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RETHINKING PUBLIC FINANCIAL MANAGEMENT

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RETHINKING PUBLIC FINANCIAL MANAGEMENT

The Covid-19 pandemic showed the importance of good public financial management. Now is the time to learn from this experience and think about how public financial management arrangements need to evolve so that governments are able to respond to crises in the future, quickly, effectively and transparently.

AUTHORS

Gary Bandy
PFM Specialist

Alex Metcalfe
Global Head of Public Sector, ACCA

Foreword

Manuel Schiappa Pietra
President & CEO
FreeBalance Inc.

This timely report comes at an important inflection point for public finance professionals. The risk from legacy government systems and processes came to unfortunate consequences during the COVID-19 pandemic.

Has the pandemic exposed opposing government policy forces of economic growth and citizen wellbeing? It would seem so, based on media reporting. What the pandemic has really shown are policy linkages among economy, health, inclusion, and environmental outcomes. We no longer need to think of wellbeing as a "cost centre", but rather as a "profit centre" that accrues long-term prosperity.

Finance ministries, enabled by effective Public Financial Management systems, are the backbone for effective policy decisions and spending allocation. Programme and performance management provide underlying tools to optimize public investments. This includes "social public investments".

How do finance ministries effectively measure policy outcomes? Recent trends for wellbeing, gender, and sustainability budgeting show how citizen values impact perceptions of government performance. For example, the World Happiness Report 2021 advocates the use of the WELLBY (Well-Being Year) formula to evaluate social policy changes.

There is more to government performance than economic growth. Modern finance ministries drive good policy decisions through analyzing complex fiscal and performance data. These finance ministries benefit from public finance reform with multiple-year perspectives, performance indicators tied to policy strategies, and public servants empowered with tools and skills. The migration towards accrual accounting enhances finance ministry capabilities to evaluate policy and budget proposals. Participatory budgeting improves the linkage between citizen values and spending. When combined with fiscal transparency, and government accountability, civil society engagement enhances trust. Trust is a major theme in this report. Trust encourages investment and growth as credit and risk ratings improve. Trust reduces the "brain drain" migration to more advanced economies.

The pandemic resets governance reform in many countries: the priorities of public finance modernization domains, and the pace of implementation. Country context situations became visceral. Reform sequencing tied to the citizen context delivers resilience. Resilience to economic shocks. Resilience to health shocks. Economic, health, and government finance impact from shocks are modelled in scenario planning when formulating budgets. Improved response to shocks benefits from integrated fiscal data tied to outputs and outcomes.

Momentum for service delivery improvements, particularly through the use of digital technologies, accelerated during the pandemic. Service delivery effectiveness and prioritization rely on the public finance backbone through resource allocation. It is through fiscal data tied to performance measures that governments learn the cost per output and outcome. This provides comparability across sectors, programmes, and regions, to assist in evidence-based decision-making to improve service outcomes.

It is through effective resource allocation integrated with citizen values that provides the healthcare and education services necessary for inclusive and sustainable growth. Families prosper, and communities prosper.

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EXISTING AND FUTURE PFM SYSTEMS ARE ONLY AS GOOD AS THE PEOPLE WHO OPERATE AND MANAGE THEM.

Executive **summary**

In Siena's Palazzo Pubblico, there is a series of frescoes painted by Ambrogio Lorenzetti in the 14th century called the 'Allegory of Good and Bad Government'. They depict that good government leads to peace and wealth and full harvests, while bad government results in war and famine. The Covid-19 pandemic has demonstrated that, almost 700 years later, the quality of a government still has a profound impact on citizens. As Micklethwait and Wooldridge (2020) write:

> **IT MATTERS ENORMOUSLY WHETHER YOUR COUNTRY HAS A GOOD HEALTH SERVICE, COMPETENT BUREAUCRATS AND SOUND FINANCES. GOOD GOVERNMENT IS THE DIFFERENCE BETWEEN LIVING AND DYING.**

And in modern times a government's ability to do anything depends on its public financial management (PFM) system. This is how it prepares budgets, obtains the financing, spends the money, and keeps its accounts. The achievement of the Sustainable Development Goals (SDGs) will depend on the effectiveness of governments, which will in turn depend on how effective they are at PFM.

The Covid-19 pandemic demanded a very rapid response in the form of economic lockdowns and increased health care spending. The need for a speedy response caused governments to bend and stretch their PFM systems. Some legislatures had to approve multiple supplementary budgets, while others granted extraordinary spending powers to the executive. Executives suspended the normal rules of procurement and accountability so as to respond faster to the emergency.

This report identifies lessons for governments and finance professionals that can be learnt from the Covid-19 experience. It uses survey data and in-depth discussions contributed by over 1,500 ACCA members and affiliates to reflect on how governments responded to the Covid-19 pandemic and how PFM must now evolve to deal with future crises.

For the effectiveness of the responses, the survey results describe a mixed picture. In three regions, North America, the Middle East and Western Europe, there were overall positive responses about the effectiveness of governments' PFM systems and the associated accountability and transparency, whereas the other regions were less positive. The fact that some countries responded more effectively than others is not a surprise given that some are wealthier than others and some had stronger PFM systems before the pandemic.

Even so, given that governments had to bend or break their rules in order to do what was needed, it is apparent that they could all improve their PFM systems. As Hedger et al. (2020) write:

> 'Public financial management has become almost a settled science – ring-fenced in its own compartments, unchanging in its approaches, and seemingly unaffected by the disruptive winds of 21st century governance and policy objectives'.

The Covid-19 crisis is a prompt for governments to make changes now, so that they are ready for the next crisis – because there will surely be future crises requiring government responses. Respondents were asked how governments should evolve their PFM systems to be better placed to deal with future crises, and they identified the three main areas for development:

- improving transparency and accountability of government spending
- better prioritisation of resource allocation, and
- intensifying the focus on risk management.

There are other key areas for development, as ACCA has argued in other reports (2021a, 2021b) throughout the Covid-19 crisis. These are:

- improving the focus of PFM systems on ensuring service delivery achieves value for money
- adopting accrual accounting and budgeting so that the decisions made by ministers and policymakers are based on a full picture of the government's finances
- adopting e-procurement processes and using the Open Contracting Data Standard (OCDS).

Existing and future PFM systems are only as good as the people who operate and manage them. It is a significant risk to a government's success if it does not have the right number and quality of public finance professionals. To benefit from their improved PFM systems, governments may need to make a significant and sustained investment in public finance professionals.

There are supply and demand aspects to meeting the need of a professional government finance function. On the demand side, governments have to recognise the need to use financial information in decision making, and then create attractive jobs and career paths to help them recruit and retain finance professionals. On the supply side, professional accounting organisations and training providers need to create a stream of finance professionals who are among the competent bureaucrats that are required for good government.

The **key recommendation** of this report is that governments must invest in their PFM systems now so that they are flexible and resilient enough to deal with crises in the future. This investment should include improvements to PFM systems, while also ensuring they have sufficient, competent public finance professionals, who will advise on future decisions.

> **THE KEY RECOMMENDATION OF THIS REPORT IS THAT GOVERNMENTS MUST INVEST IN THEIR PFM SYSTEMS NOW SO THAT THEY ARE FLEXIBLE AND RESILIENT ENOUGH TO DEAL WITH CRISES IN THE FUTURE.**

Summary of recommendations

The following recommendations were included in the report and are highlighted here for ease of access.

Recommendations about PFM systems and processes

1. During Covid-19, governments changed the budget approval and execution phases of their systems to get things done quickly. In future crises such changes should be accompanied by changes to the budget oversight processes to ensure that accountability and transparency are not weakened and that governments are fully accountable for their actions in response to the crisis.

2. Legislatures should provide their supreme audit institutions (SAIs) with the independence and resources needed to be fully effective in ensuring that government achieves value for money and is transparent and accountable.

3. SAIs should have the power to require governments to make a public response to all the findings and recommendations in SAI audit reports. SAIs, or other independent institutions, should have the remit to follow up the government's implementation of audit recommendations.

4. Governments and other public sector organisations should use outcome-based or performance budgeting to make a clearer link between the allocation of resources and the effective delivery of public services and programmes.

5. When assessing value for money, governments and other public sector organisations should extend the concept to include equity and ethics as well as economy, efficiency and effectiveness. A broader interpretation of value for money will help promote policies and programmes that help with UN SDGs 10, 'Inclusion', and 16, 'Just, peaceful and inclusive societies'.

6. All institutions that are part of the PFM system should ensure that risk management is embedded as an essential part of governance and leadership at all levels. This should include:
   - using risk-management impact as one of the factors considered when allocating resources to programmes and investment projects
   - integrating climate change into financial risk-management frameworks.

7. Public sector organisations should implement accrual accounting and budgeting (financial reports and budgets have to be on the same basis) to bring the finance function to the heart of government decision making and ensure that decisions take account of the full financial impact of each option.

8. Jurisdictions still completing the journey to accrual accounting should consider the implications for public sector balance sheets when making fiscal policy decisions.

9. Governments should use an e-Procurement system for the efficient management of the procurement process and publish reusable data from the system for monitoring and oversight, using the OCDS.

10. Key public institutions should build trust by increasing citizen participation in PFM, such as by implementing participatory budgeting or creating forums where citizens can participate in the accountability process.

Recommendations about public finance professionals and capability

1. Governments should commit to the professionalisation of the finance function, including the recognition of the broad and deep roles that finance professionals can fulfil in improving PFM systems and outcomes for citizens.

2. Public finance professionals should support the implementation of outcome-based or performance-based budgeting by developing systems and processes that connect resource allocation with the organisation's policy priorities and performance-management system.

3. Public finance professionals should advocate inclusion, diversity and social mobility whenever they are able, both to improve performance and to move towards achieving SDG 10, Reducing inequality.

4. Public finance professionals should assess the cost and effectiveness of each control that was relaxed during the Covid-19 response before deciding whether to reinstate it, modify it or abolish it.

5. Public finance professionals should contribute to the strengthening of their organisation's risk-management processes. They could do this, for example, by:
   - identifying and reporting risks in the official system
   - helping decision-makers by evaluating financial aspects of the risks associated with every decision
   - developing realistic financial models of alternative possible scenarios.

6. Public finance professionals in countries not managing their finances on an accrual basis should take a balance-sheet approach to their reports and advice so that decision-makers have the best possible information about the implications of the decisions they take.

7. Public finance professionals should acquire procurement and contract-management skills and think in commercial terms so that they can support managers in obtaining better value from suppliers.

8. Public sector organisations and finance professionals should prioritise the development of skills in digitalisation and technology.

9. Governments should base their decisions on sound financial information that reflects the complexity of their finances, and should employ enough competent finance professionals to ensure this.

10. Professional accounting organisations should help governments by producing a stream of qualified accountants and developing other educational programmes that support governments' PFM systems and processes.

11. Public finance professionals should take responsibility for their own personal development, identify their own skills gaps and seek opportunities to fill them. In particular, they should take advantage of opportunities to develop into sustainable business and finance professionals, able to create, protect and report on value for their organisations.

INVESTMENT SHOULD INCLUDE IMPROVEMENTS TO PFM SYSTEMS, WHILE ALSO ENSURING THEY HAVE SUFFICIENT, COMPETENT PUBLIC FINANCE PROFESSIONALS, WHO WILL ADVISE ON FUTURE DECISIONS.

Introduction

The Covid-19 pandemic demanded fast responses from governments to protect their citizens' health and well-being. In an unprecedented situation governments had to decide what to do, whether that was spending directly on health services or supporting businesses affected by social distancing lockdowns, and then do it.

PFM systems were essential to this (just as they are essential to almost everything a government does). PFM systems were needed to collect taxes and other income, allocate funds to ministries and other spending units, make social benefit payments to vulnerable people and businesses, record all the transactions and produce financial reports, all while processes were moved online and staff began working from home. Governments around the world can be proud of the agility and determination they have shown through the Covid-19 pandemic so far.

To collect insights into how governments responded to Covid-19, and how their PFM systems should evolve, in June 2021 ACCA conducted a global survey of ACCA members and affiliates. Over 1,500 responses were received covering public, private, and not-for-profit sectors, and respondents included accountants, auditors, chief financial officers and academics.

All respondents were asked a number of questions about PFM in their country. ACCA asked those respondents who stated that they worked in government or public sector roles about their current skills and the skills they wish to develop. Specifically, ACCA was interested in exploring the following research questions.

- How well have governments responded to the pandemic?
- What are the future challenges for PFM arrangements?

The survey responses were supplemented by three online roundtable discussions involving more than 30 public finance experts with a wide range of skills and experience in PFM. These discussions enabled more nuanced interpretations of the global survey findings.

The findings from the survey and discussions have been contextualised in this report with desk-based research about PFM and the pandemic.

What is public financial management?

PFM is the way governments manage public resources, including collecting revenue and controlling expenditure, and the impact such resources have on the economy and society. The success of this will depend on the effectiveness of governments, which itself depends on how effective they are at financial management. PFM is about both the processes governments use to manage their money, and the results they achieve from financial flows, in the short, medium and long term.

PFM is typically seen as having three common objectives. These are:

- to maintain a sustainable financial position
- to allocate resources effectively
- to provide goods and services efficiently.

PFM literature usually focuses on the way financial systems operate at national government level, but the three PFM objectives also apply to subnational governments and to individual public sector organisations, such as hospitals and schools.

Relatively few public services are actually delivered to citizens directly by national government ministries. More often, the finance ministry supplies money to line ministries that then use their own financial management systems to get the money to the schools, hospitals, police stations, prisons, construction sites and so on, which provide the public services. Governments need to have systems in place to achieve all this.

It is important, then, that all public bodies in a country, not just the national government, have effective PFM arrangements. If PFM arrangements are weak and a government cannot collect revenue and/or cannot pay salaries to public workers such as teachers, doctors, soldiers and engineers, or cannot pay its suppliers, it will have difficulty achieving the desired goals for education, health, security and mobility. A crisis such as the Covid-19 pandemic can expose and exacerbate weaknesses in PFM systems.

The Public Expenditure Framework Assessment (PEFA) Secretariat's report, *2020 Global Report on Public Financial Management*, is based on nearly 700 assessments of countries' PFM systems up to 2019 (PEFA 2020). It therefore gives an insight into the state of PFM before the Covid-19 crisis. The key messages of the report include the finding that countries tend to be better at preparing their budgets than executing them. That is, they can produce good plans but are less good at achieving the intended results. PEFA (2020) also states that 'internal audit, management of fiscal risks, external audit, and scrutiny by Supreme Audit Institutions and the legislature remain the weakest areas of PFM'. On equality and inclusion, the report notes that some countries had made advances in developing and implementing gender-responsive budgeting but this was not a mainstream feature of PFM in most countries.

A CRISIS SUCH AS THE COVID-19 PANDEMIC CAN EXPOSE AND EXACERBATE WEAKNESSES IN PFM SYSTEMS.

As gender equality is SDG5 (UN n.d.a), the United Nations is encouraging governments to improve this, by ensuring Covid-19 response plans and budgets address gender impacts of the pandemic (UN n.d.a). It is especially important because, as ACCA has reported (2021a), during the pandemic women fell out of the paid economy faster than men and violence against women increased.

In addition to using its assessments to report on the state of PFM, the PEFA Secretariat also recognises that these assessments tend to focus on the role, function and performance of finance ministries and not on the PFM work done in line ministries and below national government level. It calls for research, therefore, into how PFM can improve service delivery.

