

MANAGING PUBLIC  
SECTOR RECORDS

A Training Programme

# Managing Financial Records



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INTERNATIONAL  
COUNCIL ON ARCHIVES



INTERNATIONAL RECORDS  
MANAGEMENT TRUST

# MANAGING FINANCIAL RECORDS

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MANAGING PUBLIC SECTOR RECORDS

A STUDY PROGRAMME

General Editor, Michael Roper; Managing Editor, Laura Millar

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### Managing Financial Records

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# INTRODUCTION TO MANAGING FINANCIAL RECORDS

The purpose of the *Managing Financial Records* module is to

- provide a management framework for the control of financial records as a vital resource for public sector financial management, economic policy development and planning
- assist records managers and non-records staff, including accounting and audit personnel, to manage financial records in support of public accountability and good governance
- inform policy makers and administrators associated with the financial management process of the value of, and necessity for, the effective management of financial records.

This module focuses primarily on the management of financial records in the public sector, with a particular emphasis on records created by central government agencies. It will also be relevant to local government agencies; and will have some relevance to semi-government and private sector organisations.

In many countries the tradition is that records managers do not become involved in managing financial records; it is generally assumed that financial records management is the responsibility of accountants. However, accounting staff have rarely been introduced to records management principles and practices. They know what information they require and why, but they seldom receive training on how it should be kept. Therefore, the care of financial records often falls in the gap between the two professions. This problem often extends through all financial management functions.

The situation has important consequences for the capacity of countries around the world to manage public sector spending and to introduce measures to enhance accountability and transparency. Records managers have an important role to play in the care of financial records; this module aims to help them understand the functions and tasks involved.

The module deliberately contains a large amount of material on financial management. There is considerable emphasis on the analysis of stakeholders (or users), on functions and processes and on information flows. Financial records are examined in this context.

There are two reasons for including a high level of financial information in this module. First, in many countries there is no easy way for records managers to obtain this information, and unless they can speak the language of accountants and auditors, they will not be able to make an effective contribution. Second, financial systems are so complex that there is no way to teach records managers how to manage the records generated by these systems other than by equipping them to analyse the various components of financial systems and then to apply records management principles.

The module does not seek to cover records management principles in any depth, as they are covered in detail in other modules. However, it does address records issues that specifically affect financial records.

The following key terms used in the module are defined here, so that users are familiar with them as they work through the lessons. A more detailed glossary of financial terms is also included as an annex to this module.

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***Financial management:*** The planning, controlling, implementation and monitoring of fiscal policies and activities, including the accounting and audit of revenue, expenditure, assets and liabilities.

***Records management:*** That area of general administrative management concerned with achieving economy and efficiency in the creation, maintenance, use and disposal of the records of an organisation throughout their entire life cycle and in making the information they contain available in support of the business of that organisation..

***Accountability:*** The requirement to perform duties, including financial and operational responsibilities, in a manner that complies with legislation, policies, objectives and expected standards of conduct.

***Financial records:*** Records resulting from the conduct of business and activities relating to financial management.

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Users of the module should bear in mind that financial management and records management operate in a dynamic and changing environment. The information provided in this module offers sound principles for the management of financial records, but specific management strategies will change over time and will differ from country to country.

The module addresses records care at an advanced level; those studying it should have a solid grounding in and experience with records management. Students using this module should have worked through or be familiar with the issues discussed in the core and advanced modules in this study programme before beginning.

This module is composed of seven lessons:

- Lesson 1: The Importance of Record Keeping for Financial Management
- Lesson 2: Stakeholders
- Lesson 3: The Financial Management System: Business Functions, Processes and Outcomes
- Lesson 4: Financial Management Functions: Information Systems and Records
- Lesson 5: Managing Financial Records in a Mixed Paper/Electronic Environment
- Lesson 6: Integrated Financial Management Systems
- Lesson 7: What to Do Next?

## AIMS AND OUTCOMES

### **Aims**

This module has seven primary aims. These are

1. To explain the importance of good record keeping for efficient and effective financial management
2. To outline the role and importance of stakeholders in financial records management
3. To explain the business functions and processes of financial management, in relation to the records generated
4. To examine the information systems and records created by financial management
5. To outline how to manage financial records in a mixed paper/electronic records environment
6. To introduce the concepts involved with integrated financial management systems
7. To explain where to go for more information.

### **Outcomes**

When you have completed this module, you will be able to

1. understand the importance of good record keeping for efficient and effective financial management
2. appreciate the role and importance of stakeholders in financial records management
3. understand the business functions and processes of financial management, in relation to the records generated
4. understand the information systems and records created by financial management
5. know how to manage financial records in a mixed paper/electronic records environment
6. understand the basic concepts involved with integrated financial management systems
7. know where to go for more information.

