CONSEQUENCES OF FAILURE TO MANAGE PUBLIC SECTOR FINANCIAL RECORDS

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Abstract
The focus of this article is the management of public sector financial records. In researching this subject, pilot studies were initially carried out in The Gambia designed to underpin the larger study in Ghana. The fundamental contribution of these studies is the definition of an essential, but often ignored condition necessary for effective and efficient machinery for public financial management. The studies demonstrate that the effective management of public sector financial information is a crucial factor in providing capacity for public sector efficiency and governance. This view supports an emerging trend in Public Sector Management (PSM) that government records and in particular, the records generated by the public financial management system provide the evidence required to support transparency and accountability and at the same time inform the effective management of the Consolidated Fund. This article submits that without documentary evidence, the public has no means of holding the state accountable. In effect, public financial records provide an effective means by which the public discern and measure the full stature of their government.

Keywords: Financial Records, Ghana, Public Financial Management, Records Management, Service Delivery

The governance factor

In a study intended to provide a long-term perspective, the World Bank noted that: “Underlying the litany of Africa’s development problems is a crisis of governance” (World Bank 1989:60) The study linked good governance to leadership, accountability, access to information, among others. The focus on governance has come about as a result of the accumulated negative experience in adjustment lending by international financial institutions, with the impermeability of many Africa countries to economic reform and the disappointing results in Latin America looming large.

Institution building and design, the nature and transparency of decision-making procedures, conflict resolution mechanisms, accountability and access to information – all of which ultimately concern the very essence of the polity - are governance issues and currently fill the agenda of what is the political economy of poverty reduction programmes. In policy language, all of these issues show up as material for reform and are included in the set of adjustment and poverty reduction measures necessary to restore growth and development in the developing economies.

A key governance element is information. Yet, in sub-Saharan Africa, the development of information management infrastructures has often lacked a resource management framework. The strategy for managing the public sector and the national economy needs to include explicit provision for managing information for good governance. It is the financial record that gives form and substance to financial systems and the means by which decisions and transactions are verified and reported upon. The instrument of the accountability of government is the *record* and the means by which records are created, captured and maintained to serve as evidence of this accountability is *record keeping.*

Public financial management

Public finance is the lifeblood of any state, developed and developing. While it must raise public funds, government must also have an effective and efficient institutional mechanism for controlling and administering those funds and in translating government policy into effective action. Public financial management is thus one of the most fundamental responsibilities of governments. In an era of economic policy reform and poverty reduction strategies, it has become that critical element determining the overall ability of the government to manage the economy and improve the quality of life (Asselin 1995).

Arrangements for managing public finance in the countries under the Commonwealth were traditionally associated with the Treasury. The work of this institution falls into two broad categories. The first is summed up as policy, deciding what financial resources are necessary and how to distribute the resources. This responsibility brings the Treasury into close contact with the political sphere. The second is the physical handling of the funds, regulating their receipt and disbursement. Physical handling of funds involves accounting and accounting provides the institutional memory of past financial transactions. Policy and the physical handling of funds belong to the realm of control.

In the collection of revenue and its disbursement as expenditure, together with the linked activities of public borrowing and lending, all public agencies create financial records, which are held in financial branches or individual operating units. The core public financial management agencies however, carry out specific tasks in the management of the Consolidated Fund and their activities must be effectively balanced and interlocked by efficient records and information management systems.

Importance of managing financial records

Well-managed financial and accounting records provide a sound basis for financial and accounting control and hence accountability. They also provide the basis for financial reporting. Financial reporting has several broad objectives, which include stewardship and compliance, providing the evidence-base upon which financial management decisions are made.

The financial management business processes are the context in which transactions are carried out, with financial records generated as by-product. To effectively support business processes, financial records must be well managed. The systems in which they are maintained must be secure and implemented consistently. They may be created on any physical form or medium. The evidential qualities financial records possess derive from the origin of the records as part of the business process and from the preservation of their informational content, structure and context as part of a record keeping system. In addition, financial records need to be both accessible and useable.

There are nine well-defined business process groupings and information areas in public financial management (Davies *et al*, 1993) [2]. In each of these business processes, records must be structured logically and managed effectively if the processes are to be carried out efficiently. To illustrate this relationship the Macro-fiscal Plan, the first of the process groupings is examined in relation to the records upon which it depends and the records it generates.