Outline of the report

The body of the present report is divided into four sections. The first of these discusses the ACCA survey's findings on the effectiveness of **governments' responses to the pandemic** and the need for governments to understand their current financial position before formulating plans for the recovery and beyond. The next section is the heart of this report, setting out **the priorities for improving PFM systems** as identified by the survey respondents. The analysis focuses on the allocation of resources, improved risk management, and enhancing accountability and transparency. This is followed by a section that focuses on **the role of finance professionals in PFM systems**, and in particular the skills that the survey respondents identified as priorities for development. The final section offers a brief **conclusion**.

GENDER EQUALITY IS ESPECIALLY IMPORTANT BECAUSE DURING THE PANDEMIC WOMEN FELL OUT OF THE PAID ECONOMY FASTER THAN MEN AND VIOLENCE AGAINST WOMEN INCREASED.

1. Governments' responses to the pandemic

Since the Covid-19 virus emerged, governments have shown agility and innovation in keeping public services running and managing economies that were in crisis. ACCA asked respondents whether they agreed that the public sector in their country had responded effectively to the pandemic. Overall, 48% agreed their government had been effective but the responses show notable regional differences.

When ACCA analysed the data by calculating net agreement scores (to remove the neutral responses and compare agreed/strongly agreed against disagreed/strongly disagreed) the regional difference is much clearer, as shown in Figure 1.1. The majority of respondents from North America, the Middle East and Western Europe agreed or strongly agreed and were clearly much more positive about the effectiveness of their public sector institutions than those in other regions. Beyond them, only Asia-Pacific had a net positive score; the other four regions had more respondents disagreeing with the statement than agreeing with it.

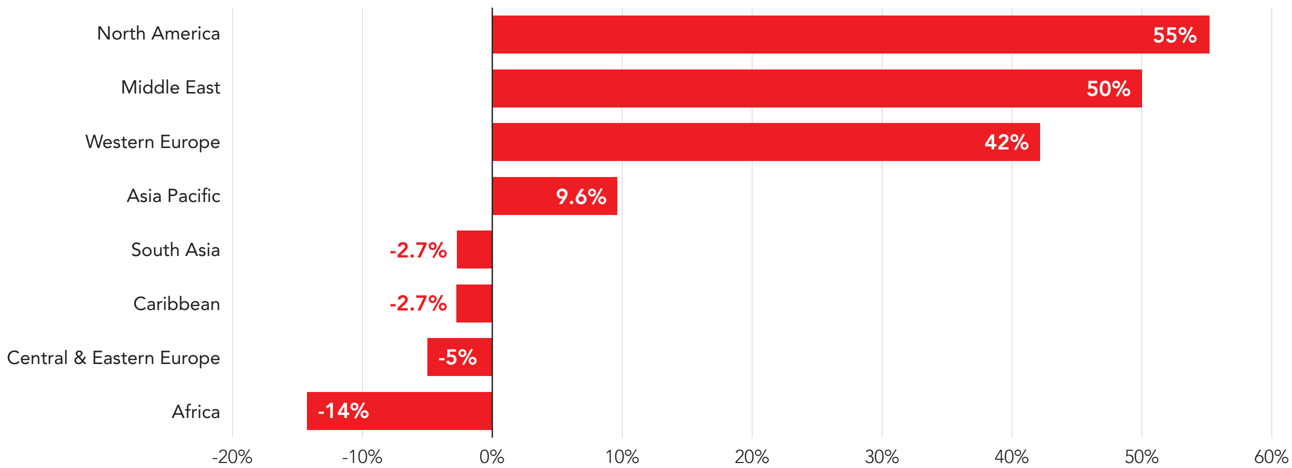
Figure 1.1 suggests that there were significant differences in the performance of governments. North America, the Middle East and Western Europe comprise relatively wealthy countries with larger public sectors and well-established PFM systems and were therefore probably in a better starting position to respond to the pandemic.

The International Monetary Fund (IMF) Fiscal Monitor Database showed, as of July 2021, that countries in North America and Western Europe had made fiscal responses to Covid-19 that were equivalent to 7.5% of GDP or more (IMF 2021a). This does not completely explain Figure 1.1 because fiscal support in the Middle East region is much lower, while countries including Australia, Brazil, Chile, Japan and New Zealand all made large fiscal responses.

The wealth of a country clearly makes a difference to its ability to respond to Covid-19. Overall, according to the IMF (2021a), advanced economies averaged a fiscal response of 15% of GDP, while emerging economies averaged about 4% and low-income developing countries averaged 2% of GDP.

There are other differences and challenges among countries and regions. The global survey and roundtable discussions, for example, drew out that the move to remote working by government staff was much more difficult in emerging economies than it was in higher-

FIGURE 1.1: The public sector in my country responded effectively to the pandemic analysed by region



income countries. Issues included hardware (having sufficient laptops or other devices that could be used remotely), internet access and reliability, and sufficient skills and access in communities for digital delivery of services to be practical.

The survey also showed differences of opinion depending on the sector where respondents worked. Public sector respondents were much more likely than those in the private or not-for-profit sectors to agree that their government had made an effective response, as shown in Figure 1.2.

This differences of opinion could reflect a bias among public sector respondents towards believing their sector to be more effective than others might perceive. It could also reflect a tendency among private sector respondents to base their opinions on the direct impact the government/ public sector had on them and their businesses directly, rather than effectiveness across the board.

Respondents working in not-for-profit organisations had a much more negative opinion of government responses to the pandemic. Only 37% agreed their government was effective in dealing with the pandemic, while 48% disagreed, giving a net agreement rate of -11%. We heard comments at the roundtables that central governments needed to trust other parts of the public sector, such as local governments, to deliver critical elements of the Covid-19 response. Keith Leslie, chair of Samaritans in the UK and Ireland said, 'Central governments' failures during [the pandemic] were often due to not trusting local government to take local action. Voluntary organisations received minimal support'. This perhaps gives a clue to the lower level of agreement about government effectiveness among people working in not-for-profit organisations. Indeed, perhaps it suggests that governments could have done more to devolve power and decision-making away from the national centre to the local level, where public services are actually delivered to citizens.

Effectiveness of PFM systems

Effective government responses to the pandemic covered four main areas of activity:

1. allocating resources to priorities
2. funding Covid-19 spending
3. spending emergency funds
4. enabling transparency and accountability (OECD 2020).

These activities fit loosely into the four stages of the PFM cycle: budget formulation, budget approval, budget execution, and budget evaluation (Figure 1.3). The pandemic led to numerous challenges for governments in all four stages of the PFM cycle.

FIGURE 1.3: The PFM cycle

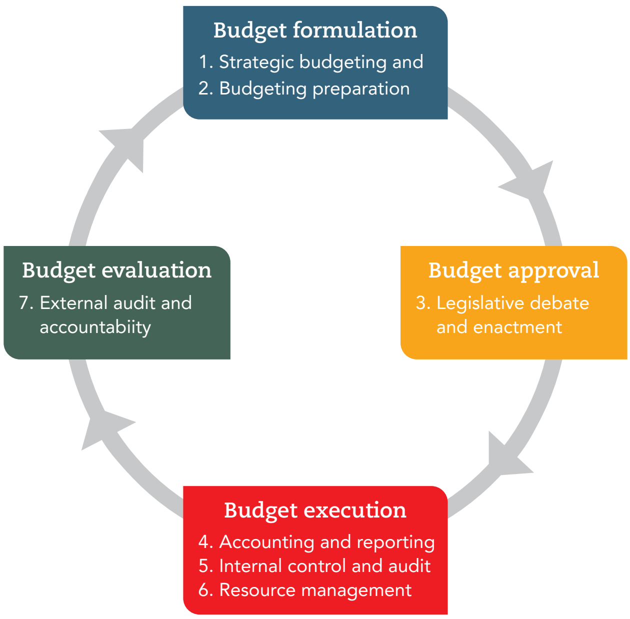
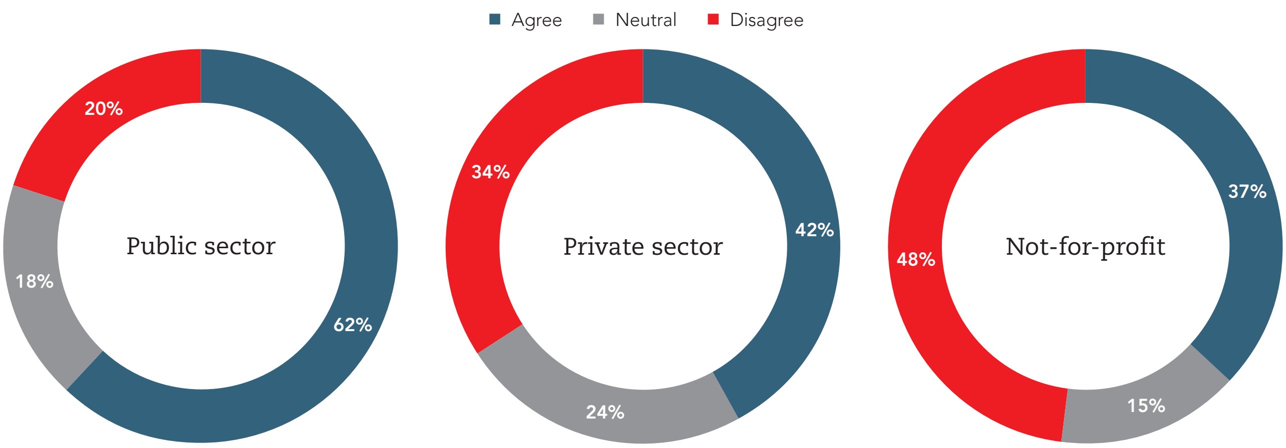


FIGURE 1.2: Response rates by sector



Before the Covid-19 pandemic it might have been expected that governments would be able to meet whatever challenges came their way – economic crises, natural disasters, and so on – within their existing PFM arrangements. The responses by governments in 2020 and 2021 show that governments found their PFM systems were unable to cope with the demands of tackling the pandemic.

> 'In most countries, important features of an orderly budget process – the fixed budget calendar, macroeconomic and fiscal forecasting underlying the budget process, allocation of resources to specific programmes, channelling of all spending in the budget, etc. – could not be maintained'. (OECD 2020: 2)

Suddenly, governments were faced with new and difficult trade-offs. There was the demand to spend more on healthcare, at first on urgent treatment and later on vaccination programmes. They were also faced with implementing lockdown policies that would drastically reduce economic activity and potentially devastate some businesses and industries. This in turn led to policies that would limit the impact on the economy.

The IMF (2021b: ix) estimated that governments had mobilised $16 trillion in the 12 months to April 2021 on fiscal policy responses of different types, including additional spending measures, tax relief programmes, loans and loan guarantees. The scale and nature of responses varied 'but everywhere they [were] a very significant departure from normal fiscal policy processes' (IBP 2021: 3).

There are differences between advanced and emerging economies in the fiscal measures taken. For example, the most common response in non-G20/non-OECD countries was tax payment deferrals, rather than the cash transfers as seen in Europe and North America. This is not to say that OECD countries have used only cash responses.

> 'It is notable that governments have relied heavily on non-cash (also called balance sheet) measures to provide support to households and corporations. In particular, very large guarantee schemes have been announced in most countries…that will not impact the current year's deficit but generate significant fiscal risks for the future'. (OECD 2020: 6)

Developing countries that have a high share of revenues from commodities and natural resources were affected by a decline in global demand and prices, while those reliant on tourism were affected by the collapse of international travel. Remittances from diasporas may also have been reduced as a result of the containment and mitigation measures in developed countries.

Ian Ball (2020: 661) argues that: 'The pandemic has demonstrated the value of competence in PFM, and of governments having strong balance sheets'. Governments with strong balance sheets could use reserves to finance the extraordinary expenses that faced them. For other governments, the increase in spending increased their national debts because it would not have been possible to collect enough income from taxation to cover the extra spending.

In practice, we saw legislatures approving supplementary budgets (that is, in-year increases to planned public spending) and in some countries, such as Korea, there was more than one supplementary budget approval within a year. Other legislatures, such as the UK, took an alternative approach and granted exceptional spending powers for the executive. We also saw governments relaxing the fiscal rules they normally abide by and other mechanisms for the fast-tracking of appropriations, spending, and fund transfers.

Keeping track of the spending

A wide array of policy responses were required of governments during a time of high pressure and incomplete information. There was little time to think through the design of policies and how to implement them. As some jurisdictions emerge from the initial crisis, it is important to learn from these rapid interventions, so that governments are better prepared for any future crisis.

Accounting is the systematic collecting, recording and analysis of financial transactions and it is a key component of the budget execution stage of the PFM cycle. To that end, one would expect all governments to have accounting systems that are able to record all their financial transactions. Indeed, in the public sector, 'accounting has been traditionally conceived of as a means of upholding the principles of democracy, representation, and equity – and not only efficiency, effectiveness, and economy' (Agostino et al. 2021: 2)

Different approaches were taken in different countries. Some, such as Germany, France and Japan, created specific programmes or chapters in their budgets. Others, such as Canada, Slovenia and Greece, put in place tagging systems so that pandemic-related spending could be collected and analysed as separate or additional spending (OECD 2020).

In the UK, the National Audit Office (NAO) kept track of the estimated cost of government measures in response to the pandemic, via the Covid-19 cost tracker. This information was published on the NAO website (NAO 2020) and the total spending from February 2020 to March 2021 was £372bn.

Where governments have detailed accounts of what they have spent on their Covid-19 response, the next question is, how effective and efficient was the spending? For example, getting money out may have been effective but at the cost of reduced competition, or increased leakage to fraud, which could result in obtaining poor value for money. As argued in ACCA's report, *New Models of Public Procurement: A Tool for Sustainable Recovery*, 'emergency procurement comes with a price' (Bleetman and Metcalfe 2020: 4).

As the UK Comptroller and Auditor General said in a blog post on auditing the UK government's pandemic response, 'the speedy response has come at a cost – higher levels of fraud and error than government would have otherwise expected' (Davies 2021). This is likely to apply to some degree to most if not all countries, and citizens have a legitimate interest in knowing about how their governments operated during the pandemic and the results they achieved. In other words, citizens expect transparency in order to hold their governments to account.

Transparency and accountability

Our survey respondents told us that the three challenges most commonly faced by governments were responding to the financial needs of individuals and businesses (cited by 45% of respondents); being able to transition to remote working (42%); and having the necessary technological/ digital capacity (42%). In fourth place on this list, cited by 41% of respondents, was maintaining accountability and transparency of government spending.

Governments clearly had to act fast to respond to the virus, both to protect citizen's health against the imminent threat of illness and death, and to protecting citizens' current and future well-being through measures to protect and sustain their economies. The speed with which the virus was transmitted proved to be faster than many, if not all, governments' existing PFM systems could respond. Governments needed to make and implement policy decisions quickly and these involved trade-offs. As the IMF (2020) put it, 'do whatever it takes, but keep the receipts'.

At one of our roundtables, Andrew Kalonga Chimbaza, finance director of Corpus Globe Corporate Solutions, Zambia, said, 'The challenge comes with audit and accountability'. The International Budget Partnership (IBP 2021: 5) argues:

> 'When putting in place fiscal policy responses to the pandemic, governments are taking a series of measures out of a sense of urgency – such as bypassing legislation, relaxing procurement procedures and not seeking citizens input – that undermine accountability'.