## METHOD OF STUDY AND ASSESSMENT

This module of seven lessons should occupy about 95 hours of your time. You should plan to spend about:

10 hours on Lesson 1

10 hours on Lesson 2

12 hours on Lesson 3

20 hours on Lesson 4

20 hours on Lesson 5

15 hours on Lesson 6

8 hours on Lesson 7.

This includes time spent doing the reading and considering the study questions.

At the end of each lesson there is a summary of the major points. Sources for additional information are provided in Lesson 7. In addition to the various terms defined throughout the module and included in the master glossary to the MPSR study programme, this module includes a glossary of specific financial terms, added as an appendix to the end of the module.

Throughout each lesson, activities have been included to help you think about the information provided. Each activity is a 'self-assessed' project; there is no 'right' or 'wrong' answer. Rather, the activity is designed to encourage you to explore the ideas presented and relate them to the environment in which you are studying or working. If you are studying these modules independently and are not part of a records or

archives management organisation, you should try to complete the activities with a hypothetical situation if possible. If the activity suggests writing something, you should keep this brief and to the point; this is not a marked or graded exercise and you should only spend as much time on the activity as you feel necessary to understand the information being taught. You are encouraged to write down your answers for all of the activities and keep the answers together in a booklet or file; you may want to refer back to your answers as you work through this module or through other modules in this study programme.

Following the summary at the end of each lesson are a number of self-study questions. Note that these self-study questions are designed to help you review the material in this module. They are not intended to be graded or marked exercises. You should complete as many of the questions as you feel will help you to understand the concepts presented. External assessments, such as assignments or exams, will be included separately when this module becomes part of a graded educational programme.

## ADDITIONAL RESOURCES

This module assumes that you have access to a records office, records centre or archival institution and that you have some involvement with the management of financial records. The various activities may ask you to draw on your own experiences and compare those with the information provided in the lessons. If you do not have access to such facilities, you may need to develop a fictitious scenario for your activities. Alternately, you may wish to discuss this module with friends or colleagues who work with records and archives so that you can discuss principles and concepts with them and compare your understanding with theirs.

### Case Studies

The following case study will provide valuable additional information.

15: Pino Akotia, Ghana, 'Management of Financial Records: The Ghana Case Study'

# **THE IMPORTANCE OF RECORD KEEPING FOR FINANCIAL MANAGEMENT**

Financial management involves planning, controlling, implementing and monitoring fiscal policies and activities, including accounting and auditing revenue, expenditure, assets and liabilities. It embraces daily cash management as well as the formulation of short-, medium- and long-term financial objectives, policies and strategies in support of the organisation's business. Financial management also includes planning and controlling capital expenditure, managing assets, liaising with the treasury and making decisions related to funding and performance.

Good financial management is critical to the success of any organisation, whatever its size and whether or not it is in the public, private or voluntary sector. In the public sector, the rendering of accounts to public scrutiny is key to accountable government. Financial records are produced in every area of financial management. If these records not are well managed, the financial management function suffers. Therefore, financial records management and records management are closely intertwined.

Financial management makes an important contribution to government, particularly in the areas of

- accountability
- efficiency
- ensuring resources are matched to objectives
- economic stability.

This lesson examines these four areas of financial management. It then discusses changing approaches to financial management, and it examines the relationship between financial management and records. It concludes with a discussion of the senior management issues involved in financial records management and emphasises the importance of securing senior management support for the involvement of records managers in financial records care.

## **Accountability**

Accountability is fundamental to good governance. Accountability is the process that allows people to measure and verify the performance of government. Financial accountability is a critical component of accountable government. It involves



legislative control of the executive through budgets and accounts. Weaknesses in financial accountability are generally linked to weaknesses in public accounting, expenditure control, cash management, auditing and the management of financial records. An enhanced level of control over financial management is vital for all governments to maintain their commitment to their citizens.

## **Ensuring Resources are Matched to Objectives**

Financial management ensures that money is allocated in accordance with the government's strategic priorities. This is achieved by controlling the budget approved by the legislature and is reinforced by the publication of audited accounts of what was actually spent.

## **Efficiency**

Public sector financial management has been the focus of increasing attention in recent years. Reductions in public expenditure have pressured public authorities to maintain services with less money. To achieve cuts, financial managers have had to improve their financial analysis as a basis for improving efficiency and value for money.

Traditionally, financial management in government has focused on controlling expenditure; the main emphasis has been on keeping public spending down in order to minimise borrowing. However, private sector financial management techniques have increasingly been imported into the public sector. For example the National Audit Office may carry out 'value for money' audits, which look beyond whether the money was spent according to the government's financial regulations to whether the public is getting an economic, efficient and effective service. In other words, financial systems in government are changing from systems designed to keep the government from spending too much to systems that ensure the government makes the best use of resources.

