federal Government and amongst the donor partners to supporting it, means there is a good chance that this relationship will expand and flourish over the coming years.

The plan of action recognises that although it is desirable in the medium term to produce a cadre of accountants and auditors at the full professional (chartered accountant) level, the first priority is to tackle the shortage of qualified staff at what IFAC defines as the accounting technician level. The major need identified by successive analyses of PFM systems is for personnel who can properly manage and audit the day-to-day transactions of state organisations, supervise accounting and audit clerks and have the confidence and competence to enforce the regulations that have been developed in recent years.

The commitment of ICAN to supporting the public sector professionalisation process provides a useful foundation on which to build and obviate the need to create new professional infrastructures.

The existence of the FTA, dedicated specifically to the development of human capacity in public sector accounting, budgeting and audit, further adds to the stock of infrastructure on which to build the professionalisation process. Other initiatives in the development of human resource capacity elsewhere in the civil service will help to sustain this process.

## Negatives

The scale of the challenge to be addressed in Nigeria is enormous and covers a wide range of different issues including:

- the imbalances in the Nigerian economy and the impact changes in oil prices may have on its management and the management of public resources
- the widespread corruption and misappropriation of state resources, which persist despite the efforts of successive governments to control and reduce them
- the tensions between the different tiers of the federal system and the continuing mismatch of resources against responsibilities at state and local government levels
- the number of accountants, auditors, budget and procurement staff in need of professional development at both accounting technician and professional (chartered accountant) levels, and
- the very low level of existing capacity within the PFM sector, a problem which becomes worse the further away from the federal level one looks.

Creating the necessary cadre of government finance professionals to deal effectively with all these problems will be a lengthy and resource-intensive process. Both the Government of Nigeria and donor partners will need to make long-term resource commitments and exercise a lot of patience as improvements work their way slowly through the system.

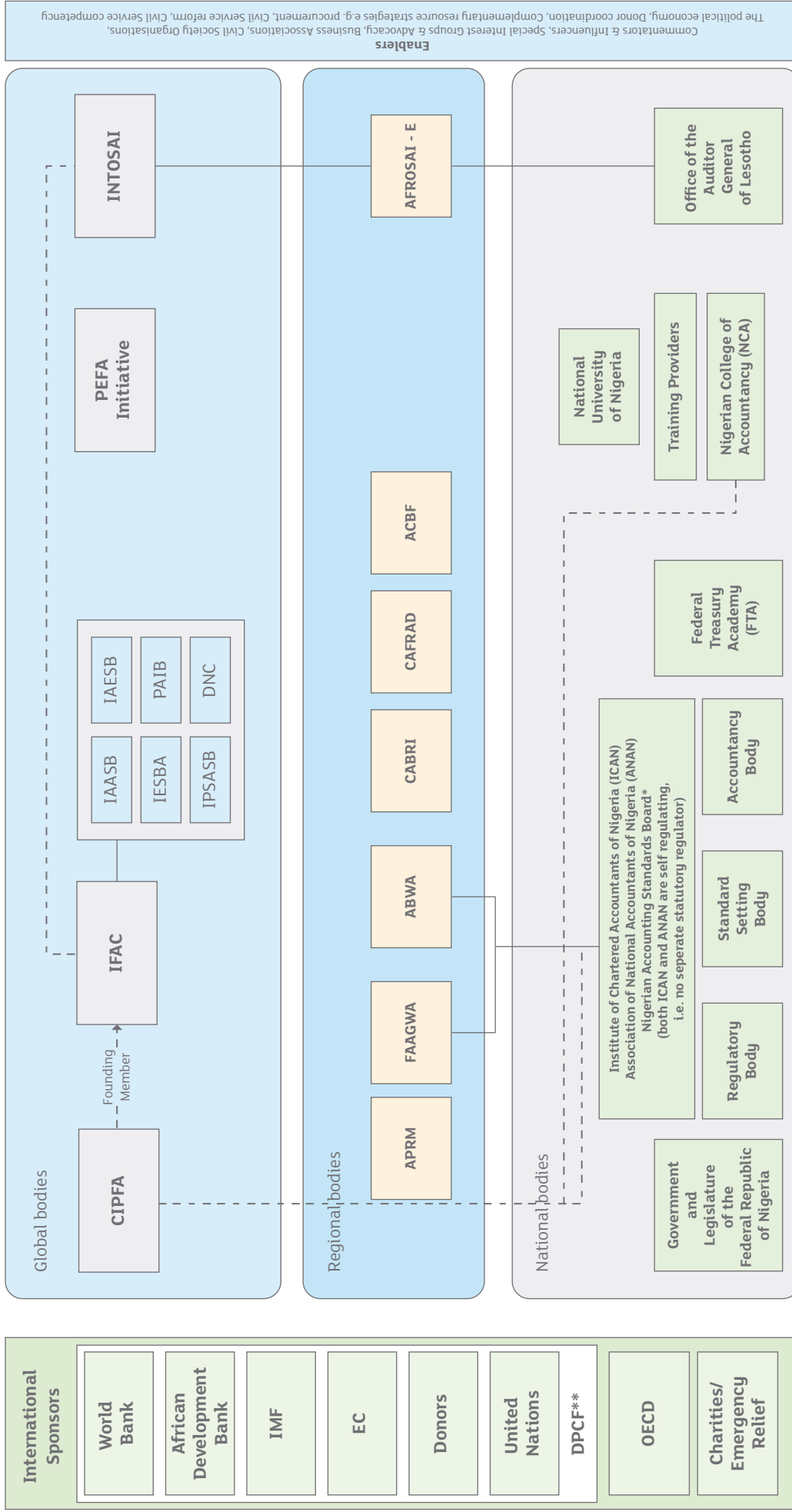
The existing accountancy profession remains rooted in the private sector. Whilst the commitment of the management of ICAN in particular to supporting the public sector is commendable, experience elsewhere suggests that it could take a long time for the necessary adjustments (amongst rank-and-file members in particular) in sentiment towards, and understanding of, the distinctive nature and needs of the public sector to become embedded.

The current profession even in the private sector remains weak and under-resourced as a result of problems of attracting good recruits and, above all, of retaining them within the profession once qualified, as a consequence of poor financial rewards. This problem is further compounded in the public sector by employment packages that are uncompetitive even with those in the private sector.

The process of developing solutions is moving very slowly. The burgeoning partnership between ICAN, FTA and CIPFA is a major step forward but even this has been beset by a number of delays in agreeing and implementing practical steps to cement the relationship.

The FTA, whilst in principle a substantial asset to the PFM professionalisation process, is in a very weak state, with low human and infrastructure capacity which will take a considerable time to remedy. Supplementing its resources through arrangements with universities and other teaching institutions is as yet untried and untested.

# ANNEX 1: The PFM International Architecture: Institutional Framework: Nigeria



\* Mainly private sector      \*\* Development Partners Consultative Forum



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