Globally, the data indicate a weak performance on oversight (IBP 2020) so it appears that this aspect of PFM was one of the trade-offs. One of the reasons this matters is because SDG 16, Promote just, peaceful and inclusive societies, is about building effective, accountable institutions. Achieving SDG 16 requires increasing and improving accountability mechanisms, not removing or weakening them.

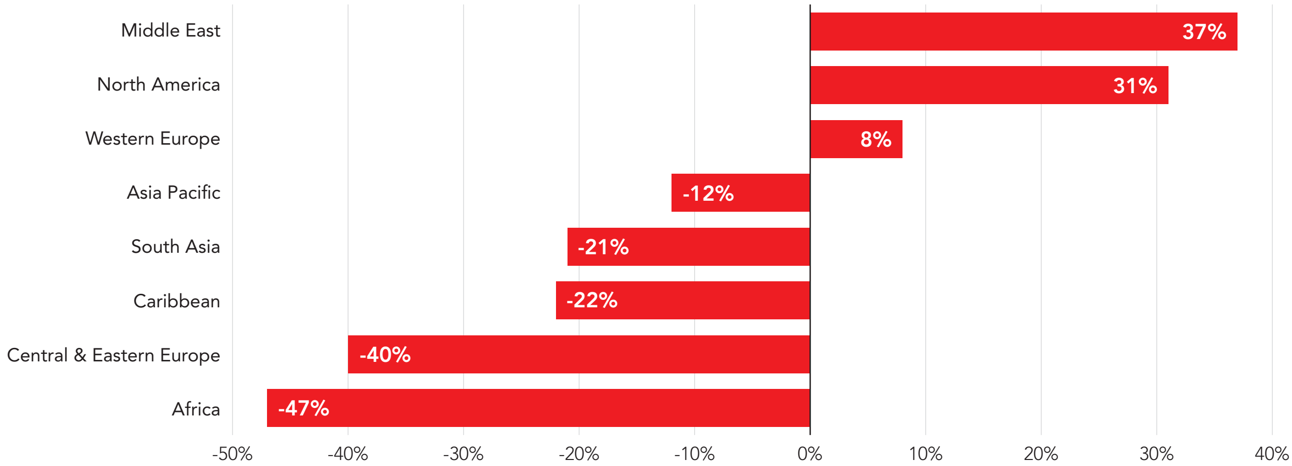
In the next section, we will return to the topic of accountability with suggestions for governments to improve the accountability and transparency of their response to crises in the future.

Our survey shows different regional responses to the challenge of maintaining accountability and transparency. At one end of the range, only 11% of respondents from the Middle East listed maintaining accountability and transparency as one of the main challenges, noticeably lower than the overall rate of 41%. It was, however, the top challenge reported by African respondents (it was cited by 53% of respondents) and only one other region, South Asia, had a rate (47%) that was above the average.

ACCA explored this whole aspect of government action further by asking whether respondents agreed or disagreed that their government provided effective transparency on Covid-19-related spending. Overall, 44% disagreed and 32% agreed.

As before, the regional picture (Figure 1.4) shows more positive views of government accountability and transparency from North America (51% agreed), the Middle East (50%) and Western Europe (41%). The difference is clearly shown in Figure 1.4, where only these three regions have more respondents in agreement than disagreement. In Africa, 17% agreed and 64% disagreed; and in Central and Eastern Europe, 15% agreed and 55% disagreed, with 31% neutral.

FIGURE 1.4: 'The government in my country provided effective transparency on Covid-19-related spending', by region



These findings about transparency suggest that there is a much more significant issue of trust in governments in Africa and Central and Eastern Europe than elsewhere.

The issue of trust as an aspect of government accountability was a topic discussed at our roundtables. Several participants mentioned the importance of trust between government and citizens and businesses. Indeed, Srinivas Gurazada, head of the PEFA Secretariat, warned that: 'Trust in government will go down, particularly in developing countries, if [the recovery] is not managed well'. Later in this report we discuss how PFM systems could be developed in order to improve accountability and transparency.

At the time of publication of this report, in some countries the financial statements covering the first year of the pandemic may not yet have been audited. The findings from those audits, and the audits for the next year or two, will be important for understanding the full extent of the impact of Covid-19 on public income and expenditure, and the impact of the emergency changes that were made to PFM systems. The OECD (2020: 12) advises:

> 'Stocktaking and audit exercises on how financial management and reporting systems coped with the crisis are necessary. In each individual country, ministries of finance should take stock of how well their financial management and reporting system has performed in times of crisis and economic uncertainty. External audits taking on board the perspectives of all key stakeholders – ministry of finance, delivery units, parliaments, external auditors, etc. – will also be necessary.'

Governments have proved themselves able to respond to the pandemic in many ways but, as Peter Senge (1990) put it, 'Today's problems come from yesterday's solutions'. The solutions that governments found for the immediate problems of the pandemic will, themselves, bring new problems for governments to solve during the recovery period.

Getting (back) to (the new) normal

The financial position of every country after the Covid-19 crisis is different and so will be their paths to recovery. Governments need to know their financial position before they can decide on the best approaches to take. The better informed governments are about their financial position, and the better that politicians and officials understand the financial information and its consequences, the better will be their decisions about the recovery.

The long-term implications of Covid-19 spending mean difficult policy choices will have to be made. To some extent this is the challenge facing every government every year but the increase in the level of debt associated with Covid-19 will add further pressure to the prioritisation challenge. Ian Ball (2020: 660) writes: 'Post-pandemic, resource constraints will be tighter. Better resource allocation decisions will be necessary as less productive spending will have an even higher opportunity cost'.

Governments had to make all kinds of urgent changes to their policies and processes to respond to the pandemic. These changes involved trade-offs. Brian McEnery, partner and head of advisory at BDO Ireland, said: 'The big challenge that's been visible is the balance between the health of [the] economy and public health'. This kind of tension is likely to continue throughout the recovery period.

The sudden change to remote working, where it was possible, may have resulted in a permanent change in the way employers and employees think about work, across the private, public or not-for-profit sectors. Governments may have to adapt to such a societal change in respect of both their own employment practices and the way that they legislate/regulate employment. Digitalisation brings more challenges than simply those of investing in hardware and networks. Agostino et al. (2021) write about 'the need to pay stronger attention to [the] social equity and inclusivity implications of digitalization'.

Over the next few years we might expect to see the role of governments evolving. One possible driver of this could be that government spending has become a bigger proportion of economies than before the pandemic. As John Stanford put it at one of our roundtables, 'The days of "small government is great" are over. Only governments can respond to this event'.

Tim Harford (2017) describes governments as 'risk-sharing mutual aid societies' and the pandemic has proved that this is the case. For many citizens their government has been their ultimate (perhaps only) insurer. This may also drive governments to be bigger, offer more guarantees, and spend more money. It may also lead to higher levels of taxation, whether to finance current spending, make long-term investments in capital expenditure projects, reduce levels of indebtedness following their pandemic-related increase or to build up reserves to use in future crises.

ACCA asked about the role of government in the survey. More specifically, respondents were asked whether they agreed or disagreed that their governments would take any of the following six actions:

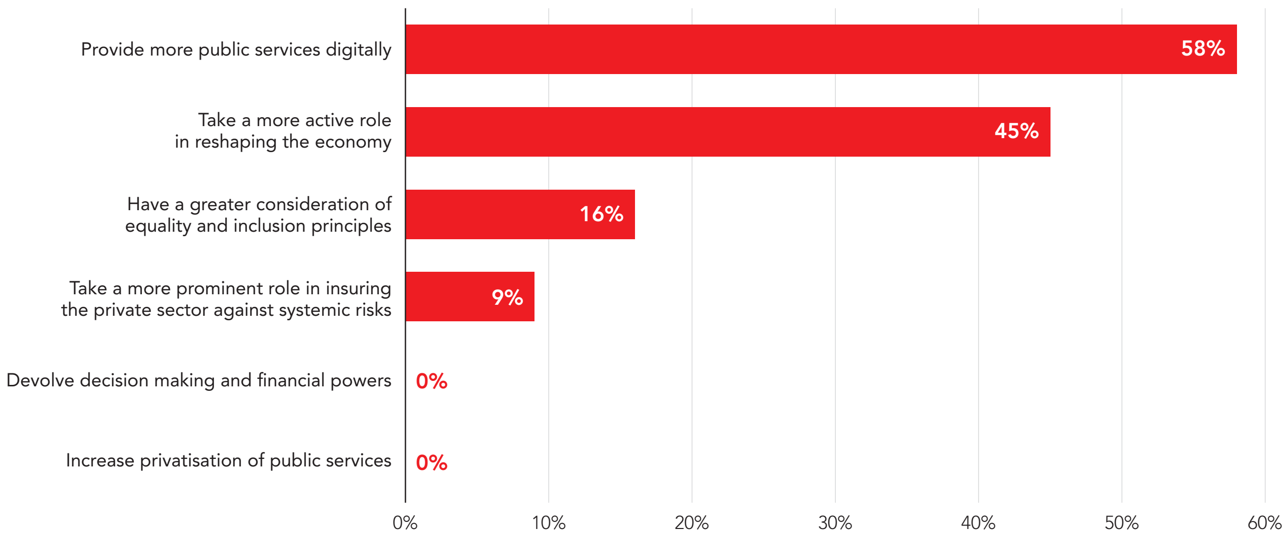
1. take a more active role in reshaping the economy
2. provide more public services digitally
3. increase privatisation of public services
4. devolve decision making and financial powers
5. take a more prominent role in insuring the private sector against systemic risks, and/or
6. have a greater consideration of equality and inclusion principles.

Overall, 71% of respondents thought their government would provide more public services digitally, and 62% thought government would take a more active role in reshaping the economy. These were the two activities where the level of net agreement (those who agreed minus those who disagreed) were the largest, as shown in Figure 1.5.

One interesting finding from these responses is that shaping the economy is something that governments have been doing for a very long time but even so, respondents thought governments would do more of it.

As with other survey questions, respondents from North America, the Middle East and Western Europe were a little more positive than those in other regions, but the differences here were not so great. We found 84% of Middle East agreed (50%) or strongly agreed (34%) that their governments would do more shaping of the economy, with 71% in North America and 69% in Western Europe. A majority of respondents from all the other regions were in agreement, except those from Central and Eastern Europe, of whom only 40% agreed.

FIGURE 1.5: Evolving role of government after Covid-19



After digital services and shaping the economy, the next largest level of agreement was on the question of whether governments would have a greater consideration of equality and inclusion principles, where 42% agreed (and 26% disagreed). The proportions agreeing were as high as 74% in North America and 58% in the Middle East.

This matters because there is a growing body of evidence that the Covid-19 pandemic has widened many pre-existing inequalities, clearly the wrong direction if SDG 10, Reduced inequalities, is to be achieved across the globe (UN n.d.b.). About 58% of women in the labour market worldwide work in informal employment and estimates suggest that during the first month of Covid-19, informal workers lost around 60% of their income (UN Women 2020). People with disabilities have been at greater risk than the able-bodied of losing their work and income during the pandemic and many are unable to work at home owing to the unaffordability and inaccessibility of certain forms of technology (Meaney-Davis 2020). In addition, the racial inequality gap has widened in a number of ways. In the UK, for example, evidence suggests that ethnic minorities are at greater risk of dying from Covid-19 (Public Health England, 2020).

The global survey asked public finance professionals to rank the top five priorities they believe will be most important for PFM systems to adopt to confront the societal challenges post-Covid-19. Only 28% of respondents believed inclusion and equality should be a top five priority: in other words, around 72% of respondents did not rank the option in their top five. This finding was consistent across all regions and perhaps suggests that when inclusion and equality are presented as a trade-off, they will often lose out to other priorities.

Similarly, when asked to rank the most important skills and capabilities for the future of the public sector, applying principles of inclusion and equality into the PFM system was the option least often ranked in the top five. In Central and Eastern Europe just 8% of respondents selected it as a top five option, just 9% in Western Europe and 12% in Asia-Pacific.

Equality and inclusion are important for the future as evidenced by SDG 10 (UN, 2015). Progress on inclusion and equality requires governments and other public sector organisations to make this a priority but it also requires those who work in government to focus on it. In that respect, public finance professionals, whether they are financial advisers, auditors or budget managers, should be advocates for inclusion, diversity and social mobility whenever they are able.

Reinstating controls

Another aspect of the recovery will be governments' reinstatement (or improvement) of the PFM arrangements they had before the pandemic, such as the normal procurement rules and the legislature's involvement in budget-setting. At one of the roundtables, Alberto Asquer, senior lecturer in public policy and management at the School of Oriental and African Studies (SOAS) University of London, pointed out:

> 'Generally speaking, if financial controls have been exceptionally relaxed because of emergency circumstances, existing legislation/regulations would still apply when exceptional conditions do not hold anymore'.

Respondents were asked whether they thought that the relaxation of financial controls (such as maintaining audit trails) as a result of Covid-19 would continue beyond the crisis in their country. The findings were not particularly conclusive. As for other questions, North America, the Middle East and Western Europe were the most likely to believe that the relaxation of controls would not continue. That said, in the case of Western Europe almost as many thought the relaxed controls would continue (38%) as would not (39%). Two regions, Central and Eastern Europe and the Caribbean, were strongly of the view that the relaxation of controls would continue, with the net scores being 28% and 17% respectively.

This was explored a little more in the roundtables. We heard that the relaxation of controls is not as universal as one might think. Participants from Ireland, for example, have had a different experience. Noreen Fahy, director of finance and corporate services at the Institute of Public Administration, said:

> '[In Ireland] the amount of assurance and reporting significantly increased. There was no let-up of demand placed on state bodies in terms of accountability'.

