

June 2011

From the Office of Financial Management, USAID/Egypt

DLI PERSPECTIVE:

Crosscutting Opportunities in PFM

With PFM initiatives leading the charge in procurement reform, BS-04 DLIs are given the unique opportunity to participate in exciting crosscutting activities, and my involvement in the METAC workshop on internal audit was no exception. As the key USAID representative on the committee to plan and execute this innovative event, I worked extensively with Chemonics staff under the Egypt Competitiveness Project (ECP) of Cairo's PPS division to coordinate both budgetary and logistical support in partnership with METAC and the World Bank. Furthermore, it was a remarkable exercise in donor coordination as I learned to resolve the challenges of working with multiple organizations, each with conflicting internal regulations on monetary contributions and varying management styles and approaches.

- **Thao Tran**, DLI 12

USAID coordinates with METAC in landmark regional workshop

On May 31- June 2, 2011, USAID co-sponsored and participated in a pioneering regional workshop on public financial management titled *Expenditure Control and Internal Audit in Government Financial Management* in Cairo, Egypt. The three-day event was hosted by the Middle East regional Technical Assistance Center (METAC) in collaboration with USAID, Egypt's Ministry of Finance, World Bank, EU and other multilateral donors with the objective of providing ministry representatives from participating countries in the MENA region a detailed understanding on how to establish, maintain and support effective internal control methods and accountability for government expenditures.

The workshop was launched with METAC Coordinator Saade Chami's opening remarks on the advantages of the high donor coordination this exemplified, as it avoids duplication of efforts, gives consistent messages to recipient countries, and benefits participants in exchanging experiences between each other and with donors. This cooperation is also in line with the Paris Declaration on aid effectiveness which calls on donors to harmonize their actions and to promote joint training to share lessons learned and build a community of practice. Egypt's Deputy Minister of Finance Amina



Ghanem also officially welcomed the audience of over 50 participants and expressed her interest in seeing how the lecturers will clarify the difference between internal audit and financial control. Over the course of the workshop, financial management experts demonstrated various concepts, models, and strategies in developing a sound internal control system, and case studies of PFM reform progress and challenges in different countries were shared.

A landmark event, this workshop represented the first ever collaboration between USAID/Egypt and METAC, a Beirut-based affiliate of the IMF, as well as the first time USAID/Egypt sponsored a regional workshop of this kind on public finance and accountability in Cairo. Prior to the workshop, USAID/Egypt's Mission Director, Jim Bever, also met with Chami to discuss the importance of aligning multi-donor coordination in PFM and share mutual interest in harmonizing efforts in the future. Hitting on both IPR Objective 1 (strengthen capacity of partner country systems) and IPR Objective 5 (strengthen partnership with other donors), this workshop is one example of the many inventive endeavors USAID/Egypt continuously seeks to execute in pursuance of the USAID Forward reform agenda.



"It was interesting to note the reaction of government officials from Finance Ministries of the countries in the region to the workshop topics. While it could be true that countries in the region may have sort of financial controls and apply certain aspects of internal audit, it was obvious that these systems and procedures are not formalized in laws and are also not up to PFM indicators and standards. It was also interesting to convey to government officials that internal audit is not just about financial and transaction control but goes beyond that to mitigating financial risk, improve system effectiveness, streamline operations and accomplish program objectives. This will probably need a change in concepts and cultural behavior in the minds of government officials. "

- **Matta Matta**, Sr. Financial Specialist



At a time when many of the countries in this region are faced with political and economic challenges, the workshop was extremely timely. Effective expenditure controls and internal audit are essential parts for the reliability of any Public Financial Management System. Internal Accountability is one of the areas least focused upon when it comes to PFM reform; however, it plays such a vital role when it comes to mitigating fiduciary risk through the implementation of an internal control system and the existence of an internal audit division.



One of the topics presented by USAID/Egypt addressed Effective Payroll Controls. It is important to note that within the budget cycle one of the key areas to PFM reform in expenditure controls and internal audit takes place at developing expenditure controls associated with payroll reform. It is an important control because it is a vital element in mitigating corruption associated with government expenditures. For example, having a sound payroll system that prevents the inclusion of “ghost workers” can be a real safeguard against fraud and abuse. By implementing proper safeguards, a country is able to strengthen weak links in the PFM cycle.



Lastly, there has to be involvement by civil society to ensure sustainable reforms are being achieved and monitored. Civil society engagement in the budget cycle at all levels can lead, in the longer term, to increased pressure for the government to report on how the budget was actually spent. This will help to ensure an accountable and responsive government.



As a result of this successful conference, the Mission is looking to do more donor and government collaborations on PFM in the coming year, as well as developing an in-house monthly brown bag/lecture series for USAID staff to become better versed in PFM. Both are considered great initiatives and at the forefront of the USAID Forward Agenda, which addresses changes in our aid practices to align with the Paris Declaration and Accra Agenda for Action principles, as well as build the capacity of civil society.

- **Clinton White**, Deputy Controller

Recommendations from the workshop

- The seminar **did not advocate any model of audit** (centralized/decentralized) or any specific standard (IIA, COSO, PIFC). However, it highlighted the underpinnings and rationales of each model and the difficulty to mix them without generating duplication and waste of resources. The situation of Egypt (but also Jordan), mixing both systems, was reviewed and discussed in light of this practice.
- The seminar emphasized the **need to clarify and rationalize the picture of control and audit** prior to implementing any new framework in order to avoid additional risks of accumulation of layers of duplicative control and overall inefficiency. The Jordan reform project of internal audit which may mix several layers was discussed in light of this guidance.
- The seminar pointed out the challenges to be addressed when considering the role of financial inspections still prominent in the control and audit sphere in the region, notably because of its corruptive environment. A comprehensive move from Inspection toward Internal Audit seems unrealistic, and/or unlikely. However, a **split of functions within the existing Inspections** between audit and inspections tasks was advocated, while the inherent difficulties to such reform (human, institutional, political, capacity building, coordination of work program) were also figured out.
- Finally the seminar emphasized the need for a **gradual and sequenced approach** taking into consideration the features of existing systems and their realistic progress in reaching the new aimed system.

- From **Pierre Messali**, METAC