The objective of Macro fiscal Planning is to prepare a medium-term expenditure plan as a preliminary step in the annual cycle associated with public expenditure processes. Its major functional areas include:

- Macro economic Framework
- Public Sector Investment Programme
- Fiscal Plan

Developing the macro-economic framework involves linking national income, savings, investment and balance of payments of public expenditures and revenues. Records provide the basis for the analysis and for policy choices. The information derived from the records is used to create a macro-economic framework document and a multi-year fiscal planning blue print which is continually revised.

The Public Investment Programme document brings together the investment projects that government intends to implement over the budget period and relates them to macro-economic and sector strategies. It enables aid co-ordination, helping to increase aid flows and to channel external resources to priority areas. Most significantly, it helps to balance commitments against resources. The programme document also draws upon the records of investment projects.

Preparing the fiscal plan is the third step in medium-term expenditure planning. This plan relies upon records of revenue forecasts, estimates of resources available from domestic and external borrowings, grants and projections of current expenditure. This analysis results in a medium-term rolling plan showing resource mobilization scenarios.

Analysis and policy decisions made in macro-fiscal planning are dependent upon the capacity of the records to provide accurate and reliable information. Records supporting development of the Medium- Term Expenditure Plan include previous fiscal reports and expenditure reviews, accounting records, records on tax and non-tax revenue collections and previous public sector work programmes. Others are records on domestic and external borrowings, grants in aid, debt service projections and Civil Service complements, emoluments and benefits.

Information on the external political and economic environment is also critical for macro-fiscal planning. This information is obtained through critical reviews or subscriptions to indexing services or the Internet. International political and economic information provide price indexes to raw materials and previous political and economic developments. Political developments in other parts of the world, such as the wars in the Middle East, also have an effect on the global economy.

The ability of the state to create, sustain and promote development depends on many factors; the ability of the state to manage recorded evidence of the conduct of government financial business is perhaps the most basic of all. Without a records management programme in place, records that provide the evidence of financial management activities clog offices and are disorganized and lost. Records management allows for the systematic control and authorized storage and disposal of financial records.

In the budget system for example, the control system relies for its effectiveness on monitoring the flows of expenditure and revenues. When budget records are not effectively structured, information cannot be obtained easily. All too often the objectives of the monitoring system are not achieved and the control mechanism fails to inform. Thus records management is a control function that underpins the financial management process and provides the means by which government makes meaningful social and economic decisions and demonstrates its commitment to public accountability.

Failure to strengthen the link between financial management business processes and recorded information leads to the inability of government to:

- improve the effectiveness of public expenditure programmes by developing and implementing mechanisms for fiscal-planning, budgeting and evaluation.
- manage external resources
- mobilize domestic resources

- manage the size and efficiency of the public sector
- disseminate information within government and to the private sector
- adjust to changing macro-economic conditions
- strengthen controls

Above all, without reliable, authentic documentary evidence government cannot demonstrate to society that it has used public resources responsibly and that it has fulfilled its mandate to the people. Economic efficiency requires that information about policies and plans are made available and that there is accountability in the major processes of economic policy making and poverty reduction strategies.

Case study

At the centre of Ghana's public financial management system is the government's budget. The functional requirements for financial record keeping ought therefore to address the business applications of the budgetary process through its four interlinked stages:

- preparation
- enactment
- execution
- accountability and audit

Stage 1 to stage 4 is about two years. The cycles overlap; three different stages can occur at the same moment of time: execution of the current budget (stage 3), preparation of the next budget (stage 1) and accountability and audit of the previous budget (stage 4). Functionally, the various business processes at any moment are engaged in the task of dealing with the present, looking to the future and looking back to the past, with records generated as by-product. Some, like the Budget Statement and the Final Accounts, are published officially. Others are documentary sources created in public offices, cabinet and the legislature.

Detailed guidelines on financial record keeping are provided by the Financial Administration Regulations. Part XV is devoted to financial record keeping functional requirements. It emphasises the importance of recorded information as a key resource and record keeping as an integral part of the financial management system. To this end, public officers vested with financial management responsibilities are obliged to keep "proper records" and ensure such records are available on request.