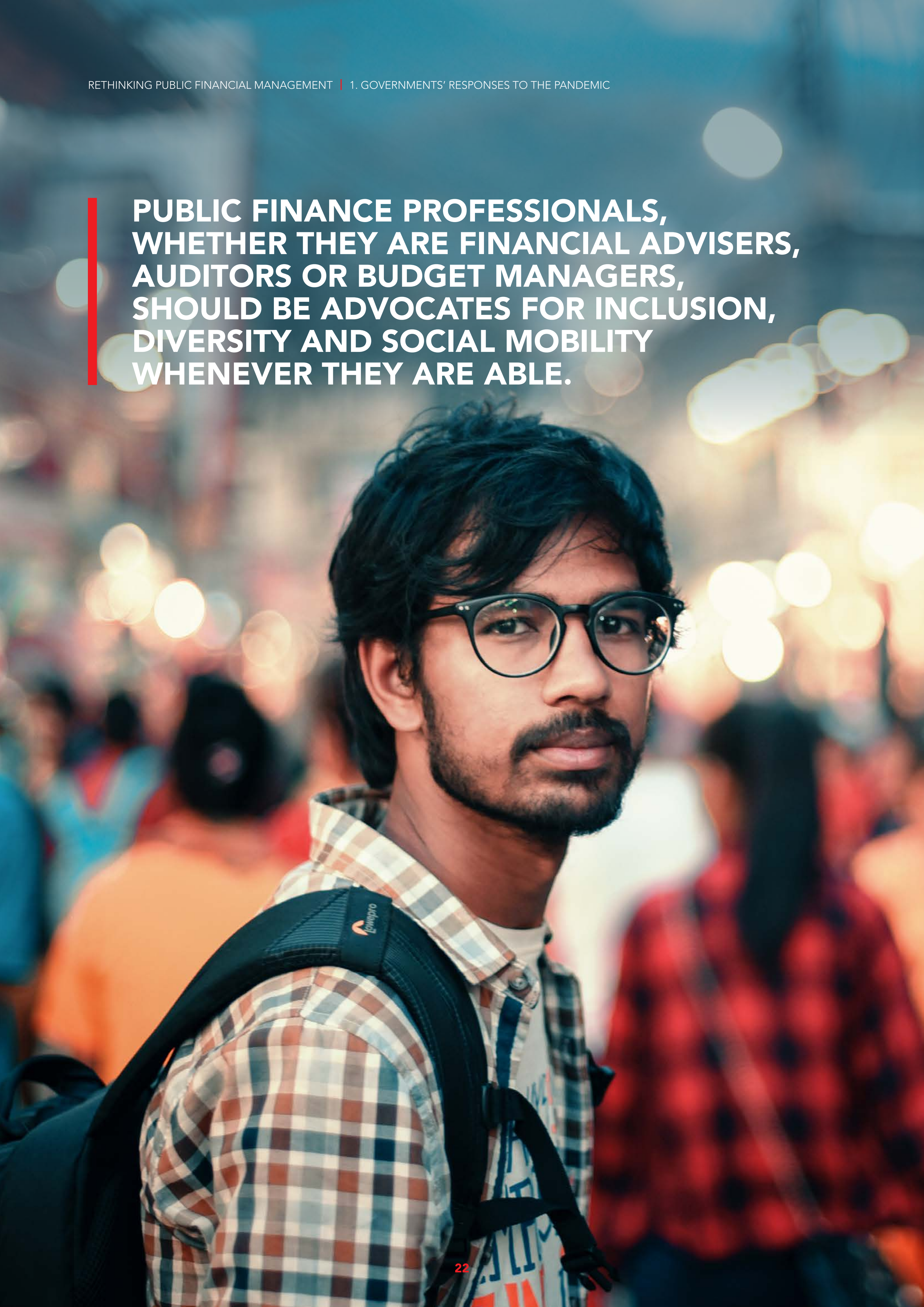
Governments need regular financial management processes to resume as soon as possible to help them in their recovery and beyond. As Ian Waugh, director of finance at Scottish Public Pensions, explained, over the coming years 'PFM will be so much more important because of the size of debts and need to service the debts'. This does not mean returning to exactly the PFM arrangements that were in place before the pandemic. Those arrangements have been shown, to a greater or lesser degree in each country, to be inadequate to meet the challenges of a major crisis without being bent or stretched. PFM arrangements therefore need to be developed, as discussed in the next section.

Summary

- Governments were agile and innovative in keeping public services running and managing economies that were in crisis, although the wealth of a country clearly made a difference to its ability to respond to Covid-19.
- The survey showed that the most common challenges were responding to the financial needs of individuals and businesses; being able to transition to remote working (42%); and having the necessary technological/digital capacity.
- Respondents in North America, the Middle East and Western Europe were much more positive about the effectiveness of their public sector institutions than respondents from other regions.
- Existing PFM systems and processes were not always able to deliver the government's policies fast enough and many changes were made. The changes tended to be in the budget preparation, budget approval and budget execution phases.
- Budget oversight, accountability and transparency have often been weakened during governments' Covid-19 responses.
- The path for every government to get back to (the new) normal will be different because each is in a different place as a result of its Covid-19 responses. The long-term implications of Covid-19 spending (significantly increased government debt or other liabilities in most cases) means difficult policy choices will have to be made.
- Governments need effective financial management processes to help them in their recovery and beyond. What each country had before the pandemic could not, to a greater or lesser degree, meet the challenges of a major crisis without being bent or broken. The PFM arrangements therefore need to be improved.

> **GOVERNMENTS NEED EFFECTIVE FINANCIAL MANAGEMENT PROCESSES TO HELP THEM IN THEIR RECOVERY AND BEYOND. WHAT EACH COUNTRY HAD BEFORE THE PANDEMIC COULD NOT, TO A GREATER OR LESSER DEGREE, MEET THE CHALLENGES OF A MAJOR CRISIS WITHOUT BEING BENT OR STRETCHED. THE PFM ARRANGEMENTS THEREFORE NEED TO BE IMPROVED.**

PUBLIC FINANCE PROFESSIONALS, WHETHER THEY ARE FINANCIAL ADVISERS, AUDITORS OR BUDGET MANAGERS, SHOULD BE ADVOCATES FOR INCLUSION, DIVERSITY AND SOCIAL MOBILITY WHENEVER THEY ARE ABLE.



2. PFM Reform through Covid-19

'NEVER ALLOW A GOOD CRISIS TO GO TO WASTE. THEY ARE OPPORTUNITIES TO DO BIG THINGS.'[1]

PFM reforms are defined by Andrews et al. (2014: 8) as 'purposeful changes to budget institutions aimed at improving their quality and outcomes'. Reforms can include such steps as adopting medium-term expenditure frameworks, changing budget preparation processes, implementing new financial information systems, legislative changes and enabling more citizen participation.

Crises have often led to PFM reforms in the past (Quak 2020: 2). For example, some central banks responded to the financial crisis of 2008-9 by buying government and corporate bonds ('quantitative easing') to stimulate spending in the economy. In addition, some governments re-prioritised their budgets as part of the implementation of austerity policies. Similarly, the crisis in 2020-21 has shown us how quickly governments are able to make PFM reforms, whether enabling fiscal stimulus packages to be implemented, or changing procurement processes to enable speedier deployment of personal protective equipment and vaccines (Quak 2020). In this report, we recommend that a number of reforms be implemented in the short and medium term, not only as a response to Covid-19 but also as preparation for future crises.

As part of the recovery period, governments will need to think about which of the policy and process changes that they made in 2020 and 2021 should be reversed and which should remain in place. They should also consider whether what they learned during the pandemic period means they should make changes (improvements) to the systems they had in place before the pandemic. For some countries, going back to how things were may be more of a challenge. The roundtables discussed examples of countries in sub-Saharan Africa where weaknesses in education, healthcare systems, security, and governance have been exposed by the pandemic. In those places, citizens' expectations about what their governments should do may have been unmet or disappointed.

Post-Covid-19, reforms may be longer-term in nature than the reactive changes implemented during the crisis. There are reforms to be implemented to prevent future crises and to equip governments to deal more efficiently with a potential future crisis. This happened, for example, after the financial crisis of 2008-9. The OECD (2020: 2) takes the view that the reform efforts in the wake of that financial crisis 'have paid dividends, reinforcing the value of continuing and deepening financial management and reporting improvements'.

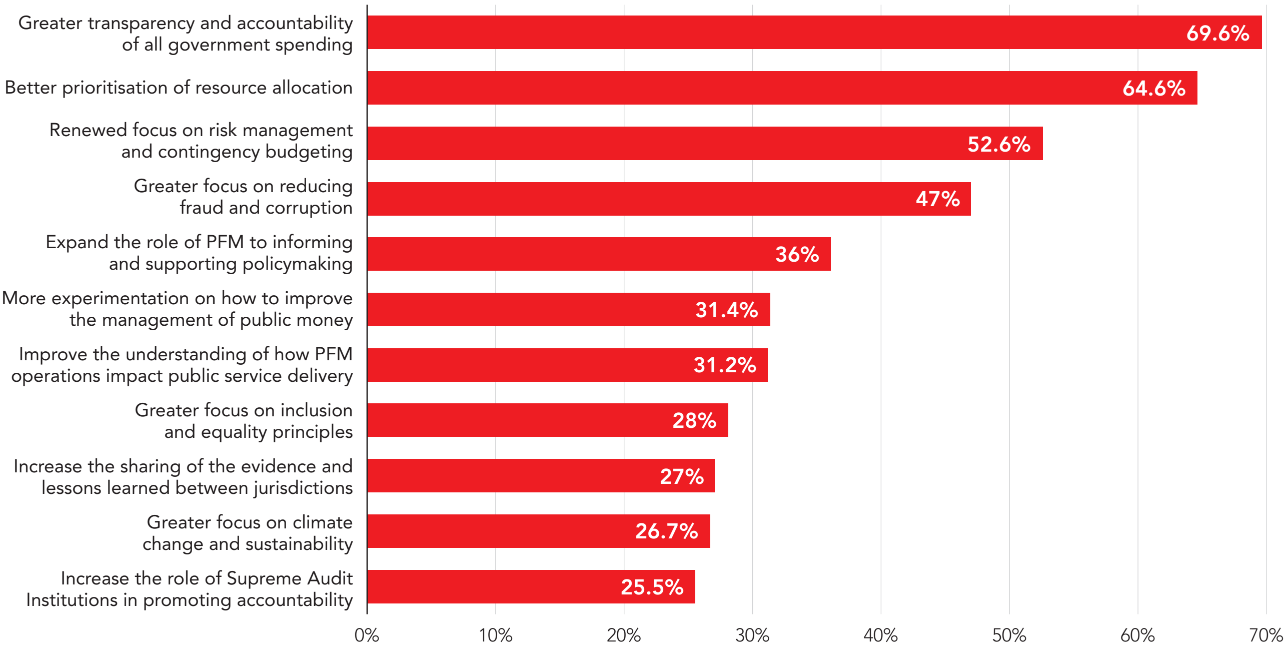
The Asian Development Bank (2021) sets out some lessons for recovering from the Covid-19 crisis. Recognising the challenges, the Bank suggests a step-by-step process. 'Carrying out well-sequenced budget reforms will lead to better outcomes, especially in countries with weak capacity'. The pace of any such sequence of budget reforms needs to reflect the government's capacity. This may mean that efforts would have to be sustained over many years – perhaps decades – to achieve the highest level of good governance of the budget and public finances.

The survey sought views about how PFM needs to evolve to deal with societal challenges after the Covid-19 pandemic, by asking respondents to rank 11 possible areas of focus for development in priority order. Note that these are high-level areas of focus rather than specific reforms, since the latter would be country-specific. What this means is that if two countries are to increase the transparency of government spending, the reforms each needs to implement would depend on the existing level of transparency, existing laws, data systems, accessibility and so on.

Figure 2.1 shows the percentage of respondents who included each of the areas of focus in their top five. The areas of focus that were most often reported in the top five were: improving transparency and accountability of government spending (70%); better prioritisation of resource allocation (65%); and increasing the focus on risk

1 Rahm Emmanuel, chief of staff to President Barack Obama, cited by Innes (2010: 127).

FIGURE 2.1: How should PFM evolve to meet societal challenges?



management and contingency budgeting (53%). These are consistent with the conclusions in the *2020 Global Report on Public Financial Management* (PEFA 2020) mentioned in the Introduction. PEFA reports that the weaker areas of PFM are budget execution, risk management, and scrutiny and transparency; and calls for research into how PFM could improve service delivery.

The following subsections will explore the three priorities for development most cited by respondents, as shown in Figure 2.1.

Improving transparency and accountability of government spending

Wendling et al (2020: iii) state that emergencies generate insight into how transparent a PFM system is. This may explain the stark regional differences in the top-ranked reform. In Africa, improving transparency and accountability was in the top five for 82% of respondents, and it was in the top five for 80% from Central and Eastern Europe. In the Middle East, however, only 42% ranked it in their top five. Recall, in Figure 1.1, the noticeable difference in views about how effective governments had been in providing transparency, with Africa and Central and Eastern Europe having the most negative scores. It is no surprise, then, that those respondents want to see improvements in transparency and accountability.

The roundtable discussions echoed Fouad et al. (cited by Quak 2020: 6):

> 'PFM reforms are not just about money: to be successful in addressing a crisis, government policy responses aimed at safeguarding people and firms require building public trust, confidence and support'.

Governments could build trust by implementing accountability mechanisms with sufficient transparency and/or independence. There is a warning attached to the improvement of transparency, though. If improved transparency demonstrates to the public that the government is less than competent it may not result in improved trust – perhaps this is not a bad thing since the journey to competence involves the step of being consciously incompetent.

It is understandable that governments implemented changes to their normal PFM processes in order, for example, to get the necessary approvals to spend money on things not included in the original budget, and to find ways of getting supplier contracts in place quickly. These changes cover the first three stages of the PFM cycle, budget preparation, approval, and execution, but not the fourth stage, oversight. There may have been an assumption that the crisis demanded extraordinary budget approval and execution but the ordinary oversight arrangements were sufficient. The survey suggests otherwise.

Governments could have put in place some extraordinary oversight arrangements as part of their PFM changes.

They could, for example, have created an independent panel of experts to oversee procurement decisions, to give assurance that the contracts were reasonable. Organisations with audit committees could have encouraged those audit committees to recognise the control risks and to hold the organisation's leaders to account for the way they managed those risks. Governments and public sector organisations could also have made it a condition of contracts that were let without the normal competition arrangements that such contracts be published in full (that is, unredacted). For future crises, therefore, governments should identify and implement oversight arrangements that are appropriate for any changes they make to budget approval and execution processes.

Quak's literature review (2020) includes some PFM reforms and lessons that relate to the oversight stage of the PFM cycle. These lessons include having monitoring and accountability systems that are independent and transparent. Such systems should focus on compliance with fiscal rules, advising on changes to such rules, and evaluating impact and quality of public investments.

An obvious place to look for such independent arrangements is the SAI in each country. During a crisis such as the Covid-19 pandemic, an effective, independent SAI can help a government to maintain good discipline in PFM. It can assure that systems and controls are being complied with and provide some transparency and accountability for the government's financial management. One way of doing this is by carrying out 'real time audits' during the crisis (that is, while public money is being spent on the response) rather than waiting to conduct reviews of financial statements after the crisis has abated. Once the crisis has abated, however, 'SAIs could play a key role in reviewing and strengthening economic recovery efforts, financial management and governance systems, and government preparedness for future disasters'. (World Bank Group, 2020: 3)

It is good practice, as the Lima Declaration (INTOSAI 2019) states, that SAIs should have functional and operational independence to accomplish their tasks. Nonetheless, at one roundtable, Archana Shirsat, deputy director general of INTOSAI Development Initiative said, 'The mandates of SAIs in most countries do not give them the independence they need to be fully effective'. In 2021 the World Bank assessed the independence of 118 SAIs in Central and South America, Africa and Asia. Only two of the 118, the SAIs of Seychelles and South Africa, met in full all ten indicators of independence covered by the assessment. Fewer than half of the SAIs were assessed as meeting at least 8 of the 10 indicators. There is, therefore, a great deal of room for improvement in the level of independence enjoyed by SAIs around the world.

SAIs can do more than simply certify that the national accounts meet accounting standards and do not include material errors. They can conduct performance audits to assess how well governments implement their policies. They can also undertake analysis that helps address social issues and inclusion.

> 'As SAIs hold governments accountable for national pandemic responses, applying a gender lens to audits can help determine how women, girls and marginalized populations are affected and can lead to informed recommendations to help improve government programs'. (Bérubé, 2020)

Figure 2.2 also raises a question about the accountability of SAIs. Among our respondents, 7 out of 10 place improving transparency and accountability as one of their top priorities, but fewer than 3 in 10 list strengthening SAIs as a reform that could achieve better accountability. There could be many explanations for this. Perhaps they believe SAIs are strong and effective enough already, or perhaps that SAIs could not achieve the impact on accountability that they want to see. Alternatively, they may simply have found other reforms to be more important.

