

PUBLIC FINANCE

The State General Budget

Overview

- A government should establish those funds required by law and the specific **operating** and **management** needs of the government entity.

Each of the governmental funds will report two fund-based financial statements:

- The balance sheet
- The statement of revenues, expenditures, and changes in fund balance

A budget

A budget of a government is a document presenting the government's revenues and spending for a financial year that is often passed by the legislature, approved by the chief executive or president and presented by the finance minister to the nation.

Government budgets are of three types:

- Balanced Budget:** when government revenue and expenditure are equal.
- Surplus Budget:** when anticipated revenues exceed expenditure.
- Deficit Budget:** when anticipated expenditure is greater than revenues.

Preparation of the budget

- Fiscal economists need to fully understand any weaknesses in the country's budget execution process.

✓ Is it **transparent**?

✓ Are there clear lines of **accountability**?

✓ Is information on execution of the budget available on a **timely, reliable, and accurate** basis?

✓ Is it thus consistent with the principles of **good governance**?

✓ Is there any required **actions** through budget execution procedures to bring expenditures **back on track** to the **budget provision**; hold expenditures below budget, in response to below-target revenue developments.

The key questions required to be answered by fiscal economists and general budget advisors

1. What are the **different stages** of the budget execution process?
2. Who is responsible for **budget execution**?
3. How can budget **appropriations** be **revised** during the year?
4. How good is the information on **outturn expenditure**?
5. What are the **problems encountered** in budget execution procedures?
6. How can expenditures be **adjusted** in-year?
7. How should "**good governance**" be pursued?

Q1. What are the different stages of the budget execution process?

There are usually six main stages in the spending process.

1. The legislative appropriation of expenditures

A budget is approved by the **parliament**

2. The authorization stage

Once a budget is approved by the parliament, **ministries** are authorized to spend money, consistent with the legal appropriations for each line item.

3. The commitment stage

This is the stage where a future **obligation (liability)** to pay is incurred.

A commitment arises when a **purchase order** is made or a **contract** is signed, which implies that goods will be delivered or services rendered, and that a bill will have to be paid later on.

4. The verification stage

This signifies that goods have been **delivered** fully or partially according to the contract, or the service has been rendered and the bill has been received.

5. Payment authorization or payment order stage

This means that treasuries are responsible for the issue of payment orders.

6. Payment stage

At this stage, **the bill is paid**--by cash, check, or electronic transfer.

- In some systems, the payment is made through a **single ministry of finance account** in the central bank or in a designated bank.
- In others, the payment is undertaken through **the commercial banking system via bank accounts** held in the names of individual line ministries.

7. Accounting stage

Cash-Based accounting - Accrual Accounting

Cash-Based accounting: recognizes expenditure when it is paid and income when it is received

Accrual Accounting: requires that:

- **Expenditure and liabilities** are accounted for when goods and services are delivered, even if payments have not been made; and
- **Revenue and receivables** are recorded when goods are sold, even if proceeds have not been received.

The main difference between accrual and cash basis accounting is **the timing of** when revenue and expenses are recognized.

The cash method accounts for revenue only when the money is received and for expenses only when the money is paid out.

The accrual method accounts for revenue when it is earned and expenses goods and services when they are incurred. The revenue is recorded even if cash has not been received or if expenses have been incurred but no cash has been paid.

Q2. Who is responsible for budget execution?

Budget implementation, in the sense of delivering services by undertaking expenditures, is the responsibility of **the line ministries** and **spending agencies**, within regulatory controls set by the ministry of finance.

Q3. How can budget appropriations be revised during the year?

During budget implementation, it is possible to change the **line item appropriations** approved by the parliament.

within a single economic subcategory and program, the spending agency itself is permitted to make switches from the provision for one economic subcategory to another.

For example, spending agency is permitted to make switches from the provision for one utility bill (say, water) which is below estimate to another utility bill (say, the electricity bill), which is above.

But switches between **main economic categories-** (from one program to another or from one program to another) ,even if the responsibility lies with the same line ministry, typically require the approval of the ministry of finance.

For example, from subsidies and transfers to purchase of goods and services should require the approval of the ministry of finance.

Thank you