On the strength of the Financial Administration Regulations, agency heads are specifically required to develop sound management systems for financial record keeping to meet the requirements of (Government of Ghana 1979:10):

- accountability in public financial management
- efficient discharge of financial transactions

Financial records are financial policies and programme records. These include planning, revenue and expenditure records, case papers and legal documents such as agreements relating to contracts, loans, advances; trust deeds in connection with any fund, account or property; title documents conferring or recording ownership of any property including title deeds, bonds, stocks and share certificates. Other financial records are accounting documents such as books, ledger sheets, ledger cards, computer printouts and electronic computer files. Also included are value books comprising accounting source documents such as receipts, cheques, bank statements, local purchase orders, vouchers, requisition and bill books, etc.

The two main categories of financial records are:

- subject and topical files
- transactional, such as invoices, vouchers etc.

Subject files are filed on the basis of hierarchical arrangements reflecting the function and activities of the agencies of the central administration of finance. Transactional records are held by all public agencies and treasury. Because of their volume, transactional records present the greatest handling, processing and storing problems. They are classified according to type and function. Each class is further subdivided, either by specific accounts or general sub-classes of accounts. The classification scheme ought to be the building block of the financial record keeping system.

There is little doubt that increases in the volumes and arrangement of public financial business since the 1960s has led to serious difficulties in the agencies of the central administration of finance and other public agencies. Colonial Financial Orders in Ghana did not adequately define the statutory arrangements required for managing financial records. They made scattered references to the retention of certain documents for specified minimum periods, but there was no clearly defined policy on records control. Partly because of the limited scale of government activity and partly because, in practice, clerical functions relating to the management of records had a higher status than they do now, the sketchy arrangements inherited from the colonial era were satisfactory. Presently financial records are buried and inaccessible. The financial record keeping systems have not been well structured and therefore do not meet present-day information requirements.

Despite the vital importance of financial records, the accountability for their management is poorly defined. Heads of agencies are theoretically responsible for maintaining agency financial record systems. (Government of Ghana 1979:13) Part of this responsibility entails the issuance of a code of agency instructions, which should build upon a national framework for records keeping (Government of Ghana, 1979:14). However, neither the instructions nor structured systems for financial records exist throughout government. This taken together with the decline in accounting standards has resulted in loss of financial control. During most of the period 1981-1985 no one was officially confirmed in the post of Controller and Accountant General. Even in the 1994 total staff of 4,500, fewer than 0.44 per cent were qualified professional accountants and fewer than 5 percent had intermediate formal qualifications in accountancy (Government of Ghana 1995:10). This situation is manifested in inordinate delays in producing accounts, financial reports and even recourse to “incomplete“ records in order to report the Final Accounts.

There is the belief in the financial management system that the more complicated a procedure and the more documents created and maintained the greater the security against fraud. On the contrary, the clogged filing cabinets are highly conducive to irregularity of every kind. Poor practices for managing financial records are widespread. One of such practices is the creation of an unnecessarily large number of multiple copies. Top management acknowledges this but explain that it is due to the necessity for tight controls. Some even suggest that duplication provides an insurance that “the record may be located elsewhere when you misplace yours”. Not much thought is given in these practices to the implications for space, storage equipment and staff time during a period of dwindling financial resources. Defining and simplifying procedures, reducing the paper generated and planning the records systems with an end result clearly in mind will provide substantial economies, lead to fewer but better records and promote accountability. If effectively managed as an integral part of the business processes, financial records provide a meaningful resource, not the least as verifiable evidence.

Financial reporting is a product of well-structured financial records management systems, a critical element in the accountability of government. The key objective of financial reporting has always been to provide the legislature and the public with the assurance that there has been conformity with legal and other mandatory requirements in the government’s management of resources. It provides the basis for accountability, planning and authorization information. The machinery of government should itself use financial and accounting information to evaluate current performance.

Moreover, public accounts are not only a measure of past events but are also important for what they reveal about the future. The results and trends identified by financial statements and fiscal reports can be interpreted in relation to the government’s changing circumstances to give a useful forecast of the future.

At present the parties charged by law to prepare and submit accurate and timely expenditure data are in breach of this requirement. For example, s.38 of the Financial Administration Decree requires the CAG to publish for the purposes of expenditure management the Monthly Financial Statement. The last time such a statement was published was in 1987. That year’s report was in respect of the month ending 30 June 1980. The report was signed by the CAG on 28 October 1986, six years from the date of the report. The report was subsequently published in the Gazette on 10 March 1987, seven years from the date of the report (Government of Ghana 1995:13).