The International Budget Partnership (IBP 2021) assessed how 120 governments managed their initial Covid-19 fiscal policy response, covering almost 400 emergency fiscal policy packages. The research focused on three critical pillars of accountability:

- public access to relevant information
- adequate oversight arrangements
- opportunities for citizen engagement.

The IBP (2021: 3) concluded that none of the 120 countries had substantive accountability; 4 adequate; 29 some; 55 limited; 32 minimal. (See IBP 2021 for the list of countries and the IBP assessments.)

The IBP takes the view that urgent actions taken by governments do not have to come at the expense of accountability. Furthermore, it believes that SAIs can 'lead the charge' in strengthening accountability but need to be supported by a number of measures, including the following.

- *'An executive response that demonstrates government's attention to the audit findings and action on the recommendations in the audit report,*
- *'Independent follow-up, usually by the SAI or the legislature, on whether the actions deemed necessary by the audit were implemented, and*
- *'Opportunities for public participation – by civil society organisations, the media and citizens – to engage, influence and bolster the entire audit process'.* (IBP 2021)

What happens if a government ignores the reports and recommendations coming from its SAI? This is a real problem. Many countries have no mechanism for the legislature or SAI to report in public about how recommendations in an audit report were followed up by the executive (Gørrissen 2020) The IBP also calls for improvements in the follow-up of audit recommendations. 'The dismal performance of countries on the executive's response to audit findings applies to low-, middle- and high-income countries alike. This problem is further compounded by weaknesses in independent follow-up on the executive response' (IBP 2020).

There is, evidently, scope for governments and SAIs to improve the review and follow-up of audit reports so that audit recommendations lead to improvements in the efficiency and effectiveness of public spending and the achievement of outcomes.

Having said that, accountability and transparency are not solely the remit of SAIs. Roundtable contributor Archana Shirsat said: 'SAIs need to have an impact, but they have a shared responsibility with other actors such as parliaments'. The independence of the SAI from the executive arm of government is fundamental to accountability, but the role of the SAI is also to support the legislature in holding government to account, so the legislature here is of equal importance.

Another roundtable contributor, Patrick Kabuya, senior financial management specialist at the World Bank's Governance Global Practice, said that: 'There should be increased citizen engagement in the PFM cycle'. And the Asian Development Bank (2021) offers a similar perspective:

> 'Implementing governance and accountability mechanisms such as public or social audits, public hearings, information disclosure, independent committees, and monitoring or oversight bodies have important roles in improving PFM'.

All these comments suggest that there are more actors involved in effective accountability than governments and SAIs. Yes, legislatures (parliaments) should endeavour to give SAIs the independence and resources they need to be effective in their roles, but they should also work with other elements of civil society to ensure there are other accountability mechanisms in place in which citizens can trust and be involved.

Roundtable contributor, Ahmed Munawar, former minister of finance in Maldives, noted that 'It is very difficult to [implement] measures for effective transparency, but once [they are] there, it is hard to go back'. It is easier to say that accountability mechanisms should be put in place than it is to implement them, whether designing them or encouraging their use.

This also connects with another comment from a roundtable. Hammad Yunus, a PFM consultant from Pakistan, said: 'Accountability has always focused on inputs, not on outputs. Legislative accountability should focus on outputs'. It is desirable to hold politicians and officials accountable for the results they achieve from using public money, but it may be more difficult to design an effective system based on outputs than inputs. In part this is because public services often have a long delay between the input, the output. and the outcome – governments are often not directly responsible for delivery. For example, it is easier to explain how much money has been spent on educating children (input) than it is to explain what effect the public money has on the life chances of young people (the outcome). Notwithstanding the difficulties, governments should implement arrangements to hold themselves and officials to account for what they achieve with public money.

Ahmed Munawar's insight also suggests that once accountability mechanisms are in place it would be difficult to remove them. We can see from this research that there may be some truth to this, given the importance of accountability in the survey responses.

Better prioritisation in resource allocation

When Joe Biden was campaigning in 2008 to be vice-president of the USA, he said 'show me your budget and I'll tell you what you value'. He was commenting on the fact that what a government (or business) chooses to spend its money on tells you what they prioritise.

Our survey respondents and roundtable participants recognised that the process of resource allocation will be even more important in future years than it has been in the past. Ian Ball (2020: 660) emphasises the importance of budget allocation:

> 'the quality of the PFM system will make a big difference to the recovery. PFM systems that are better equipped to link budgets to services, and to outcomes, will provide better information for allocation decisions'.

As Anthony Harbinson, permanent secretary in the Department of Justice, Northern Ireland, said at one of the roundtable events, 'Everything is a priority, but you cannot do everything'. Governments, therefore, have to make choices about what to do and what not to do. And for the things they choose to do they then have to make choices about how much of a service to provide, how to provide it and how to pay for it. This is one reason why the process of budgeting is so important to public sector organisations: if you want to get something done you have to get it into the budget.

The processes of policymaking and budgeting have been addressing the issues of choice and trade-off for years. Indeed, in some countries there may be an accepted status quo for how much of the national budget, roughly speaking, is spent on education versus social protection versus national security, and so on. The response to Covid-19 provides an opportunity to shake up such established norms. Covid-19 could lead to demand for additional public spending on services such as healthcare, public health programmes, and social benefits as well as continuing support to some industries badly affected by the pandemic.

In the UK, the Office for Budgetary Responsibility (OBR) suggests (OBR 2021) that the additional cost could be more than £10bn a year for just three service areas:

- £7bn a year on health for continuing test and trace and vaccination programmes; long-term impact on physical and mental health, backlog of treatment and need for more spare capacity in the system
- £1.25bn a year for schools, to help children to catch up on lost learning
- £2bn a year to fill the gap in public transport organisations if passenger numbers do not return to pre-pandemic levels.

For now, the increase in levels of government debt is not increasing the cost of debt servicing but there will be a risk of rising interest rates that could put a further squeeze on the spending plans of some governments. The Asian Development Bank (2021: 2) states:

> 'Developing economies can take guidance from past lessons as they start their post-pandemic economic recovery. Since most of the crisis spending in these economies is financed through government borrowing, debt sustainability considerations will rise in importance as the focus starts shifting to post-crisis recovery'.

There are likely to be new constraints on resources, too. Governments may be facing reduced levels of receipts from taxes and other sources of income. Income from public transport fares is one such source of resources that may be constrained and this may be an opportunity to change the funding model rather than cut services (see Box 3.1).

There are a number of options governments could consider when revising the resource allocation aspect of their PFM arrangements. First, governments and other public sector organisations that have generally used incremental budgeting could adopt a different budgeting approach.

All budgeting approaches have their advantages and disadvantages. Incremental budgeting is stable and understandable but it is based on inputs rather than outputs (Bandy 2015: 64-5). In incremental budgeting there is a tendency to accept the base budget without challenging it, making it slower to respond to changes in priorities.

There are alternative approaches to budgeting that could be implemented. Outcome-based budgeting and performance budgeting approaches focus more on results than inputs because they start by asking what we want to achieve rather than what we want to spend. Using these approaches to budgeting could potentially improve service delivery, by focusing on the impact a government has on the lives of its citizens and economy. They could also enable oversight bodies, and citizens, to hold governments to account for the results they achieve using public money. There is, naturally, a role for finance professionals in supporting the development and implementation of changes to the budgeting approach. When moving to outcome or performance-based budgeting, this work will include developing connections between policy priorities, performance-management systems and the budget.

The achievement of value for money by governments and public sector organisations is one of the three objectives of PFM. Governments and other public sector organisations achieve value for money in many ways, including the use of competitive procurement.

Value for money in the public sector is often conceived of as ensuring that a programme or service achieves the right balance of **economy**, **efficiency** and **effectiveness**. More recently this '3Es' model has been extended to '5Es; taking into account **equity** and **ethics** (Bandy 2015: 275). The additional two Es mean that to achieve value for money governments should spend public money in a way that is fair and by using processes that comply with ethical principles.

Given the discussions of inclusion and the relaxation of controls earlier in this report, there may have been a reduction in value for money achieved by some governments as a direct consequence of their actions in responding to the Covid-19 crisis. INTOSAI Development Initiative summed this up:

> 'We know from previous pandemics and disasters that emergency situations can lead to basic control systems being suspended or bypassed, combined with weakening of accountability systems and oversight. This can cause increased levels of waste, mismanagement and corruption at a time when government resources are under pressure'. (INTOSAI 2020)

In future, government should build value-for-money assessments into their resource allocation decisions, incorporating inclusion and ethics as well as the conventional notion of the 3Es. Doing this would be a contribution to SDG 10 (UN, 2015), Reducing inequality, and SDG 16, Peace, justice and strong institutions (UN, 2015), because it would promote integrity and ethics.

One way of incorporating inclusion and ethics into their work would be for governments to build more public consultation on priorities into their resource allocation processes and/or use participatory budgeting approaches for more areas of their budgets. This way they would have more information and understanding about what citizens actually value.

Governments could also seek to fund more of their programmes on a 'payments by results' basis. A 'payment by results' programme is one where a government or public sector organisation commissions the delivery of a public service from private and/or not-for-profit sector organisations and some or all of the fee is payable in return for achieving specified outputs or outcomes. For example, an international aid programme can be structured so that some or all of the financial aid is contingent on the recipient's achievement of outcomes (such as numbers of people given access to water or of children completing primary education).

Box 2.1: Funding public transport

The reduction in passengers reflects changes in travel patterns as a result of the move to remote and/or flexible working by employees and students learning online, as well as changes to service delivery to maintain a safe transit system.

The funding package for public transport varies by jurisdiction. Some, such as London, use fare income as the major source of funding, others, such as Paris and New York, are funded more from taxes than fares. For many cities around the world the reduction in passengers will be a prolonged reduction in fare revenue and, therefore, a prolonged financial challenge.

The pandemic recovery is, perhaps, an opportunity for governments, whether national or sub-national, to reform the funding of their public transport to reduce the reliance on fare income. The justification for governments to fund public transport from taxation instead of fares would be the recognition that public transport has social value. Public transport can address social inequalities as well as being critical in reducing carbon emissions. ■

A closer focus on risk management

The respondents' third-most chosen priority for the development of PFM was intensifying the focus on risk management (see Figure 2.1). There was a lot of discussion about this issue at all the roundtables. This is not a surprise, given the level of shock attached to the Covid-19 pandemic and its rapid impact all around the world.

Risk is inherent in everything that everyone, and every institution, does. To achieve anything, therefore, risks have to be taken. Risk management is about making decisions that take into account the risks and opportunities (and costs and benefits). The UK government's Orange Book: Management of Risk – Principles and Concepts, says:

> 'At its most effective, risk management is as much about evaluating the uncertainties and implications within options as it is about managing impacts once choices are made. It is about being realistic in the assessment of the risks to projects and programmes and in the consideration of the effectiveness of the actions taken to manage these risks'. (HM Government, 2020: 2)

It has become apparent that emergency plans in many places were not robust enough for the challenge of Covid-19. In Ian Waugh's opinion, voiced at one of our roundtables, 'Business continuity plans pre-pandemic had a tendency to be a box-ticking exercise – as long as an annual desktop exercise was seen to be taking place, that was often considered enough assurance for governance bodies'. Even if business continuity plans were tested more fully, there remains a question about whether the authors of emergency plans had even considered a pandemic on such a scale that it would cause economic lockdowns around the world and disrupt supply chains. The authors may have hypothesised a more local or national emergency or a localised outbreak of a disease, rather than a global event. Presumably governments and businesses will include such global risks in future emergency or business continuity plans.

There is a need to learn from the experience, not just about what should be included in risk registers, but in developing response plans that are fit for purpose and properly tested. The UK's Office for Budget Responsibility (OBR) sets out 10 lessons for understanding and responding to catastrophic risks (OBR 2021: 21-2). Some of them are worth noting here.

1. While it is difficult to predict when catastrophic risks will materialise, it is possible to anticipate their effects.
2. People appear willing to make sacrifices for a clearly defined public good.
3. Economies can sometimes adapt remarkably quickly to structural changes.
4. Fiscal policy can and needs to be more nimble than in the past.
5. In the absence of perfect foresight, fiscal space may be the single most valuable risk-management tool.

The pandemic has led to lessons for governments about what worked and what did not work as well as expected. At one roundtable, Tom Brandt, chief risk officer at the US Internal Revenue Service, noted: 'The pandemic has shown us that government can be a lot more nimble than we thought it could be'. It is perhaps frustrating for many, inside and outside government, that this level of agility, decisiveness and quickness of action is not the normal mode of operation for governments and public sector organisations.

It would be unfortunate if governments returned to a pre-Covid status quo for their risk-management arrangements. The digitalisation of services, for example, makes organisations more resilient against future crises. As argued in ACCA (2021b) 'Best-practice risk management requires staying ahead of risk, constantly refreshing our approaches to it and looking for new information to enable this'.

There is, therefore, an opportunity for governments to implement something better and more efficient. Creating a risk list for an organisation is a good start but the challenge lies in becoming equipped to respond. Enterprise risk management (ERM) brings discipline and tools to bear on the list of identified risks so that the organisation is better prepared to respond when risks materialise. Public sector organisations may wish to invest in the development of their ERM capability. Not only this, but they may also wish to use their risk register as one of the factors in their decisions about resource allocation.

We will discuss the development of skills for public finance professionals in the next section of this report, but one thing finance professionals can do, wherever they are working, is to be aware of risks and to identify and report them into whatever system the organisation has.

Public finance professionals should contribute more to the strengthening of risk management than the reporting of risks. All decisions in an organisation ought to take into account the associated risks and therefore finance professionals should develop methods for evaluating risks in financial terms, to support decision-makers. This is one of the ways, as ACCA (2021b: 25) has argued, in which finance professionals can use their unique position in an organisation to help it to be sustainable and resilient.

PFM systems require a system of internal controls to safeguard the government's assets (money, property, equipment, data, reputation) from loss through error, theft, fraud, abuse, mismanagement or waste. Some of the controls that are normally in place would have been relaxed by governments in order to expedite their response to the pandemic. Governments should take the opportunity to review their internal controls when deciding whether to reinstate them.

Every control has a cost. Public financial managers, therefore, have to consider the cost associated with adding a new control against the benefit they expect it to produce, whether that be preventing errors and losses, detecting frauds, or improving accountability. Where governments have relaxed some of their financial controls as part of their Covid-19 response, they should use the opportunity to reconsider the effectiveness and costs associated with particular controls before deciding whether to reinstate them. When a control is looked at in this way a decision can be made about whether the control should be:

- reinstated as it was before the pandemic
- modified in some way
- replaced with a different, better (that is, more cost effective) control or
- abolished because the control imposes more of a cost on the organisation than the benefits its brings.