## **Economic Stability**

Every modern government needs to define an economic policy and then manage its economy according to that policy. Much of a country's economy depends upon the private sector, but it can also be influenced by the government's fiscal policies, interest rates and regulatory environment.

Government itself is a major component of a nation's economy. Public sector borrowing and expenditure have an impact on the stability of the overall economy. Governments can improve their capacity to manage the economy by introducing reforms of the treasury, budget preparation and approval procedures. Reforms can also be made in tax administration, accounting and audit mechanisms, central bank operations and the preparation of official statistics. These reforms will help ensure

the government manages its finances well and contributes to the overall stability of the nation.

## CHANGING APPROACHES TO FINANCIAL MANAGEMENT

Records managers need to stay abreast of changing trends in financial management. Changes to financial management processes will inevitably affect the information systems needed to support them and the records generated by them. Each country will have different experiences with financial management, as the country's own financial circumstances and political and cultural factors will create different requirements. The most successful systems are those that have been tailored to meet specific country needs.

Various approaches to financial management have been designed and tested in recent years. The recent trend is to move the focus away from measuring inputs toward measuring outputs: that is, to focus less on how much money has been spent on what product and more on whether the work performed has been useful. Public sector financial management is increasingly seen as a tool to enable management to discharge its responsibilities more efficiently and effectively. These trends are revolutionising government accounting practices, standards and reporting systems.

For example, the changing perspective in financial management has led to changes in the process of budgeting. There are now several different methods of budgeting, including the following.

- Line item budgeting lists expenditures for the coming year according to objects of expenditure, or 'line' items. These budgets specify how much money a particular agency is permitted to spend on personnel, fringe benefits, travel, equipment, and so on.
- Performance budgeting divides proposed expenditures into activities and relates the activity to cost. This method allows the budget to be built on the basis of anticipated workload rather than incrementally, as in traditional line-item budgeting.
- Programme budgeting focuses on budgetary choices among competing policies and treats the different budget objectives as variable.
- Zero-based budgeting arrives at a budget by literally starting from scratch. At the national level, this would require answering such questions as 'what if we did not have an army?' or 'what if national insurance did not exist?' This has not proved useful as an annual budget tool.

As governments develop more business-type functions and operate services on a commercial basis, the public sector is adopting features of private sector accounting. For example there is a move from cash accounting to accruals accounting.

- Cash accounting includes only the transactions that actually take place within the period covered by the account.
- Accruals accounting reflects all the financial transactions proper to the period of the account, regardless of whether the account has actually been paid during that time.

Cash accounting is traditional in central government. Under this system, receipts and payments are recognised only when cash is received or paid. The emphasis is on the objects and purposes for which funds have been received and paid out during a particular period. Cash accounting is also used when the system lacks enough sophistication to implement accruals accounting and the benefits of changing methods do not justify the costs involved.

Accruals accounting recognises transactions when they occur, irrespective of when cash is paid or received. Transactions are recorded in the accounting record and reported in the financial statements of the period in which the service was received (expenditure) or rendered (revenue).

Financial statements prepared on an accrual basis indicate past transactions involving payment and receipt of cash, as well as future obligations to pay and payments to be received in the future. This method facilitates economic decision making, by making it easier to account for the use of resources, focus on performance and measure outputs.

## FINANCIAL MANAGEMENT AND RECORDS

Financial management systems provide decision makers and public sector managers with the means to

- control spending
- prioritise expenditures in order to allocate resources efficiently and equitably
- make better use of budgeted resources to achieve outcomes and produce outputs at the lowest possible cost.

All financial management systems create records, and all financial systems depend upon records.

### Activity 1

Before reading further, write a brief description of how you think records contribute to financial management. Write down as many ideas as you can think of.

The ways in which these records contribute to financial management are described below.

## **Accountability and Control**

Records management reinforces financial management controls and supports accountability. The ability to establish who did what, when, why and how is a powerful means of deterring individuals from engaging in fraud or corruption, thus enforcing accountability. Well-managed records provide an unbiased account of responsibility and liability. Authentic, reliable records provide an unambiguous link between the authorisation to carry out a transaction, the particular individual concerned and the date. Thus records can identify abuse, misuse and non-compliance with financial instructions.

Financial management also depends upon a system of internal controls that make it possible to carry out business in an orderly and efficient manner, ensure adherence to management policies and safeguard assets. The management of financial records is a critical component of this control system. Where financial records are not controlled, their completeness and accuracy cannot be guaranteed. Records needed for reference, decision making and risk assessment can become difficult to access.

The senior official responsible for accounting, such as the Accountant General, normally issues detailed regulations for the control of financial management systems. In other countries such as Zimbabwe, these regulations are issued by the Public Service Commission. Complete and accurate records must be available to prove that these controls are functioning properly and consistently.

