



State Audit Office of Georgia

SAO

# Role of SAO in PFM system reform in Georgia

Tbilisi

2012

# Public Financial Management System

## **Strong and effective Public Financial Management as a prerequisite of:**

- ❖ **Fiscal and macro stability**
- ❖ **Allocation of public resources according to national priorities**
- ❖ **Efficient delivery of services for poverty reduction and economic development**
- ❖ **Transparency and scrutiny of public funds**

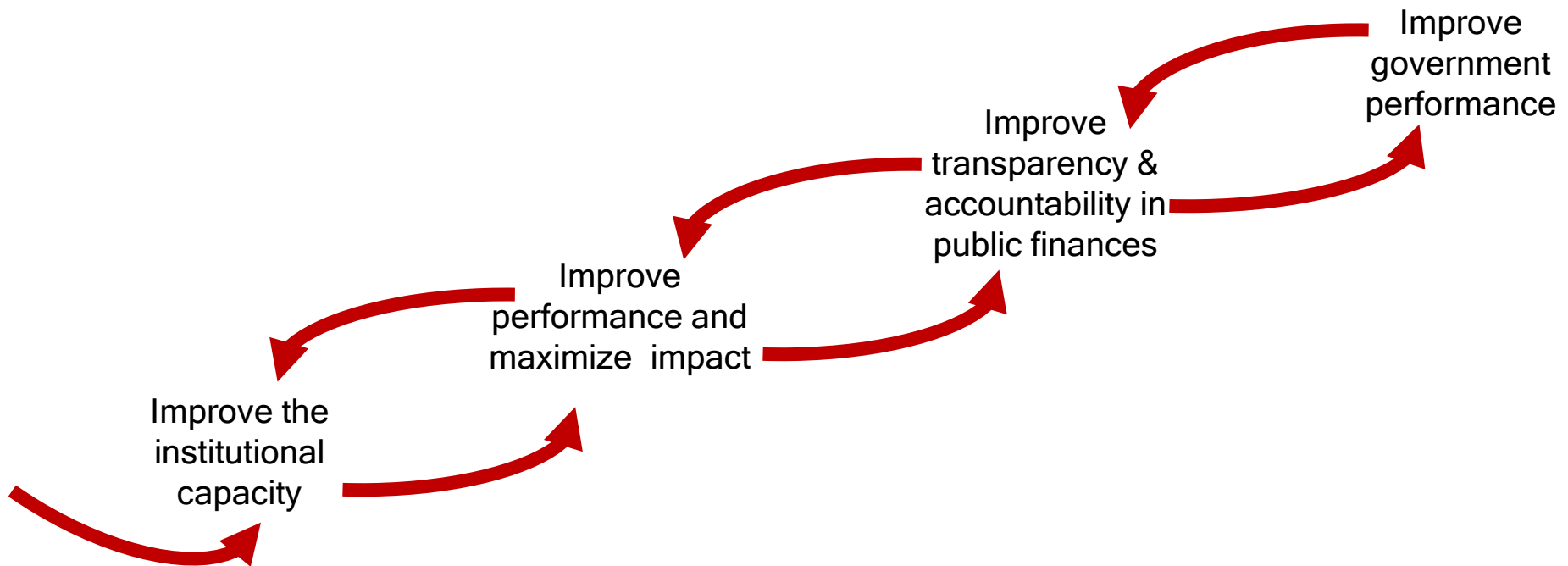
# Importance of SAI in Public Financial Management System

- ❖ Key player and part of PFMR
- ❖ SAO's increased responsibility: Institutional development & Role of the advisor
- ❖ *Steps toward transformation into the modern Supreme Audit Institution started since 2008*

# External audit reforms at State Audit Office of Georgia - Developing for Impact

## Improving institutional capacity-

a key prerequisite to deliver our mandates more effectively and to increase our impact as a player of PFM system.



# Strengthening institutional Capacity

## *Developing for Impact*

Three main components of SAO strategy 2010-2012



# Increasing SAO role in PFM System

## ***Making an Impact***

### *Changed Focus-Strategy 2013-2016*

#### **SAO Impact**

- Goal 1 – Increasing impact through financial, compliance and performance audits
- Goal 2 - Supporting reforms aimed at improving government accountability

#### **Institutional Capacity**

- Goal 3 – Enhancing institutional capacity to provide timely and high-quality support to the Parliament and Government

# Increasing SAO role

## *Making an Impact*



- Enhanced budget monitoring function



- Adding value on spot: Follow-up on recommendations



- Big picture focus: Risk-profiles of Govt entities



- Systemic deficiencies identified & responded to



- Impact on PFM Reform

# PFM Reform components in Georgia

## Policy Based budgeting

- Introduction of Medium-Term Expenditure Framework
- Move to performance budgeting

## Treasury Reform

- Cash management reform and IT
- Accounting reform: Steps toward Consolidated year-end financial statements

## Budget comprehensiveness, transparency and accountability

- Move to the GFS 2001 manual
- Public financial Internal Controls and Internal Audit

## Other aspects of PFM reform

- Debt management
- Improved Tax Revenue Administration
- Procurement

## External Audit

- Move to ISSAIs
- Risk-based Audit vs Revision
- Emphasis on Recommendations



# PFM Reform components in Georgia

**Policy Based budgeting**

Treasury Reform

Budget comprehensiveness,  
transparency and accountability

## **Introduction of Medium-Term Expenditure Framework**

- SAO, in its individual audit reports and Report on Government Budget Execution, promotes a more strategic allocation of resources, facilitating multi-year expenditure planning

## **Move to performance budgeting (in 2012)**

- Conducted joint seminars on program budgeting in 2011
- Carried out Pilot audits in Ministries where program budget was pilot
- Works on Better practice manual in Program Budget

# PFM Reform components in Georgia

Policy Based budgeting

**Treasury Reform**

Budget comprehensiveness,  
transparency and accountability

## **Accounting reform - Steps toward Consolidated year-end financial statements**

- In 2010, SAO recommended/ invited all public entities to move to electronic accounting systems
- Entity-level recommendations focusing on improvement of financial accounting of public entities
- System-level recommendations to facilitate the introduction of modified accrual accounting system (IPSAS)

# PFM Reform components in Georgia

Policy Based budgeting

Treasury Reform

**Budget comprehensiveness,  
transparency and accountability**

## **Public financial Internal Controls and Internal Audit**

- SAO contributed to the improvement of the Law on Internal Audit in compliance to ISA.
- In 2011-2012 SAO conducted the performance audit of implementation of public internal controls
- Member of Coordinating Council of the Reforms in Public Financial Management System
- Member of Internal Audit Council

# Future steps – Ongoing Challenges

**Rating system for the state agencies as a key component of risk-based audit approach**

**Enhancement of the recommendation follow-up system**

**Focus on fiscal discipline improvement - Debt management system and policy**

**Introduction of performance measurement system within SAO**