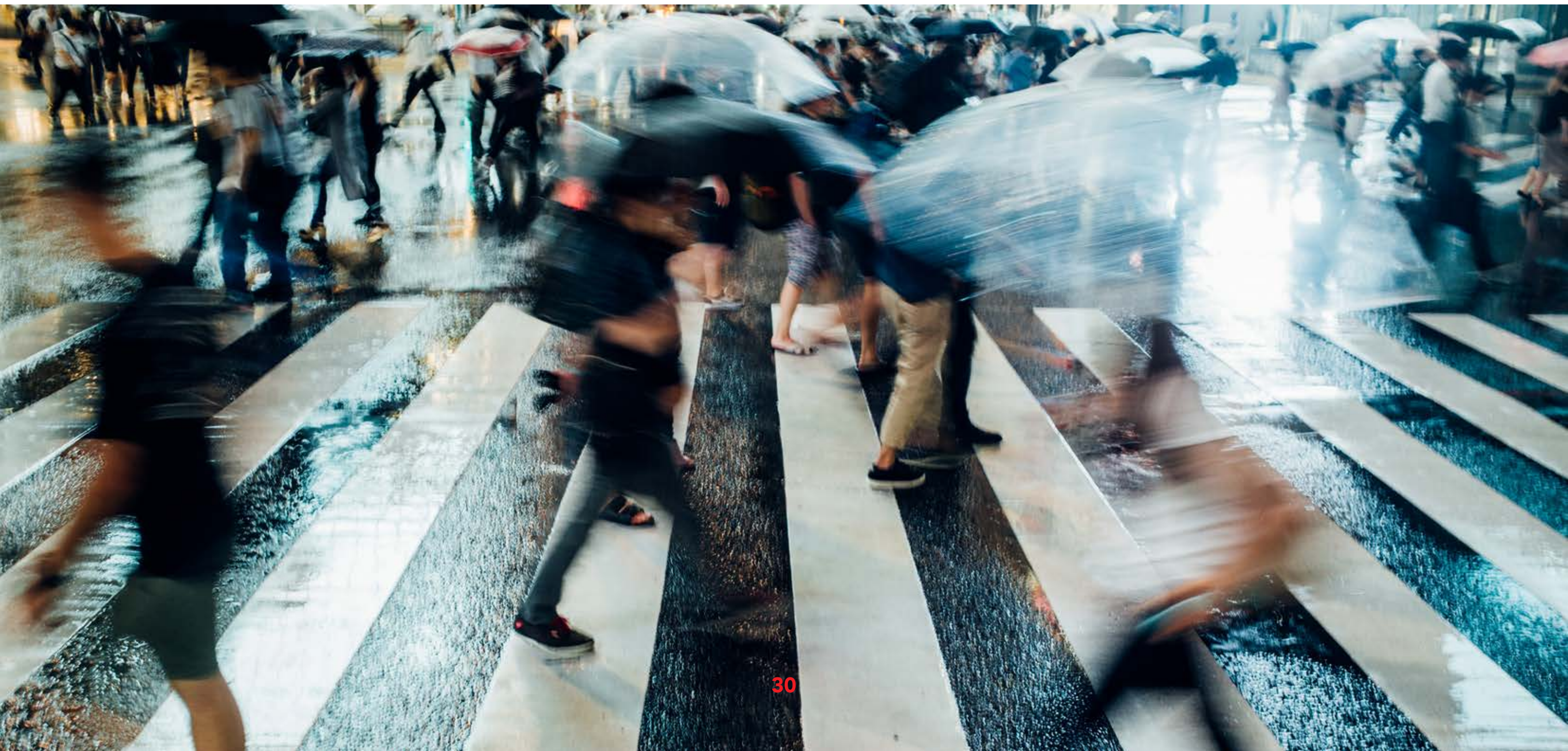
Some other actions that could be taken include the adoption of accrual accounting and budgeting or, if that is not feasible, taking what ACCA (Metcalfe and Taylor 2020) calls 'a balance sheet approach' to decision-making.

Such approaches are related to managing risk because decision-makers have a fuller picture of the financial aspects of decisions, in the long term as well as the short term, and can make more resilient/sustainable decisions.

One area where this could be important is fiscal rules. Fiscal rules generally became irrelevant during the pandemic as borrowing surged to wartime levels. There will need to be new fiscal rules in many cases once the pandemic is over, and such rules should adopt a balance-sheet approach rather than focusing entirely on public debt stocks and deficits. Nearly 40% of the global fiscal support during the Covid-19 crisis came in the form of loans or guarantees, equity injections, and other quasi-fiscal measures. Any surge in bankruptcies or calls on guarantees could undermine public sector balance sheets, such that taking a balance-sheet approach to the public finances will be more important than ever in the post-pandemic environment.

Long-term thinking can be a particular challenge in PFM. The roundtable discussions noted that in the public sector generally there is a tendency not to be very good at longer-term thinking because taxation and spending rounds tend to be set on planning horizons that are far too short (mainly governed by the political cycle).

Bureaucrats are perhaps in a better position than elected politicians to be their organisation's memory and to prepare longer-term plans. ACCA's report, *Rethinking Risk for the Future* (ACCA 2021b), argues that there is an 'unmissable opportunity' for accountants to add more value to their organisations. One of the ways they could do this is by contributing to any longer-term planning by developing financial models relating to alternative possible scenarios.



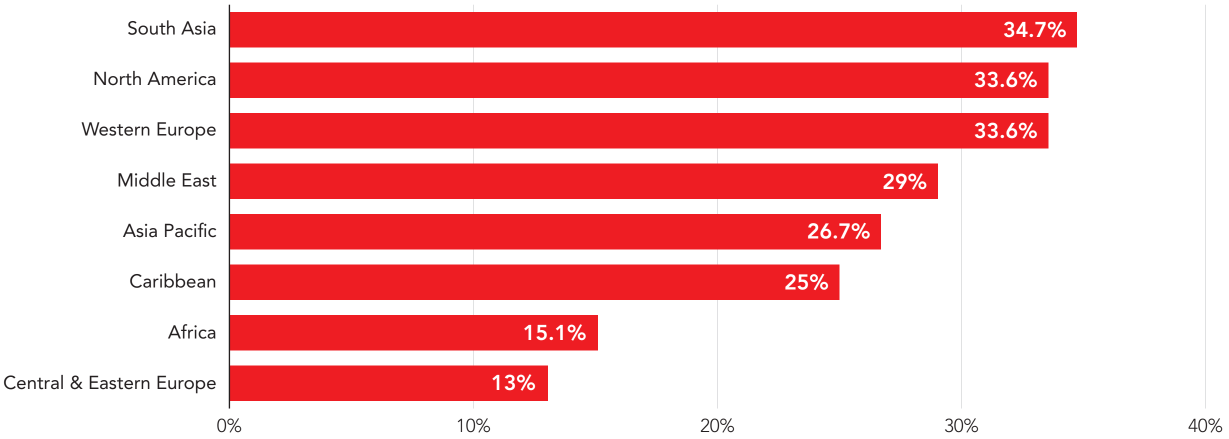
Box 2.2: Climate change

SDG 13 is about taking urgent action to combat climate change and its impacts (UN n.d.d.). Climate change is one of only three major risks – the others were the coronavirus pandemic and the cost of government debt – on which the UK's OBR's 2021 edition of the Fiscal Risks Report focused (OBR 2021). The OBR argues that:

> *'Governments seeking to manage these threats must thus weigh the known costs of early action to mitigate these risks against the uncertain costs of dealing with the fallout when they crystallise. They must also weigh the limited but more deliverable benefits of acting unilaterally against the greater but more elusive gains from acting globally'* (OBR 2021: 3).

Among survey respondents, the priority level for climate change as a focus of PFM is relatively low. Just over a quarter of total respondents believed this should be a top five priority. When segmented by region, there are some stark differences between different parts of the world, with around one-third of respondents in South Asia and North America and Western Europe selecting climate change as a top five priority compared with just 15% in Africa and 13% in Central and Eastern Europe.

FIGURE 2.2: Percentages of respondents, by country, ranking a greater focus on climate change and sustainability in their top five concerns for the future of PFM



Box 2.2: Climate change

Similar to inclusion/equality, this overall low prioritisation is probably due to the perception of climate change as a less immediate priority than other priorities such as transparency and accountability or reducing fraud and corruption.

When asked about skills needed in future, those for non-financial reporting on sustainability showed similarly low results. Just 6% of those in the Caribbean selected this as a top five priority area, at the lower end and, at the higher end, just over a quarter of those in the Middle East. Falling far behind other skills areas such as risk management, digitalisation and technology, and business continuity planning.

In a similar vein to inclusion and equality, this therefore requires the finance profession to begin thinking of climate change and sustainability not as trade-offs with other priorities and skill sets, but as components of their skill sets. For example, climate change poses some of the biggest risks to financial assets and economic stability – with the IMF stating that the 'economic impact of climate change will likely accelerate' – highlighting that climate change will come with both physical risks to property, infrastructure and land as well as transition risks from change in climate policy and technology (Grippa et al. 2019).

Climate change and the tools associated with it, such as sustainability reporting. will therefore be right at the heart of both risk management and business continuity planning as we are likely to experience further disruption and economic instability as a result of the climate emergency. This risk management and planning will require better resource allocation to deal with the impacts of climate change and greater investment in technology as we transition to low-carbon economies.

FIGURE 2.3: Percentages of respondents, by country, ranking ability to interpret and advise on non-financial reports in their top five concerns for the future of the public sector

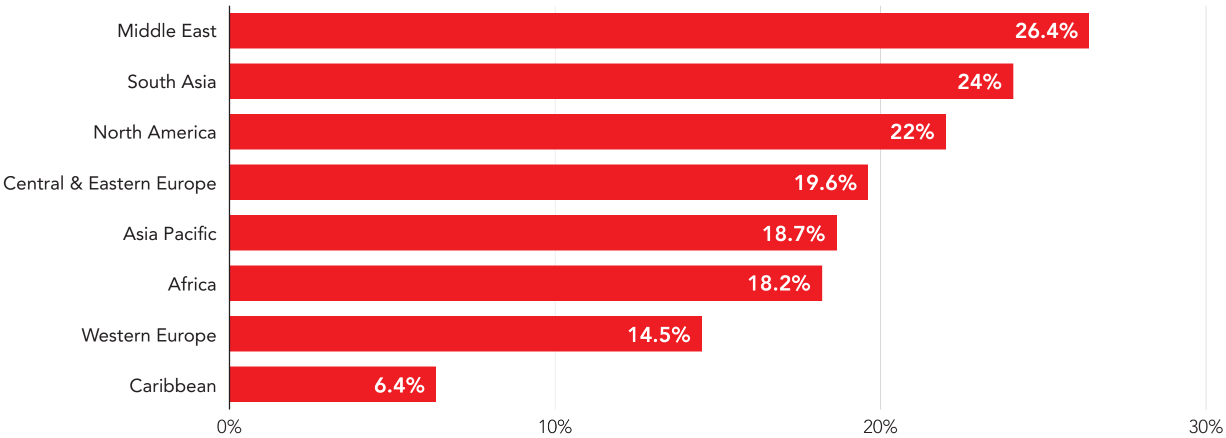


TABLE 2.1: How climate change and sustainability can be embedded within other principles and skillsets

PFM PRINCIPLE FOR THE FUTURE OR PUBLIC SECTOR SKILL	RELATIONSHIP TO CLIMATE CHANGE/ SUSTAINABILITY	REALISING THAT RELATIONSHIP
Risk management	Climate change poses some of the biggest risks to financial and economic stability. We have already seen the 'first climate-change bankruptcy' (Colas et al, 2019) and 10% of global financial assets are estimated to be at risk by 2100 (MarshMcLennan 2020).	Climate change should be integrated into financial risk management frameworks (Colas et al, 2019) and all public bodies should be assessing and reporting on the risks associated with climate change. The credit-rating agency Moody's, for example, uses 'fiscal strength, access to liquidity and levers to raise additional revenue' as key parts of climate risks assessments' (Gonzalez 2017).
Digitalisation and Technology	Combating climate change will require investment in low-carbon technology and renewable energy sources.	As part of public sector strategies into digitalisation and technological advancements, climate change and sustainability must be at the forefront. This is not only an imperative for combating climate change but high-carbon emitting assets are becoming 'stranded assets' – meaning existing technology such as drilling rigs will no longer earn an economic return owing to the transition to a low-carbon economy (Carbon Tracker 2017). According to Fitch Ratings, stranded assets are likely to lead to higher government debt – so transitioning away from high-carbon technology is critical (Fitch Ratings 2021).
Greater transparency and accountability	Sustainability reporting in both the public and private sectors is key in the fight against climate change. Particularly in the public sector, full transparency of how governments are spending to tackle climate change will be vital in holding them to account and ensuring they are meeting both national and international commitments on sustainability.	The 2015 Paris Agreement established an *enhanced transparency framework* (ETF), requiring countries to report transparently, by 2024, on their actions taken to lower carbon emissions. International oversight of these reports is also part of the agreement (UNFCCC n.d.). Developing systematic transparent sustainable reporting will help ensure that countries are meeting their objectives and contributing effectively to international climate-change objectives.

Other areas for development

Our research of recent PFM literature suggests there are some other areas for development of PFM arrangements. These are the focus on service delivery and outcomes; the move to accrual-based accounting and budgeting; and improving public procurement and contract management.

Focusing on service delivery and outcomes

Governments have to think about their role in the future, which could involve rethinking the balance of the three objectives of PFM: sustainability of the whole economy; resource allocation; and value for money of service delivery. There is a growing body of PFM literature arguing for service delivery to have greater importance. Hadley et al. (2021) write: 'For over a decade there has been growing interest in linking PFM reforms to better service delivery results'. By implication this means that debate about public finances should not focus on deficits and debts, but should include discussion about priorities and service delivery (Ball 2020: 657).

Hedger et al, (2020) take the view that PFM must be connected to service delivery and outcomes:

> 'Public financial management has become almost a settled science – ring-fenced in its own compartments, unchanging in its approaches, and seemingly unaffected by the disruptive winds of 21st century governance and policy objectives'.

They would say that focusing PFM on service delivery and tackling inequality and citizen well-being is as much a top priority as Covid-19 and climate change.

In its Framework (see Box 2.2), the PEFA Secretariat also recognises the importance of PFM to the delivery of public services. The Secretariat calls for additional research and analysis of PFM in improving service delivery.

> 'What is the relationship between PFM and service delivery, particularly in the education and health sectors? This topic has long been discussed but has been under-researched. It would be useful to identify which PFM tools and processes are most important to support service delivery in different contexts'.

The PEFA assessment focuses largely on the role, function and performance of finance ministries and this can be far removed from the actual delivery of public services. The PEFA Secretariat also, therefore, calls for more research into tools and processes for PFM in line ministries and at the subnational level.

Box 2.3: The PEFA framework

The Public Expenditure Framework Assessment (PEFA) is a tool that can help governments evaluate and improve their PFM systems.

The 2016 PEFA framework identifies 94 characteristics (known as dimensions) within 31 key components of PFM (known as indicators) in seven broad areas of PFM (known as pillars). The seven pillars are:

1. budget reliability
2. transparency of public finances
3. management of assets and liabilities
4. policy-based fiscal strategy and budgeting
5. predictability and control in budget execution
6. accounting and auditing
7. external scrutiny and audit.