Since 1989, the Ministry of Finance has complained, in the annual budget circular notes, of the continuing lack of compliance with expenditure reporting requirements. Yet public agencies are not able to provide the information required largely because systems are not in place to manage financial records. Government often overlooks this basic fact. Until there is a review of the effectiveness of financial records systems and well-structured systems installed, non-compliance with directives, irregularities and fraud will continue to characterize the financial bureaucracy.

Treasury officers are expected to provide item level expenditure reports to CAG within fifteen days after the end of the month. Moreover, under Financial Administration Regulation 68, heads of public agencies are to submit returns of actual expenditure on a monthly basis to the Budget Division of the Ministry of Finance not later than ten days after the end of the month. The poor quality of financial records systems has impeded regular compilation of monthly expenditure returns and reports. None have been produced for over fifteen years. Nonetheless, monthly reports are essential sources of information for budget implementation, monitoring and evaluation. Regular monthly expenditure reports are designed not only to meet statutory requirements, but also as mechanism to gain control over the budget.

The lack of effective structures for managing financial records is illustrated in the practice of submitting multi-year financial reports for audit when statutory financial reporting is an annual function of CAG. The public accounts for the ten-year period (1979-1989) were submitted as one report for certification in 1992. The “incomplete records” technique was adopted to arrive at approximate figures for the final accounts. In complaining about the circumstances surrounding the late submission of the report, the fact that it was multi-year and the accounting method applied, the Auditor General pointed out that the financial statements were not derived from authorized source documents (Government of Ghana, 1992:6). Again, the reports covering the years 1989 to 1992 were submitted in 1993 in breach of statute. As before, the Auditor General could not be persuaded to certify the report as representing a “true and fair view of the state of affairs of the Republic of Ghana” (Government of Ghana 1993:207). The late submission of the multi-year financial statements has had a nation-wide effect. A number of issues were raised by Ghanaians and international partners; not the least were the moral and legal implications of submitting the Final Accounts whose source documents could not be verified or traced.

In his 1993 report, the Auditor General of Ghana drew attention to failure by loan beneficiaries to repay government loans and observed that:
… beneficiaries of government loans who have defaulted in repaying the principal and interest due on the loan have not been identified and disclosed by

the Controller and Accountant General in the public accounts as required by … We noted in connection with the above that even though accurate records on loans have not been maintained, evidence available to us indicate that additional loans were granted corporations (Government of Ghana 1993:31).

In the same report, the Auditor General noted:

> The position on foreign loans was unclear because of discrepancies between the Controller and Accountant General's Department and the Ministry of Finance. Accordingly, we could not validate the foreign indebtedness stated in the public accounts (Government of Ghana 1993).

In 1995, the State Housing Corporation was reported by a local newspaper, the *Ghanaian Times* (15 July 1995:1), to have paid 400 million to government through the Minister of Finance as the first instalment of "end of service" loan covered by an agreement with the Minister in 1993. In the public accounts as at December 1994, the Controller and Accountant General (CAG) showed only ninety-eight million cedis as the indebtedness of the Corporation to government, the same amount of indebtedness in the previous years' balance. The effect of this misrepresentation on the public account is that "end of service" payments which were recoverable as loans were being charged on expenditure, thereby overstating expenditure reported in the accounts whilst understating government assets. (Auditor General 1995:14-16) the omissions and inaccuracies in the statements of the CAG point to the lack of complete, accurate and authentic records on government investments and loans.

Unable to address the management of financial records along-side records of other sectors the overall ability of the Government to manage the economy has remained weak due to the very poor and chaotic state of existing paper-based and electronic financial records systems. The weakness in the management of financial records has remained despite the several policy measures introduced to strengthen financial management. These measures have not been sufficient to keep changing paradigms without dealing with the basic issue, financial records, which must underpin the financial management business processes.

There was delay in the presentation of the Government of Ghana's annual plan of action for 2001. Partly because of the difficulty in assembling data critical to the determination of specific measures for the mobilisation and allocation of resources, the new Government had to settle for what it described as an interim budget covering the first half of the year.

