An Analysis of the Public Financial Management Act 2016 with the PEFA Framework

In 2016, the parliament of the Republic of Ghana passed the Public Financial Management (PFM) Act. The purpose of the Act is to determine the responsibilities of officials accountable for managing public finances, improve the effectiveness of financial management, and increase the transparency of public funds. This paper aims to analyze the PFM Act in accordance with the PEFA framework, which is used to define the weaknesses and strengths of public financial management in a particular country. This framework consists of seven pillars: budget reliability, public finance transparency, management of assets and liabilities, policy-based budgeting, control and predictability in budget execution, accounting and reporting, and external scrutiny and audit (PEFA, n.d.). This paper will evaluate the PFM Act in all these seven dimensions to see how this Act contributes to the more efficient management of public finances.

Budget Credibility

The budget credibility dimension is intended to assess whether the budget is reasonable and is executed as planned. The PFM Act contributes to the development of a realistic budget and its proper implementation. For example, section 21 of the PFM Act (2016) provides guidance on how the annual budget should be prepared, sets the timeframe within which it should be created, and defines officials responsible for the procedure. Subsection 5 of section 21 of the PFM Act (2916), in particular, ensures the feasibility of the annual budget, requiring it to be based on “sound analysis and forecasts of macro-economic developments and fiscal projections” (p. 18). Further, sections 27 and 30 are directly related to budget implementation since they oblige accountable officials to report on the performance linked to the budget execution. Thus, the PFM Act ensures that the government budget is feasible and is executed according to the government’s plans.

Transparency of Public Finances

This dimension refers to the quality and accessibility of public financial information. It assesses whether the government provides data about its revenues and expenditures, performs a comprehensive budget classification, and publishes its budget and fiscal documentation (PEFA, n.d.). The PFM Act makes a significant contribution to the transparency of public financial information. In particular, section 21(5) is concerned with the comprehensiveness of budget documentation. It provides a list of details that should be included in this documentation, for example, the government's capital and recurrent expenditures, tax expenditures, etc. In addition, the PFM Act (2016) improves the transparency of financial information because it requires officials to report all sources of funding when disclosing the budget execution. Thus, this Act is likely to decrease Ghana's performance in the dimension of the transparency of public finances.

Management of Assets and Liabilities

This pillar is linked to the government's assets and debts. It evaluates whether the government identifies fiscal risks, records and manages assets, and plans, approves, and monitors debts and guarantees (PEFA, n.d.). The PFM Act (2016) provides comprehensive guidelines related to the government's asset and debt management. For example, section 52 appoints the Principal Spending Officer accountable for managing, controlling, and recording assets. Section 54 states that the Public Debt Management Office should be responsible for managing debts and assessing fiscal risks. Sections 55-78 regulate various aspects of debt management, ranging from defining borrowing purposes to planning and reporting debts. Given the comprehensiveness of areas of asset and debt management, one can conclude that the enforcement of the PFM Act may help Ghana to score high in this dimension of the PEFA framework.

Policy-Based Budgeting

This element of the PEFA framework is concerned with the way the government's budget and fiscal strategy are prepared. These documents should be developed with regard to the government's strategic plans, fiscal policies, and proper macroeconomic and financial forecasts (PEFA, n.d.). The PFM Act (2016) provides a legal framework to help the government of Ghana meet this PEFA requirement. In particular, the Act stipulates that the Fiscal Strategy Document should include an updated macroeconomic and fiscal projection aligned with the country's economic policies. In addition, the government's annual budget should be based on a range of forecasts, which include revenues, macroeconomic developments, economic trends, and cash flows. Furthermore, section 15 requires the Fiscal Strategy Document to include the medium-term fiscal planning, which is also necessary to follow the PEFA guidelines. Thus, the PFM Act is intended to help Ghana ensure that its public financial management aligns with its fiscal policies and economic forecasts.

Control and Predictability in Budget Implementation

This dimension is related to the efficiency of budget implementation. It involves such aspects as collecting and reporting government revenues, managing public servants' payroll, procurement management, and internal audit (PEFA, n.d.). Regarding this pillar, section 47 of the PFM Act (2016) regulates how government funds are collected, deposited, and retained. In terms of procurement management, the PFM Act's section 96 specifies offenses that can be committed by individuals employed in this field and penalties for such offenses. With regard to an internal audit, section 7 appoints the Principal Spending Officer responsible for this procedure, and section 83 outlines how the process of the internal audit should be performed. Overall, the PFM Act establishes a thorough system of internal control to make sure that the budget is executed according to the plans.

Accounting and Reporting

This dimension is concerned with the quality of financial information generated and disseminated by the government. In particular, it assesses the integrity of financial information and a variety of financial reports (PEFA, n.d.). The PFM Act (2016) ensures financial data integrity by requiring the responsible officials to keep accounts aligned with general accounting principles and submit them in a timely manner, as stipulated by section 42. Section 43 requires annual and other necessary reports to be submitted within the set timeframe, which ensures that the important financial information is delivered at an appropriate time for decision-making. Further, sections 79-82 regulate different types of accounts, providing guidelines about the submission deadlines, responsible officials, the content of accounts, as well as the possibility of introducing changes to the accounting system. Thus, the PFM Act outlines principles and requirements necessary for the government of Ghana to ensure the integrity, timeliness, and comprehensiveness of its financial reporting.

External Audit

This dimension assesses whether public finances are reviewed by an external auditor. In addition, it evaluates whether the government follows the recommendations given to it after an external audit to ensure the improvement of any legal issues (PEFA, n.d.). Under section 84 of the PFM Act (2016), external audit is the duty of the Auditor-General. It should be conducted within six months after a financial year ends. Further, section 85 specifies that a Principal Spending Officer is accountable for reporting on the implemented recommendations given after the external audit.

Conclusion

To sum up, the PFM Act of 2016 is intended to improve the Ghanaian government's public financial management by including clauses aimed at improving its performance in all seven dimensions of the PEFA framework. The Act regulates the management of revenues and expenditures, provides guidelines for accounting for funds and audit results and assigns duties and responsibilities. One may conclude that if the PFM Act is properly and consistently enforced, it may help the government score high in all the PEFA dimensions.

References

PEFA. (n.d.). *PEFA's seven pillars*. https://www.pefa.org/resources

Public Financial Management Act 2016 (Act 921). (2016). https://www.mofep.gov.gh/sites/default/files/acts/PUBLIC-FINANCIAL-MANAGEMENT-ACT-2016.pdf