Implementing accrual accounting and budgeting

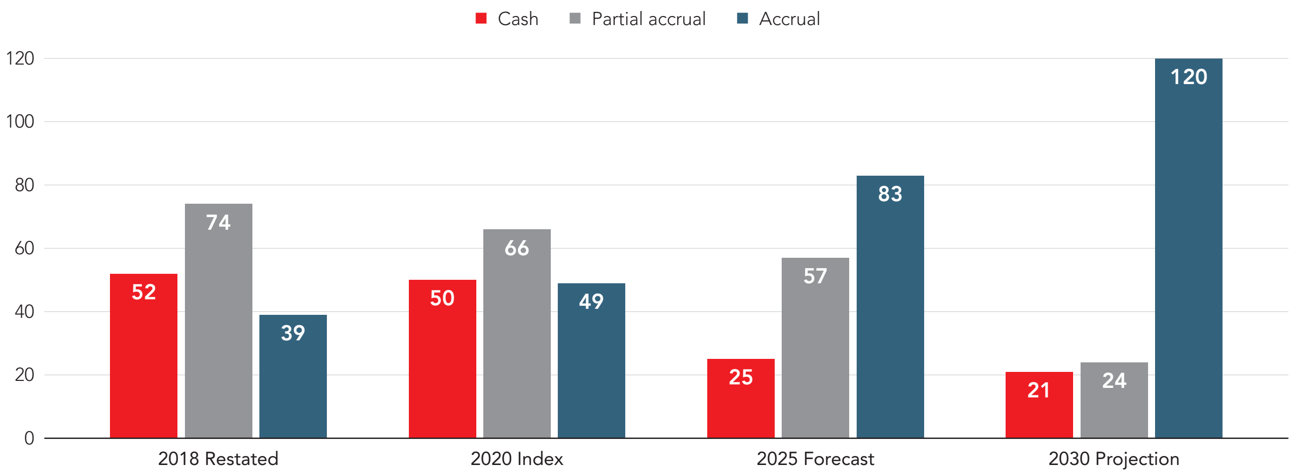
> 'These new, extraordinary circumstances require better accountability and, in the same vein, better accounting systems' (Cohen et al. 2021: 10).

A global transition to accrual accounting by governments is under way (see Figure 2.4). IFAC and CIPFA's *International Public Sector Financial Accountability Index* (2021) reports that 30% of 165 jurisdictions were reporting on an accruals basis in 2020. By 2025 this is expected to rise to 50%, with a reduction, to 25%, in the proportion using cash accounting. The longer-term projection is for more than 70% of jurisdictions to be reporting on an accruals basis. (You can see the progress on a map at IFAC 2021.)

At one of the roundtables, John Stanford, senior adviser at the International Public Service Accounting Standards (IPSAS) board, said: 'Fiscal implications will lead to difficult policy decisions in the future and there must be good information systems on which to base those decisions'. ACCA's report *Sustainable Public Finances Through Covid-19* (Metcalfe and Taylor 2020) argued the case for governments to adopt accrual accounting if they could. Even where they could not adopt accrual accounting, the report recommended that they take a balance-sheet approach to their decision making. This recommendation bears repeating here.

The accrual accounting system recognises the economic substance of transactions at the point in time they are incurred rather than when cash is paid out or received. Under accrual accounting, for example, the cost of employing a civil servant in any given month includes the

FIGURE 2.4: the shift from cash to accrual accounting



Source: Adapted from IFAC, 2021

cost of the pension they are earning even though it may be years or decades into the future before they receive their pension payments. And, similarly, a government's tax income for a given period includes the taxes generated in the period that have yet to be paid by the taxpayers.

Those governments using accruals have an advantage over those who do not.

> 'While there is little or no research to establish the relationship between quality of a government's PFM system and the strength of its balance sheet, it is reasonable to suppose that the weaker the PFM system, the less will it contribute to an understanding of the government's fiscal position, and to the analysis of options for managing the impact of the pandemic'.
> Ian Ball (2020: 660)

The major benefits of accrual accounting in the public sector are transparency, accountability, fiscal credibility and value for money. In addition, accrual accounting results in the following advantages.

- It allows better management of assets and accounting for the maintenance backlog. Ian Ball (2020: 661) reports that 'the IMF has estimated that with better management, commercial assets of governments could generate additional revenues equivalent to 3% of GDP'.
- It allows better management of liabilities and identification of fiscal risks.
- It reduces fiscal illusions and perverse incentives.
- It enables better long-term thinking and planning.

Ian Ball (2020: 658) explains what is wrong with using cash-based accounting:

> 'the measurement focus of financial decision-making carries with it powerful incentives for decision-makers. If the metrics used and reported are debt and deficit, decisions will be taken in a way that gives priority to those measures. The long-term result can be seen, for example, in the many governments around the world that struggle with pension obligations – the liabilities have grown in part because they are either not measured or not reflected in decision-making. At the time the liability is incurred, it is not reflected in cash flows or debt, so there is little incentive to give it weight in decision-making'.

Where governments and public sector organisations use accrual accounting their income figures for 2020 and 2021 ought to be reduced to reflect the expected level of non-payment and their financial statements ought to show the extent of liabilities and contingent liabilities relating to guarantee schemes. Having this information gives decision-makers a fuller understanding of commitments that have to be addressed from the resources they have available.

Where a government does not use accrual accounting, it still has assets and liabilities but its financial systems do not incorporate them. The IMF (2018), estimated the value of public assets globally to be double the value of global GDP and, therefore, much larger than public debt. This implies that, globally, governments have a positive net worth. There are, globally, resources available for providing services, and/or holding in reserve for dealing with future crises. And, because, on average, advanced economies have more assets but lower net worth than emerging economies (Harris et al. 2019) this might be particularly beneficial to emerging economies. But this hidden store of value requires accrual accounting to create the balance sheets that will reveal it.

Even without accrual accounting in place, a government can use a 'balance sheet approach' (ACCA 2020) to its decision-making by taking into account the impact of decisions on its assets and liabilities, both at the time of the decision, and in the future. Taking an example from the above report, if a government decides to recruit a lot of additional civil servants it should recognise that the financial cost is not just the salary payments but also pension rights. This may cause the government to consider alternative ways of achieving its desired outcomes.

The finance professionals who work in governments and public sector organisations that do not use accrual accounting or budgeting should use the balance-sheet approach when preparing reports and advice. This means they should supplement the financial data that comes from the cash (or modified cash or modified accruals) accounting system with other information about assets and liabilities.

Improving public procurement

The global average for government spending on contracts with companies is 30% of the total budget (Guerry et al. 2018: 2). Public procurement is, therefore, a critically important component of PFM arrangements for the delivery of the goods, works and services on which we all depend. As described in ACCA's report, *New Models of Public Procurement: A Tool for Sustainable Recovery* (Bleetman and Metcalfe 2020: 11):

> 'This is a critical moment in public sector finance and governance when some important changes could be made in public procurement and, as a result, improve not only the state of public finances but also the vital relationship between private sector suppliers and public sector buyers, at the same time achieving social and environmental targets'.

Bleetman and Metcalfe (2020) set out two separate objectives for modernising public procurement post Covid-19. The first objective is the generation of financial savings during a time of increasing public borrowing and debt. The second objective is ensuring that governments make progress against environmental and social goals.

There are 17 recommendations in the ACCA report (Bleetman and Metcalfe 2020: 7-8) for governments to implement. The major themes of these recommendations are improving efficiency and effectiveness, so that public money can buy more; and ensuring transparency of procurement processes and awarded contracts. All the recommendations should be considered by governments (and by finance professionals, who have a key role to play in implementing them) but, for the purposes of the present report, two recommendations are particularly important. Governments should adopt use of e-procurement systems so they can manage their procurement activity efficiently; and they should use them for monitoring and oversight of awarded contracts. The OCDS supports governments that are committed to open contracting, which is intended to improve value for money for governments, taxpayers and citizens, ensure fairer competition for suppliers and reduce fraud and corruption in public procurement projects (Open Contracting Partnership n.d.).

Improving procurement is only part of the challenge for governments. Having excellent procurement processes will result in selecting the best possible suppliers, but governments need to be competent in contract management if they are to receive everything they expect from their contracts. Research into contract management in the private sector suggests that poor contract management costs 9% of the value of a contract. Given that, on average, contracts amount to one-third of government spending, then a similar level of cost due to poor contract management could amount to 2% or 3% of government spending. It is worth investing in good contract management skills to avoid such a loss of value.

The UK's NAO (2016) has published a *Good Practice Contract Management Framework*. The framework includes about 100 key activities grouped into 11 contract management areas. Some of these activities are listed here.

- Contract ownership is clear, with the budget holder, senior responsible owner, and contract manager clearly defined.
- There is a planned transition from the tendering/ contract award phase to the contract management phase, and a planned handover to the contract manager.
- Contract management software is used for recording key information, to give, for example, search capability.
- There are mechanisms in place for identifying key contract trigger points, such as notice periods.
- Problem resolution processes are well defined and used, and are designed to ensure minor problems do not escalate and cause relationship issues.
- A performance-management framework is in place when the contract is signed and supplier performance is assessed using clear, objective and meaningful metrics.
- Payment changes after the contract is signed are made using contractual provisions and demonstrated to provide value for money.
- Contractual/supplier risk management is in place with clear responsibilities and processes, identification of who is best placed to manage each risk.
- The contract is regularly reviewed (with a view to updating where necessary) to ensure it meets evolving business needs.
- Exit strategies are developed and updated through the life of the contract.

The designated contract manager for most, if not all, contracts will not be a finance professional. Nevertheless, finance professionals should learn contract management skills and think in commercial terms so that they are able to support contract managers in their roles. A finance professional with that knowledge can advise managers on how to set up the management arrangements for a contract. Or, at a micro level, if finance professionals understand how changes can be made to a specific contract, they will be better at forecasting the final cost of the contract.

We have outlined in this report so far a number of challenges for governments to tackle in their post-pandemic recoveries, and a number of ways in which PFM arrangements could be developed. Public finance professionals can play central roles in meeting the challenges and improving PFM. We discuss this in the next section.

Summary

- Crises have led to PFM reforms in the past and lessons can be learnt from the Covid-19 crisis for improving PFM systems and processes so they are able to respond better during future crises.
- The three major areas for improving PFM identified by the survey respondents are: improving transparency and accountability of government spending; better prioritisation of resource allocation; and intensifying the focus on risk management and contingency budgeting. These also reflect what PEFA identifies as the weaker areas of PFM as currently practised.
- Other areas for improvement identified through desk research are: focusing on service delivery and outcomes; moving to accrual accounting and budget; and improving public procurement and contract management.
- Improving PFM systems and processes is vitally important, but for governments to increase their effectiveness they also need to invest in the public finance professionals who will operate the systems.

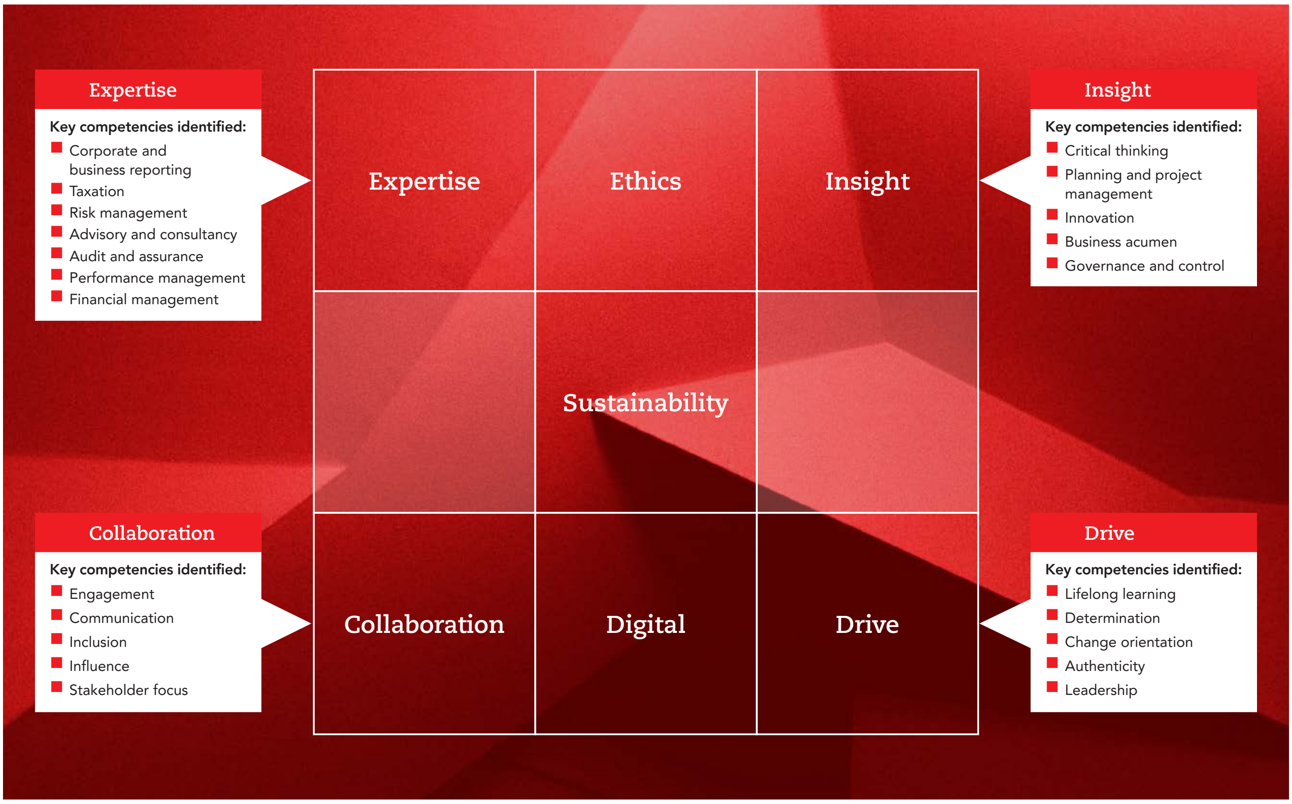
3. Public finance professionals in a changing PFM environment

Finance professionals have an important contribution to make to how PFM systems are reformed in response to Covid-19 and, beyond that, how PFM systems operate in the future.

Technological advances in automation and machine learning can make radical changes to the way governments work but data will still need interpretation to turn it into information and advice for decision-makers. Finance professionals' contributions to PFM, however, are constrained by the extent to which they have the skills, knowledge and experience needed to provide effective analysis, advice and influence.

ACCA (2021c: 3) sees 'the professional accountant playing an integral role at the heart of sustainable organisations of the future as the sustainable business and finance professional'. ACCA sees professionals, in the public as well as private sector, working in roles that create, protect and report on value for organisations, and this requires broad skills, capabilities and knowledge that complement finance and accountancy skills (2021c: 14). The core capabilities are illustrated in Figure 3.1.

FIGURE 3.1: Core capabilities of the sustainable business and finance professional



Source: ACCA, 2021c

We can link this back to the issue of risk management. If governments intend to improve the effectiveness of their PFM systems, one of the risks will be a lack of ability among their finance professionals to operate the systems. If a government identifies it has risks from too few finance professionals and/or deficiencies in its finance professionals' skill sets then it should take action to mitigate these risks. This may involve the initial recruitment of finance professionals, as well as ensuring they are competent to do the jobs they are hired to do. In some places that may mean improving salaries and benefits; in others it may mean acting to ensure there are enough educational opportunities for people to learn finance and accounting subjects. ACCA has committed itself to offering access to a quality finance and accountancy education that is free from artificial barriers, as part of its commitment to achieving the UN SDGs (ACCA 2020)

A different approach might be to develop finance staff after they have been hired. This might mean investing in programmes where staff can take formal accounting and finance qualifications. It might also mean ensuring there are opportunities for staff to gain experience.

Survey respondents who stated that they worked in public sector finance roles were asked how confident they were about having sufficient skills and capabilities to do their jobs effectively. The overall results are shown in Figure 3.2.

