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.

- Improve the institutional capacity
- Improve performance and maximize impact
- Improve transparency & accountability in public finances
- Improve government performance
Strengthening institutional Capacity

*Developing for Impact*

Three main components of SAO strategy 2010-2012

- Professional Audit Capacity
- Organizational Capacity
- Corporate Reputation and External communications
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

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)

Policy Based budgeting

Treasury Reform

Budget comprehensiveness, transparency and accountability
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