



## Use of PEFA reports to assess the readiness of PFM Systems to respond to COVID-19 challenge

In a recent blog post ([Getting government financial management systems COVID-19 ready](#)), a team of the World Bank Governance GP highlighted that, in order to enable the countries to fight the crisis, “*public financial management (PFM) systems need to be responsive and flexible, while ensuring value for money and minimizing fraud and corruption*” throughout the budget cycle.

Public Expenditure and Financial Accountability (PEFA) assessment reports are one out of [several sources of information](#) available to support stakeholders’ efforts to get government systems prepared for an effective response. The [PEFA assessment Framework](#) is the only assessment tools that offer a comprehensive diagnostic of the PFM system in a country, from budget formulation over procurement, cash management and internal controls to external audit and scrutiny. In the last 4 years, reports have been finalized for 65 countries. These reports contain invaluable information on the PFM systems, mainly on their robustness but also to some extent on their flexibility. The points below, built around the 8 key areas identified by the [Governance GP blog](#), may help governments and their partners use existing [PEFA reports](#) to assess the readiness of PFM systems to respond to COVID-19 challenges.

### **1. Funding COVID response should be quick and clear.**

The narrative of dimension 2.3 of the PEFA Framework (Expenditure from contingency reserves) may describe how the contingency votes are put in place at the budget stage and how they are used during the year, evidencing that contingency votes are effectively supported by the treasury system. In complement, dimension 2.1 (Expenditure outturn by program, administrative or functional classification) may inform the reader on the existence of a

disaster fund – likely with no additional information on how the disaster fund can be used. In case of underspending two or three years in a row, the level of the outturn coupled with an analysis of the underlying reasons may enable to find areas from where funds could be reallocated (see also PI-18.4 and 21.4).

Dimensions 18.4 (Rules for budget adjustment by the executives) and 21.4 (Significance of budget adjustment) measure the extent to which the budget can be modified after it has been approved by the legislature. The narrative of both dimensions may provide insights on whether the legislation authorizes the executive to reallocate funds and increase total expenditure in crisis situation, as well as the legislative procedures needed for adopting a supplementary budget.

## **2. Controls should be reoriented, not diluted**

Dimension 25.1 (Segregation of duties) assesses the organization of internal controls in the expenditure process. Reorienting controls will be easier in countries where segregation of duties is already appropriately prescribed throughout the expenditure process and responsibilities are clearly laid down. Rules where segregation of duties is described, and responsibilities are defined would provide a solid basis for reorienting internal controls.

## **3. Efficient cash management is crucial**

The Governance GP blog emphasizes the importance of a Treasury Single Account (TSA) for facilitating the response. Dimension 21.1 (Consolidation of cash balances) assesses the effectiveness of the consolidation of cash balances, which a TSA generally enables. Indeed, the existence of a TSA is not enough to conclude that the cash management is efficient. The narrative is likely to provide useful information on the cash management arrangements and performance.

## **4. Efficient and accountable procurement is needed**

The PEFA procurement indicator (P-24) does not capture the existence of emergency procedures for procurement. Nevertheless, dimension 24.1 (Procurement monitoring) assesses the existence of a monitoring and reporting system. A robust system may be able to support the monitoring and reporting of emergency procurement operations. In addition to providing insights on the performance of the procurement monitoring system, the

PEFA report may provide a description of the procurement database, the data it includes, the procurement method, what was procured and sectors it covers. Dimension 24.2 on Procurement methods will identify the threshold under which there is no need to use competitive method; in countries where no emergency procedures are in place, these simplified procurement methods may allow to provide first responses to most pressing needs. Finally, dimension 24.3 (Public access to procurement information) reviews the level of public access to complete and reliable procurement information, which is needed to ensure the transparency of emergency procedures.

### **5. Payment management should be optimized**

Dimension 25.3 (Compliance with payment rules and procedures) provides information on the existence of exceptional procedures of payment that could be used for handling the crisis, and the extent to which the government is able to comply with them.

In addition, the capacity of frontline service delivery units to have comprehensive knowledge of their resources to enable them to use them effectively is assessed by dimension 8.3 (Resources received by service delivery units). Generally, the PEFA reports focus on the service delivery units of education and health sectors and provide information on the way these units access financial information systems to get knowledge of their available resources.

### **6. Internal audit could compensate for some ex-ante controls**

PEFA indicator PI-26 gives a comprehensive overview of the internal audit function for the central government, i.e. including extrabudgetary units. The PEFA reports will provide information on the organization of the internal audit function, the agencies where it is operational (26.1), the nature of its works and skills of the auditors, in particular regarding the audit of transactions (26.2) and the effectiveness of its works (26.3). All these elements of information will be useful to know when assessing whether it is possible to rely on the country's internal audit system or whether there is a need to complement it when responding to COVID-19.

### **7. Financial reporting for timely assurance**

The robustness of the financial reporting system during normal times will inform on the capacity to ensure an adequate level of reporting during COVID-19 responses. In particular, the PEFA reports will provide valuable

information on the completeness of the financial reporting (PI-29.1), and the capacity of reporting extrabudgetary expenditure and revenue of both budgetary units and extrabudgetary units (PI-6.1 and 6.2- Expenditure and Revenue outside financial reports).

The capacity of the government to produce in-year financial reports is assessed through indicator PI-28, in particular regarding the comprehensiveness of the interim financial reports in PI-28.1 (does the government have the capacity to produce sufficiently detailed interim financial information) and the delays of producing these reports (PI-28.2).

In addition, the existence and adequate use of advance accounts, which can be needed to record the advances made to contractors and providers, is assessed through PI-27.3.

Finally, publication of in-year and annual financial reports, as well as audit reports, which is key to accountability and transparency of the government's action is assessed by PI-9 (Public access to fiscal information).

#### **8. The Supreme Audit Institution needs to stand ready**

The capacity of the Supreme Audit Institution (SAI) is assessed through the annual coverage of the financial audits (PI-30.1) and the timeliness of the production of annual audit reports (PI-30.2). In addition to this quantitative assessment, a PEFA report will provide an assessment of the quality of the financial audits by mentioning whether the SAI follows international or national auditing standards, and whether the reports highlight any relevant material issues. Arrangements for performance evaluation, which would help building resilience for future events are described under dimension 8.4 (performance evaluation for service delivery).

Users of PEFA reports may find elements to assess the readiness of PFM systems to respond to COVID-19 in 24 different dimensions, belonging to 14 PEFA indicators. The PEFA Secretariat is committed to help the stakeholders to make the best use of its database of reports.