The cutting edge of financial accountability is the link between the financial and accounting policies and programmes of government, audit and the financial records. Thus, a well-functioning public financial management accountability system is built on the sufficiency, reliability and validity of information. Financial information is a valuable national resource. As well, it is the heart of the national integrity system. Accurate and complete financial records are crucial elements that contribute to increasing the chance of exposing corruption and supporting economic and programme planning.

Information Technology Issues

The introduction of computer technology in the public sector of Ghana is closely associated with the policy-based lending activities initiated in the early 1980s. When the Civil Service Reform Programme (CSRP) began in 1987, the Government discovered it had problems finding reliable data on the size of the Civil Service and the Ghana Education Service as a basis for implementing staff cuts. Personnel management as a strategic function had withered away.

There were discrepancies of between 7% and 15% between the nominal rolls that each ministry maintained and the payroll records. Indeed, officials were unable to determine with precision how many people were in the Civil Service, where they were working and the nature of their responsibilities. In addition, reliable data were needed to ensure an accurate payroll, which amounts to 70% of the recurrent budget, to determine salary structures and to assist in the preparation of item 1 (Personal Emoluments) of the budget (Holley 1993:15-23).

Within this policy context, the Civil Service developed the IPPD concept. This is the largest and most complex IT project undertaken by the Government of Ghana. The database combines information about staff salaries and personnel data to perform the payroll function for the public service as well as support the central human resources function. Besides IPPD, there is a widespread use of microcomputer technology in the financial bureaucracy. Word processing of critical documents has effectively improved performance in the central administration of finance.

Yet, information systems have been installed as components of separate projects responding to specific needs and overlapping and incomplete. As a medium-term strategy, Public Financial Management Reform Programme (PUFMARP) has been set up to redress the piecemeal nature of the systems by integrating the financial management system within an inter-related set of subsystems. The principal element in the integrated system is a common, reliable database to and from which all financial data will flow and can be shared by a range of users across the sector. To this end, PUFMARP explicitly recognizes the need to efficiently tie the various financial components into a coherent and unified system. Typically, until recently, no record keeping consideration has been given to PUFMARP. Thus throughout the Government of Ghana, there is only now emerging a framework for managing electronic records. No agency of the Government has yet the capacity to define the requirements for managing electronic records.

The information age has implications for the way highly vulnerable computer-generated records are managed, stored and retrieved. Set up by law in 1976

(Government of Ghana 1976), the Data Processing Control Board had institutional responsibility for the development of policies, standards and guidelines in respect of computer technology. The Data Processing Control Board Decree established the Central Systems Development Unit (CSDU), a Department of the Ministry of Finance, as lead agency specifically charged with defining government-wide solutions to computer technology problems and feeding information to the Board regarding the requirements for an enhanced information communication technology environment in Ghana. Although the thinking behind the establishment of the Board was farsighted at the time, it has now become an anachronism. In fact, the Board has not convened a meeting since 1982.

The combination of a non-functioning Board and weak lead agency has helped to deny Government the benefits it could derive from the technologies at its disposal. Unable to define solutions to the issues involved in the management of the new technologies, Ghana has risked exclusion from a global economy and suffered disadvantages in the competitiveness of its goods and services. The new technologies should facilitate access to the global market place, promote exports and improve communications.

When IPPD went live in 1995, the stringent, tightly controlled manual procedures, designed to prevent data being fraudulently entered on to the system began to be undermined by the flood of paper IPPD was generating. In all the Personnel Processing Sections and in the Payroll Processing Division, the completed data input forms had overflowed from the available filing cabinets, clogging up every available space. At this rate, within another year the paper trail designed to provide accountability for the data on the system would have collapsed completely.

The disorganization of input sheets makes it difficult to re-key lost data if there were a partial or total loss of data in the system. A report by a consultancy firm, NCC Services Ltd (1996:27) stated that, "As a matter of urgency, it is necessary to highlight a major concern regarding the overall security of the system in terms of its ability to recover from disaster". All the file servers and all the data backups are in one large room in the Controller and Accountant General's Department. Backups are not undertaken daily contrary to the recommendation of *CGI Informatique*, suppliers of the software package, for secure management of the database. (NCC Services Ltd 1996:4) Aware that the site is in a flood and earthquake zone, the backup machine, installed in the same room could be easily destroyed in a disaster; the nearest machine capable of running the system is thought to be in South Africa or Europe. No backups are held elsewhere, there is neither a vital records programme nor business resumption plan.

