Session 9: Integrated Financial Management Information Systems

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1. Why FMIS?
Functions of FMIS

- **Increasing efficiency**
  - Facilitating the flow of information between agencies involved in budgeting
  - Facilitating financial transactions when implementing the budget
  - Automating financial reporting
  - Providing real-time, well-organized information to managers

- **Increasing transparency**
  - Enabling real-time monitoring of transactions
  - Providing accurate and timely information on public finance to the public
The initial ambition of the Korean government also included:

- Introducing accrual accounting in financial reporting in accordance with IMF GFS 2001
- Broadening the coverage of government finance in accordance with IMF GFS 2001
- Introducing “program budgeting”
- Strengthening performance management and linking it to program budgeting
- Establishing a statistical database that would enable timely analysis of fiscal policy options

The new IT system was supposed to accommodate all these ambitions.
Traditionally, relied on cash accounting

- Financial reports on flows (revenue, spending, balance) and stock (assets and liabilities) prepared with little linkage between them

Introducing accrual accounting

- To accurately measure the impact of government activities on its net worth.
- Requires the production of the *government balance sheet* in addition to the *statement of government operation* and the *statement of other economic flows*.
- The first government-wide financial statement will be submitted to the National Assembly for FY 2011.
Personally, I am not quite convinced of the usefulness of accrual accounting.

- Greater room for “creative accounting”
  - The danger is greater in developing countries, where even cash accounting is not carried out properly.

- Unless budget is presented also in accrual accounting, it is difficult to find linkage between budget and financial reports.

- Of course, there are cases where accrual accounting is clearly superior to cash accounting, such as
  - Government loans and loan guarantees,
  - Civil servants’ pension liabilities, and
  - Purchase of capital assets.

- We can introduce accrual accounting for only such cases.
Redefining the coverage of general government and public sector

Many important organizations are currently excluded from central government financial statistics.
- Ex) National Health Insurance

Government and BOK produce (substantially) different statistics.
- Ex) Budget balance
  - According to government: surpluses and deficits alternating
  - According to BOK: large and continuing surpluses
- Ex) Amount of government debt for 2004
  - According to government: central government debt 196.1 trillion KRW
  - According to BOK: general government debt 176.0 trillion KRW

Some statistics produced by government are different from each other in their coverage
- Ex) Assets and liabilities vs. spending and revenue
Public Sector

- General Government
  - Central Government
  - State Government
  - Local Government

- Public Corporations
  - Financial Public Corporations
  - Nonfinancial Public Corporations
    - Monetary Public Corporations, Including the central bank
    - Nonmonetary Financial Public Corporations
BARO (Budget and Accounting Reinvention Office) set out criteria to re-classify public sector and government sector

Public sector entities
- Effectively controlled by government
  - Through equity holding, nomination of CEO and/or board of directors, approval of business plans, etc.
- Established to pursue policy objectives
  - And not a voluntary association of private agents
- Large enough to justify the costs of statistical compilation
- Otherwise, classified as belonging to private sector.

Public corporations
- If sales take up over 50% of total revenue, then classified as public corporations.
- Otherwise, belonging to general government.
A first round calculation for FY 2004 resulted in
- 79% increase in total spending from 178 to 319 trillion KRW.
- Increase in budget surplus from 7 to 9 trillion KRW.

<table>
<thead>
<tr>
<th></th>
<th>Total spending</th>
<th>Budget balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central government</td>
<td>178.2</td>
<td>7.1</td>
</tr>
<tr>
<td>+ Local government</td>
<td>228.2</td>
<td>-3.6</td>
</tr>
<tr>
<td>+ Government agencies</td>
<td>245.3</td>
<td>-1.0</td>
</tr>
<tr>
<td>+ Public corporations</td>
<td>319.4</td>
<td>8.9</td>
</tr>
</tbody>
</table>

Initial plans to expand the coverage lost momentum in a political battle between government and the opposition party.
Eventually, no action was taken by the government.
Program budgeting and performance management

Program budgeting

- To make it easier to understand how much tax money is being spent on each government activity
  - Currently, difficult due to the complicated budget structure (general and special accounts, and public funds)
- Requires streamlining the budget structure to reflect the functional classification of public spending in a more consistent way, and
- Consolidating smaller line items into a set of medium-sized “programs,” and
- Eventually strengthening performance management of program spending.
A statistical database was to be built that would enable:

- A real-time analysis of fiscal stance,
- An in-depth analysis of the impact of fiscal policy, and others.
2. Digital Budget and Accounting
DBAS or dBrain (Digital Brain) is an information system
- Covers all processes -- budget formulation, implementation, account settlement, and performance management -- and manages information generated as a result.
- Intended to support the fiscal reform initiatives.
System development

Goal Setting (2004)

The Legal and institutional Framework (2004-2007)

Business strategy Plan (2004.8-12)


System development (2005.10-2007.2)

Operation begins (2007.1)
## System components

### Central Fiscal Information System
- **Budget System**
- **Accounting System**
- **Program Management System**
  (life-cycle from program creation to completion)

### Statistical Analysis System (OLAP, EIS)
- On-Line Analytical Processing
  (tools for statistical analysis)
- Executive Information System

### Linking Fiscal Systems
(local governments, public agencies, etc.)
On-Line Analytical Processing
(tools for statistical analysis)

Executive Information System
(local governments, public agencies, etc.)

Budget System
Medium-term program planning
Single year budget formulation
Budget allocation/ modification
Program implementation

Accounting System

Statistical Analysis System
(OLAP, EIS)
* On-Line Analytical Processing
  (tools for statistical analysis)
* Executive Information System

Budget Management
Fiscal Program Management

Preliminary feasibility study
Build-To-Lease
Build-To-Operate
Total program cost management
Performance management
On-Line Analytical Processing (tools for statistical analysis)

Executive Information System (local governments, public agencies, etc.)

Budget System

Program Management System (life-cycle from program creation to completion)

Revenue

Expenditure

Fund

National Properties

Credit

Debt

Account Settlement

Cost Management

Central Fiscal Information System

Accounting System

Statistical Analysis System (OLAP, EIS)

* On-Line Analytical Processing (tools for statistical analysis)
Central Fiscal Information System

- Budget System
- Accounting System

Program Management System
(life-cycle from program creation to completion)

Statistical Analysis System
(OLAP, EIS)

- On-Line Analytical Processing
  (tools for statistical analysis)
- Executive Information System

Program Management System

- Creation
- Implementation
- Performance Management
- Completion

Monitoring (program information, implementation record, performance, etc.)
Central Fiscal Information System

- Budget System
- Accounting System
- Program Management System
  (life-cycle from program creation to completion)

Statistical Analysis System
(OLAP, EIS)

- * On-Line Analytical Processing
  (tools for statistical analysis)
- * Executive Information System

Linking Fiscal System
(local government)

Statistical Analysis System

- Analytical Tools
- Online Analytical Processing (OLAP)
- Executive Information System (EIS)

Integrated Fiscal Data Warehouse

Temporary Warehouse → Data Warehouse → Data Mart
Organization of Reinvention Office

- Accounting system management
- Infrastructure management and security

- Budget/program management
- Statistical analysis

Digital Budget & Accounting Reinvention Office

- Panning Div.
- Fiscal System Div.