

Challenges for Ensuring Transparency and Accountability in Public Financial Management and the Case of Mongolia

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Overview of Mongolia's Public Financial Management System

The legislative underpinning of public finance is the Public Sector Management and Finance Law (the PSMFL) and the annual Budget Law. The PSMFL applies to all levels of organizations and to fully and partly (with government ownership of 51 percent and more) centrally- and locally-owned legal bodies. The PSMFL was promulgated on January 1, 2003 and mandated the following key provisions:

- centralization of the intergovernmental fiscal management framework;
- institutionalization of a medium term framework for budgeting;
- clarification of the roles and responsibilities of each level of Government, consistent with the intergovernmental fiscal relations framework;
- introduction of a comprehensive performance management framework across the public sector, at all levels;
- full accrual accounting mandate, with financial reporting to the Parliament.

A legislative framework for managing public finances established by the PSMFL is similar to that in New Zealand and Australia.

Since the PSMFL was enacted, a functional Treasury Single Account has been established, a unified and consistent chart of account was implemented, integrated debt management and a government financial management information system (GFMS) was deployed, and a country-wide electronic payment settlement system was put in place at the Bank of Mongolia.

Before 2003, the Mongolian public finance management system was fragmented and lacked operational fiduciary controls in budget execution. The Government was borrowing overnight to meet expenditure needs as there was no consolidated single account, and budget reporting was negligible. The authorities had managed to implement a fully functional integrated budget execution system, addressed the problem of arrears, consolidated the government finances into a Treasury Single Account framework, and significantly increased budget reporting. The medium-term fiscal framework has also been established, and the Parliament uses this tool to approve aggregate macro-fiscal ceilings. The government has also instituted the performance management framework across the public sector¹.

Although Mongolia has made significant progress in improving public financial management system, there is still considerable room for further improvement. Therefore the Government of Mongolia is working towards reforming legal framework for budget process and taking step-by-step measures to make the public financial management more accountable and transparent.

In 2010 the Parliament approved the Law on Fiscal Stability whose aim is to predict so-called Dutch Decease, use the proceeds from mining sector wisely and keep the budget revenue and expenditure stable by setting up Fiscal Stability Fund. Before this law was enacted, the state budget was largely dependent on the market price on minerals and budget expenditure was continuously increasing as proceeds from mineral export increased.

Currently the Parliament is discussing the draft Integrated Budget Law which is supposed to replace the PSMFL and create more favorable condition for improving and decentralizing budget process, its internal control and enhancing transparency and accountability in the public financial management.

According to the International Budget Partnership's Open Budget Survey (OBI)², Mongolia has been rated as one of the best performers in improving transparency and

¹ The World Bank. Jan. 2009.

² The Open Budget Survey. 2010

accountability. In a short period of time, Mongolia has gone from being a country that provided scant budget information to one that provides much more comprehensive information. Mongolia's OBI score has improved from 18 in 2006 to 60 in 2010 out of 100, which is among the highest in the Central Asia region and well above the worldwide average (42).

The improvement in Mongolia's OBI score is primarily due to the fact that the government began to publish budget documents that had previously not been available to the public, including the Executive's Budget Proposal in 2007 and the reintroduction of public Year-End Reports in 2008. Moreover, between the 2008 and 2010 Surveys, the Executive's Budget Proposal was expanded from a 50-page document to a 300-page document, thus providing more comprehensive information on revenues and expenditures.

However, there is scope for further improvement. The PSMFL requires disclosure of budget information to Parliament and other government bodies, but does not specifically require dissemination to the public. A new Integrated Budget Law could redress the lack of legal requirements for public dissemination as well as the absence of channels for public participation in the budget process. Also, demands for greater access to information by citizens and civil society groups play a critical role in enhancing transparency in Mongolia's mining sector. Mongolian civil society organizations remain particularly concerned about the continuing lack of transparency in government procurement practices.

Role of the Mongolia National Audit Office in Ensuring Transparency and Accountability in Public Financial Management

Accountability and transparency are the important characteristics of good governance. **Accountability** means that decision-makers in government, the private sector and civil society organizations are accountable to the public, as well as to institutional

stakeholders³. It has three dimensions: financial, political and administrative accountability. Financial accountability implies an obligation on the part of the person(s) handling resources, or holding public office or any other position of trust, to report on the intended and actual use of the resources⁴.

In the corporate sector, managers and workers have a clear idea as to what and to whom they are accountable. In general, it is primarily to the shareholders, the owners, and the board of directors of the company. The yardsticks for measuring accountability are also pretty straightforward. So long as the managers are producing acceptable returns on investments without infringing on the law, they have fulfilled their responsibilities. The accountability is intensive; the performance goals are clearly defined and measurable by the profit line.

However, in the public sector, where the managers are custodians of taxpayers' money, accountability is both extensive and much more rigorous; it has to be more transparent to the public. It is not surprising that in the public sector accountability is spread through a number of layers –parliament, ministries, departments and agencies – and is assured through compliance with a large number of rules and regulations by auditors and comptrollers⁵.

Transparency is built on the free flow of information. This means that processes, institutions and information should be directly accessible to those concerned with them, and enough information to be provided to understand and monitor them⁶. Transparency promotes openness of the democratic process through reporting and feedback, clear processes and procedures, and the conduct and actions of those holding decision-making authority. It makes understandable information and clear standards accessible

³ Dennis A. Rondinelli. 2007

⁴ G. Shabbir Cheema. 2007

⁵ Gowher Rizvi. 2007

⁶ Dennis A. Rondinelli. 2007

to citizens⁷. The more informed citizens can be, the more meaningful the role they will play in dialogue with their governments and with each other⁸.