The areas where fewest respondents reported they had sufficient skills were digitalisation and technology, building and maintaining relationships with the private sector, and applying principles of inclusion and equality in the PFM system. These lower-scoring skill areas are therefore worthy of consideration when assessing what should have higher priority in the training and development of finance professionals – both in their initial education and training and in their subsequent careers. In fact, every skill area except adapting to remote working scores under 50%, suggesting that they all require attention.

Next in the survey, respondents were asked which of the 15 skills areas they thought would be the most important for the public sector of the future. The top five were:

1. digitalisation and technology (57% included this in their top five)
2. business continuity planning (48%)
3. risk management (40%)
4. detecting and preventing fraud and corruption (40%)
5. adapting effectively to remote working (35%).

We can combine the answers to this question with the previous question about existing skills to identify a skills gap. The results of this comparison are in Figure 3.3.

FIGURE 3.2: Existing skills and capabilities of public sector finance professionals

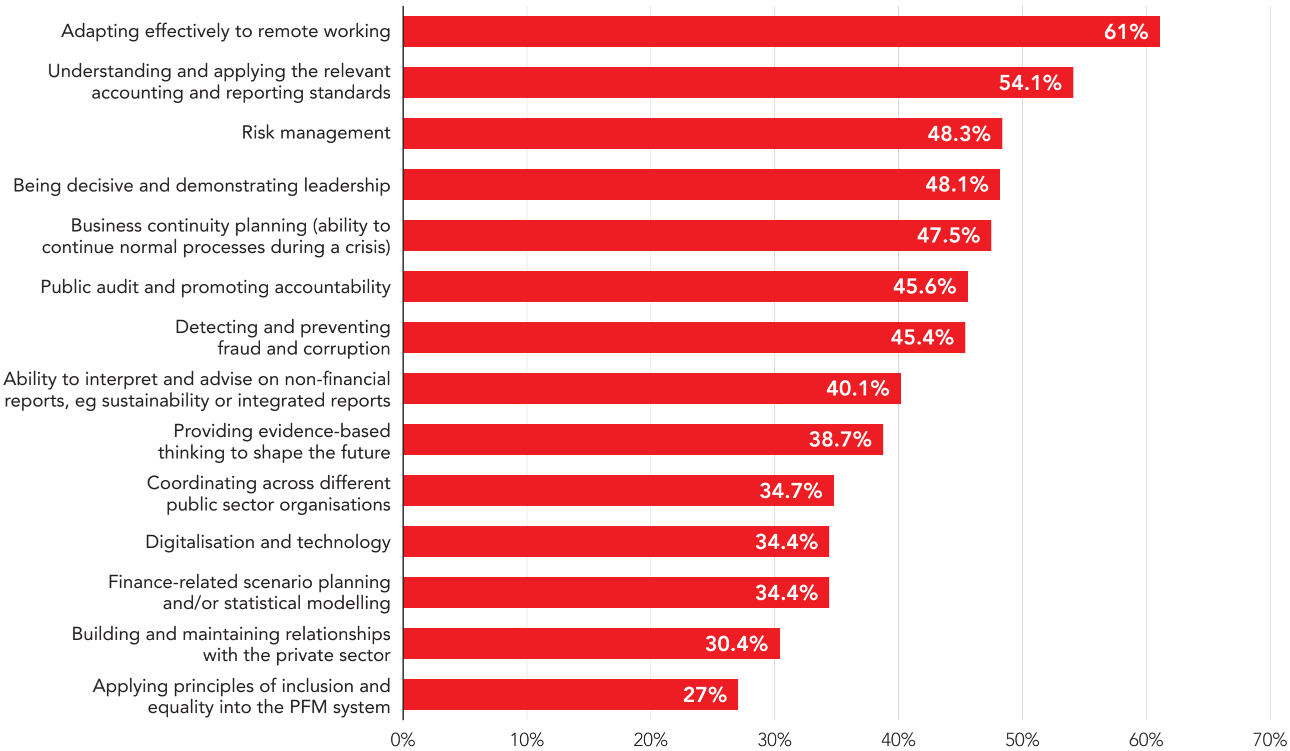
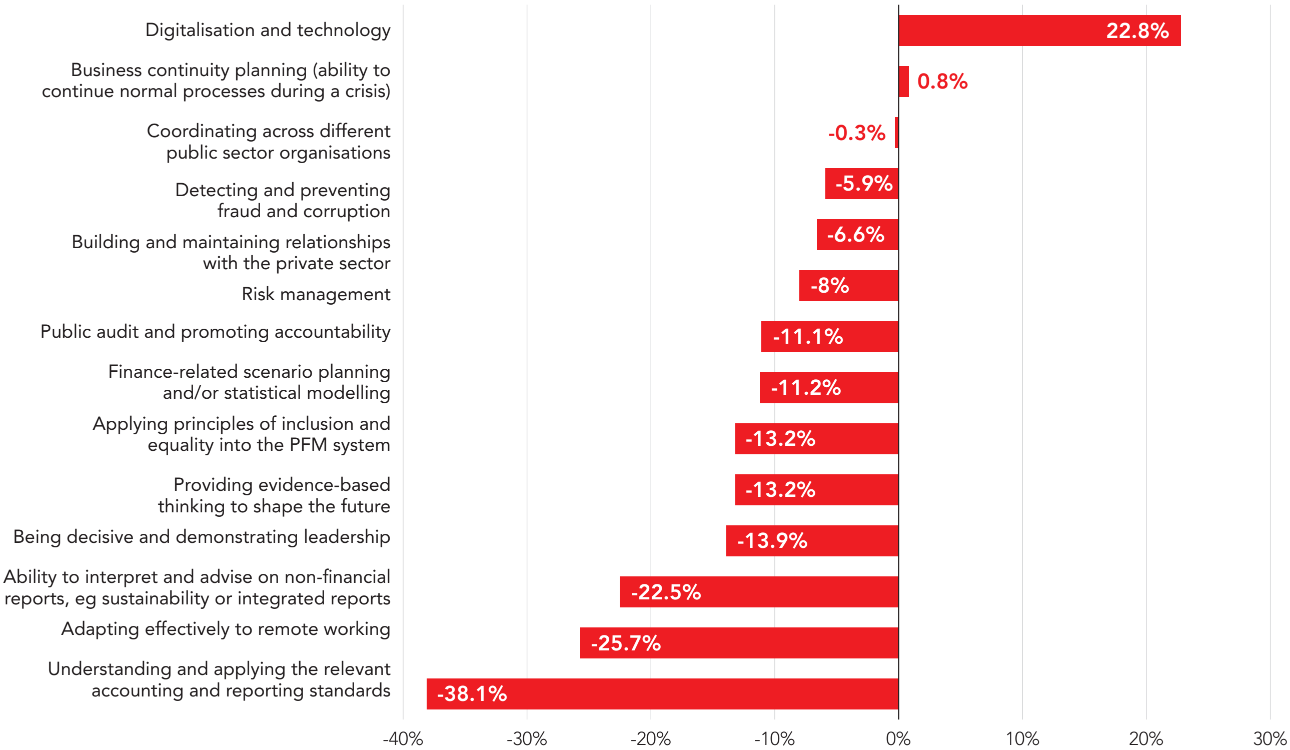


FIGURE 3.3: The public finance skills gap



There are two things to note about Figure 3.3, at opposite ends of the chart. At the top, the area where the gap is greatest is digitalisation and technology. Overall, this is a skill area where 34% claimed they had sufficient skills already and 57% thought it would be one of the most important in the future. The survey suggests, therefore, that finance professionals should prioritise the development of their skills in digitalisation and technology.

At the other end of the chart, understanding and applying reporting standards had negative gap of 38%. This skill is the second-highest ranked in Figure 3.2 but it is a concern because, on the face of it, applying accounting standards is a skill that ought to be fundamental to finance professionals. Only just over half of respondents (54%) said they were confident they had this skill (the finding was similar across the regions) and only 16% included it in the top five skills needed in the future.

When analysed by role, it is understandable in some cases that there would be a low score on this skill but, for example, only 66% of respondents who identified their roles as accountants and 49% of auditors reported they believed they had the skills for the accounting and reporting aspects of their jobs. This indicates a significant issue for public finance professionals and suggests there may be a gap in their training or development. This has been recognised by Cohen et al. (2021: 11):

> 'Accounting reforms require significant efforts by preparers, and many public sector accountants are unfamiliar with IPSAS and with accrual accounting in general. Few existing university syllabuses cover international standards…and so extensive education initiatives are needed'.

The roundtable discussions covered existing and future skills. There was some agreement about the importance for finance professionals of having the training and development opportunities to ensure they gained the skills and experience needed to be effective. This includes, for example, understanding risk management and their role in it (as outlined in the previous section).

Perhaps the message from the roundtables and the survey is that there are skills gaps but they are unique to each professional. To that end, each finance professional should take responsibility for their own personal development and identify which skills they believe will be most important in the future (whether these are technical accounting skills, management skills, communication skills, and so on) and identify their own skills gap. They should then seek out opportunities to fill the gap.

Maintaining skills and knowledge could turn out to be vital if, for example, inflation remains high for a prolonged period, rather than being a blip. In that situation then, as Jens Heiling, senior manager at EY, said at one roundtable, 'people with accountancy skills will be called upon to do a lot more, and many of those people will not have experienced inflation in their working lives'. There would be many financial issues to deal with including, for example, applying accounting standards, forecasting inflation-adjusted income and expenditure, managing borrowing costs using devices such as interest rate and currency hedging, and realistic discounting of returns on investment. Finance professionals should always keep their skills and knowledge up to date and if inflation remains high they should ensure they learn and practise the skills needed to deal with inflation.

The status of public finance professionals within PFM systems and public sector organisations was also a concern at the roundtables. Public finance professionals should be involved in policymaking and have a place at the discussions between the most senior politicians and officials. Nonetheless, at one roundtable, Joan Ballantine, a professor at Ulster University, noted that 'public sector finance professionals do not have the full set of skills to challenge policy, including policy related to equality'.

The development of policies and strategies should allow for associated financial implications and therefore governments should invest in the finance professionals who produce this information. This investment is not just in recruiting and training the professionals but also investing in information systems and technology that enables them to produce the best possible advice.

Clearly, then, there is a challenge in training public finance professionals. Professional accountancy organisations (PAOs) can help governments by producing a stream of qualified accountants with the necessary skills to prosper both now and in the future. PAOs could also develop other educational programmes and certificates that would support governments but fall short of the full professional accountancy qualification. ACCA, for example, has Certificates in IPSAS and PFM. 'The former is targeted at public finance professionals in jurisdictions transitioning from cash to accrual accounting. The latter is targeted at finance professionals considering a career transition to the public sector, or public sector workers looking to develop their PFM skills' (CAPA 2021: 13).

It is not just a question of PAOs and other institutions increasing the supply of appropriately trained and qualified finance professionals, but also of demand. Governments, whether central, state or local level, need to recognise their requirements for competent finance personnel (CAPA, 2021: 18). At one of our roundtables, Patrick Kabuya said:

> 'In Africa, based on my experience, the key issue is the limited number of suitably qualified finance and accounting professionals working in the public sector'.

The demand for finance professionals will increase if politicians and policymakers begin to ask for financial information that truly reflects the complexity of governments and their finances. At that point they will need more information than just their cash position and the level of government debt, and will need finance professionals to obtain that information and explain it.

We did not hear that the lack of finance professionals was an issue only for developing countries. Participants from Ireland also reported they have difficulties attracting and retaining qualified accountants in public sector jobs. In this case the issue was one of status and the lower salaries paid in the public sector. The pandemic created additional finance work in these organisations and their response was to hire additional accountants on a consultancy basis. While this is a short-term solution, it is more expensive than employing staff directly.

Improving financial services to governments is not just a matter of having more staff with formal qualifications: it is also involves their roles and what they are expected to do. PFM systems do involve a lot of day-to-day processing work, in part because governments are so big, sometimes spending half of all the money in a country's economy. In fact, a lot of processing work – bookkeeping, checking transactions, and so on – is ripe for automation and digitalisation but it is difficult to see how to automate the finance work that adds greatest value, such as advising on the financial implications of a policy proposal. As ACCA argues: 'As guardians of information, accountants are in a unique position to provide the insights and predictive analyses needed to shape sustainable […] strategies for the future'. (ACCA, 2021b: 25)

Whatever the problems are that make it difficult for governments to have enough finance professionals working in PFM – whether in training, salary levels, status, or otherwise – they need to be overcome. Otherwise, as CAPA (2021: 4) argues:

> 'In many countries however, there are limited or no qualified professional accountants embedded across government. This makes it hard to implement public sector reforms or improve PFM'.

Summary

- Finance professionals have an important contribution to make in the reformation of PFM systems in response to Covid-19 and, beyond that, to how PFM systems operate in the future. They can create, protect and report on value for organisations but this requires broader skills, capabilities and knowledge than traditional finance and accountancy skills.
- Governments should manage the risk that they do not have enough public finance professionals to be effective at PFM. They may need to act to recruit, develop, and retain professionals.
- The survey indicated that there are existing skills gaps. Finance professionals should take responsibility for their own personal development, identify their own skills gaps, and seek opportunities to fill these gaps.
- Governments should increase the recruitment and retention of public finance professionals, as more such specialists will be needed if government are to base their decisions on financial information that truly reflects the complexity of government organisations and their finances.
- PAOs can help governments by producing a stream of qualified accountants and developing other educational programmes that support governments' PFM systems and processes.

4. Conclusion

The Covid-19 pandemic has been perhaps the most significant challenge faced by most governments, and the politicians and officials who work in them, for many generations.

The responses made by governments have shown that innovation and agility can be a feature of government as well as the private sector. Some governments found the challenge more difficult than others, having weaker PFM systems and not having the same starting point in electronic infrastructure and digitalisation of services.

Just as the responses were individual, so will be the recoveries from the pandemic. Each government will have its own fiscal and economic problems to solve. ACCA's global survey and research shows that there are some particular areas where PFM systems should be developed. Resource allocation, risk management, and accountability and transparency were the top three areas highlighted in the survey.

PFM systems involve a wide range of public finance professionals who play central roles throughout all the stages of the PFM cycle. This report has highlighted some areas where there may be gaps in individuals' skills and competencies. There is an opportunity for PAOs, and others, to extend and improve the training and development of public finance professionals in areas such as understanding and applying financial reporting standards, risk management and digitalisation. Finance professionals should also develop the skills and knowledge to be able to contribute fully to policymaking within public bodies and to address wider challenges such as social inclusion and climate change.

The issue is not just one of supply; there is also a need for governments to recognise their need for competent finance professionals and ensure they recruit and retain them. Finance professionals have much to offer when meeting the challenges outlined in this report and governments should consider investing in more and better-trained finance staff to help them with the recovery and beyond.

FINANCE PROFESSIONALS HAVE MUCH TO OFFER WHEN MEETING THE CHALLENGES OUTLINED IN THIS REPORT AND GOVERNMENTS SHOULD CONSIDER INVESTING IN MORE AND BETTER-TRAINED FINANCE STAFF TO HELP THEM WITH THE RECOVERY AND BEYOND.

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ACCA The Adelphi 1/11 John Adam Street London WC2N 6AU United Kingdom / +44 (0)20 7059 5000 / **www.accaglobal.com**