The critical success factors in an electronic records programme are the policies, standard operating procedures and professional best practices, which govern and influence the content, form, structure and uses of electronic records. The central administration of finance cannot manage electronic records if it cannot manage existing paper records, the two must be linked to maintain transactional context.

The control process

Financial record keeping systems must be strengthened by control systems vital to insuring that the financial records created, received and used by an organisation are sufficient, reliable, relevant and accessible. As in Ghana and elsewhere, capturing records is a process understood by Government Accountants and Managers and it is built into their procedures. Yet control is often lost once a transaction is complete (that is, payment is effected; payment voucher referenced with cheque details and stamped "paid"). There is little awareness of the records control systems required to maintain the records overtime and ensure disposal when no longer required.

The essential characteristics of a records management control system for financial records typically consists of registration and classification, tracking, maintaining audit trail, access and retrieval, scheduling and retention, destruction and transfer to the appropriate archives authority. The system reflects how records relate to government business and process. This is particularly important in an electronic environment where adequate records will not be captured and retained unless the system is properly designed.

Another element critical to financial record keeping is the control framework which refers to all the laws, regulations, policies and procedures that should provide assurance that records are created, managed and used in support of the government's financial accountability requirements. In fact, records management controls work on the assumption that all transactions are to be properly documented and recorded, and the documentation is to be readily available for as long as necessary to meet operational, regulatory and accountability requirements.

This legal and regulatory framework may be defined at several levels but must generally consist of:

- records and archives legislation
- financial and audit legislation
- financial instructions/regulations
- internal control law
- procurement legislation

The creation, maintenance or disposal of financial records must be regulated by:

- standards or codes of good practice issued by national or international standards bodies

- regulations, standards and codes of good practice issued by accounting and/or auditing authorities, archival authority
- software development and other documentation standards that affect record creation and the maintenance of electronic records

Facilities and maintenance programmes are also key to a successful financial recordkeeping system. Appropriate storage conditions would ensure that financial records are protected, accessible and managed cost-effectively. Storage facilities must provide for the security of records, including the incorporation of fire and flood controls, in addition to keeping them secure from unauthorised access. The facilities and maintenance regime should address vital records and disaster recovery programmes, their objectives defined and responsibility assigned.

Monitoring of financial recordkeeping systems must be regular and carried out according to an agreed programme to ensure continued evidential and legal accountability. The monitoring processes must not only be documented, they must be made to provide evidence of compliance with policies, procedures and standards.

Any control system for financial records management is only as effective as the personnel who run it and contribute to its effectiveness. Indeed, managing human resources in a system for keeping financial records is about ensuring that the right people are in the right place, in the right numbers and with the right competencies. Thus, three areas of concern must be addressed:

- an adequate career structure
- defined competencies for different roles
- sufficient and appropriate training

Challenges

Efficient and effective management of information is essential to improving economic efficiency and for creating transparency as a means of preventing corruption. The absence of information leads to closed decision making, which increases the risk of government error and the negative reaction from the public. Thus if the objectives of governance are to be achieved government information management systems must be strengthened in tandem with reform of PSM.

The way forward lies in forging effective partnerships among accountable officials, information technology specialists, record keeping professionals and educators to develop a robust and sustainable documentary evidence infrastructure linking traditional and virtual systems. Undoubtedly, the key is commitment to education and training to provide baseline recordkeeping literacy for public officials and to achieve particular record keeping mastery for those with management and specialist responsibilities for record keeping.

Governments must enforce compliance with record keeping requirements and establish the necessary culture for creating, maintaining and using records. Financial records systems must be structured to support business process objectives and accountability. Key to meeting the governance objectives in the management of financial records are:

- strengthening the role of record keeping and records managers throughout the central administration of finance
- defining and implementing records related standards for the machinery of government
- developing tools to assess the vulnerability of financial records systems to corruption and fraud
- supporting the role of the public records/archives authorities as records management regulator.

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Endnotes

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2. The public sector financial management business process groupings are:

- Macro-fiscal Plan
- Budget Preparation, Monitoring and Control
- Management of Public Sector Work Programme
- Debt Management
- Foreign Aid Management
- Revenue Administration
- Human Resource Management
- Government Accounting
- Auditing