As stated in the Lima Declaration “*the concept and establishment of audit is inherent in public financial administration as the management of public funds represents a trust. Audit is not an end in itself but an indispensable part of a regulatory system whose aim is to reveal deviations from accepted standards and violations of the principles of legality, efficiency, effectiveness and economy of financial management early enough to make it possible to take corrective action in individual cases, to make those accountable accept responsibility, to obtain compensation, or to take steps to prevent--or at least render more difficult--such breaches*”⁹. In a word government auditing is a part of public financial management system and one of main components of accountability system on spending public resources.

The Lima declaration has named government auditing as “*an indispensable part of a regulatory system*”. Regulation has different forms and the requirement of information disclosure is one of means of regulation. *An important part of any regulatory system is information disclosures and accounting standards*¹⁰.

A requirement of certification, which is also a part of regulation, derives from the requirement of information disclosure. Financial information is certified by external auditors. It means that government auditing certifies (by the regulatory requirement to certify) information which is in turn disclosed by the regulatory requirement of information disclosure.

The above-mentioned grounds show that government auditing can play an important role in enhancing accountability and transparency in public financial management.

⁷ G. Shabbir Cheema. 2007

⁸ Jeremy Pope. 2007

⁹ The Lima Declaration. Section 1.

¹⁰ Stiglitz J.E. 2008

As stated in the Johannesburg Accords¹¹, *“accountability and transparency are important tools to balance a perceived fundamental contradiction in democratic societies. In such societies, structures are created and elected officials are empowered to implement the will of the people and act on their behalf. This creates the potential for abuse of power, leading to mistrust that can reduce the efficiency of the service delivery process, thereby undermining the whole democratic system. This contradiction can only be solved by enhancing accountability... Therefore an important point of departure in constructing democratic institutions is that the citizens of a country should be able to hold their representatives accountable”*.

For this purpose SAIs are required to strive towards *“empowering the public to hold government accountable and responsive through objective information, simplicity and clarity of the message, and convenient access to audit reports and messages in relevant languages”*¹².

In doing so SAIs should ensure that *“government is held accountable for using resources legally and responsibly, for the purposes intended, and economically, efficiently and effectively”*¹³.

The Mongolia National Audit Office (the MNAO) makes its contribution in ensuring transparency and accountability in the country’s public financial management through performing its functions to conduct financial and performance audits. As to the financial audits, the MNAO conducts audits of financial statements of the government, ministries, agencies and legal persons with state ownership or with state property ownership participation. As to the performance audits, the MNAO may conduct a performance audit of any entity and program under its audit jurisdiction. And send the final report to the Parliament, audited entity and other relevant organizations and officials.

¹¹ The Johannesburg Accords. 2010

¹² Ibidem

¹³ Ibidem

As specified by the Law of Mongolia on State Audit, the audit jurisdiction of the MNAO includes¹⁴:

- Performing audits of activities of state organizations, except the Parliament, no matter what the source of their funding. Only the financial statement audit of the Parliament is conducted and an audit of its other activities may be carried out, if the Parliament requests so;
- Performing audits of activities of legal persons that are financed from budget, generated revenues to the budget, or have state ownership or state ownership participation;
- Performing audits of activities of organizations, business entities, projects and programs that are financed by international organizations or foreign countries upon their request;
- Performing audits of utilization, disbursement and outcome of special purpose funds of the Government, financial support from budget, budget funds used on repayment term, loans, aid and donations from international organizations, Governments and people of foreign countries to the Government of Mongolia and other budget organizations;
- Performing audits of state budget investment and its outcome;
- Audits of disbursement of budget funds allocated for the intelligence agency, armed forces and police department are conducted by the Auditor General of Mongolia and an auditor authorized by the Parliament;
- Performing audits of consolidated year-end financial statements of the Government;

¹⁴ The Law of Mongolia on State Audit. 2003

- Performing audits and assessment on specific issues, if deemed necessary;
- Performing audit and assessment of utilization and disbursement of state and local property.

It is clear that there is no single state agency that is not subject to audit of the MNAO. Apart from these audit jurisdictions the MNAO has other powers some of which are listed below. These are:

- Development of proposal for submitting to the Parliament on the draft state budget and raising the efficiency of budget funds and increasing revenues;
- To issue an assessment on settlement of payments and violations revealed in the course of audit, to put forward a demand, to submit to relevant organizations a proposal on improvement of legislation and other decisions establishing legal norms;
- If in the course of audit it was established that a government officer carried out activities prohibited by law, failed to fulfill his/her duties, or abused the powers vested by the post, to submit to competent organization and officials the issue of imposing disciplinary sanctions on him/her. The competent organization and official shall notify the MNAO of resolution of this issue in compliance with established procedure within 10 working days.

These additional powers are important tools to make public financial management more accountable. Using these powers the MNAO issues official demand to recover misused funds, to correct detected errors and shortcomings, submits to competent organization and officials the issue of imposing disciplinary sanctions on government officers that carried out activities prohibited by law, failed to fulfill his/her duties, or abused the

powers vested by the post, and if necessary transfers the issue to the relevant law enforcement agencies.

According to the Law of Mongolia on State Audit, the MNAO may publish or make available to the public and media any performance audit and other reports. The MNAO is required to publish each quarter a list of reports on audits performed by it and inform thereof through means of mass media and electronic network. Upon request by anyone, the MNAO has to, except when it violates the disclosure of confidential information, provide the audit reports in printed form or copies of such reports. According to these requirements the MNAO makes available to the public and media all performance audit and other reports by posting them on Web page. Printed copies of audit reports are sent to relevant authorities and officials.

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