In turn, these controls help to ensure that the records themselves retain their context, structure and content. In countries operating the Exchequer system of financial management, there is no Accountant General. Instead, each ministry maintains their own bank accounts and is responsible for their own accounting systems. The Exchequer system allows for a greater range of diversity of practice than the more centralised approach represented by the Accountant General system. In the Exchequer system, the Permanent Secretary to the Treasury is usually responsible for issuing general regulations where needed.

The aim of a records management programme should be to ensure that those records that provide evidence of financial management activity are systematically controlled throughout the organisation.

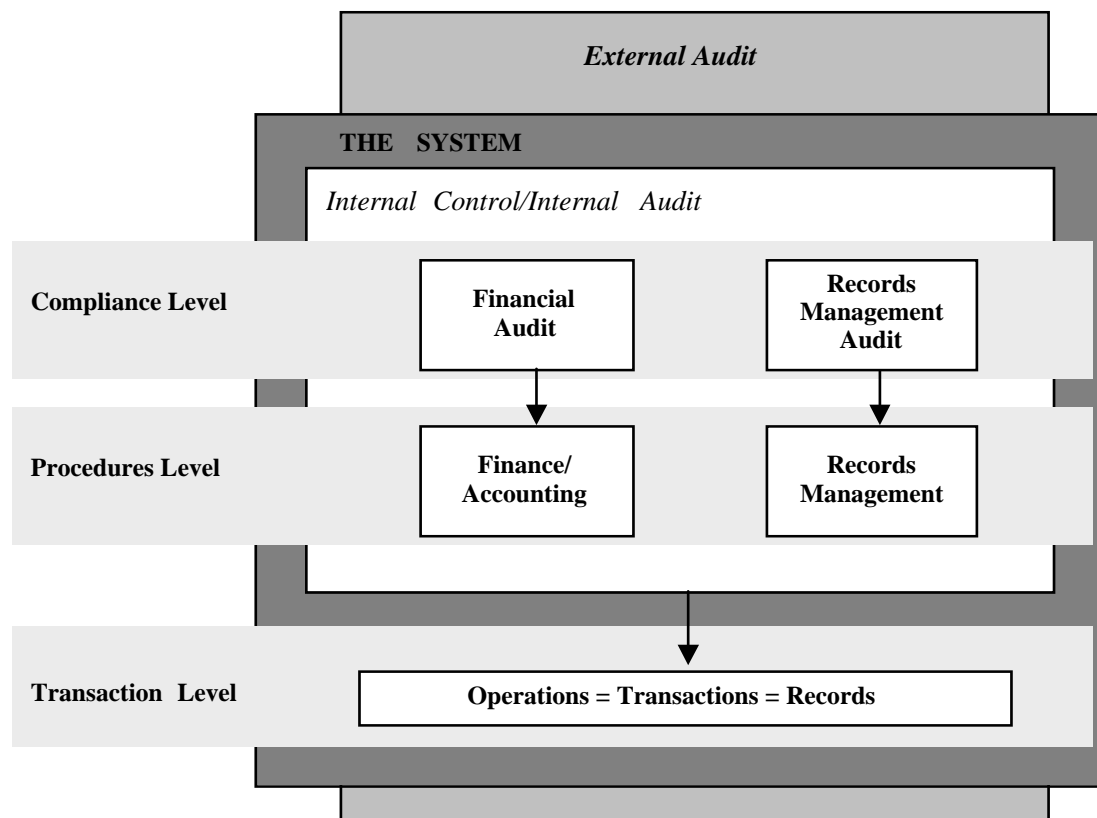
## **Accounting and Auditing**

Records management also supports the accounting function and enables the audit function. Financial record keeping provides the basis or foundation for accounting and introduces controls that protect essential audit trails. At the most practical level, if records are disorganised, it will take auditors an excessive amount of time to locate needed documents, if they can find them at all. Individuals guilty of embezzlement

may deliberately allow financial records to become disorganised or to be stored in unsuitable conditions because this makes it harder for auditors to identify fraud. Conversely, in some cases government officers have been inappropriately accused of embezzling funds simply because the documents authorising the expenditure could not be located. Well-organised and well-managed records are essential to combat economic crime and protect the innocent.

A financial records management programme should enable the physical and logical control of records and prevent unauthorised access, tampering, loss or destruction, whether intentional or accidental. Records management should contribute a layer of security and reassurance that operations are functioning at the level required.

Taken together, records management, accounting and auditing provide the layers of control that are essential to ensuring transparency, probity and integrity in financial management systems. Although in reality records management is integrally connected to accounting and auditing, their interface is illustrated below in a simple fashion.



**Figure 1: The Financial Accountability Cycle**

# MANAGEMENT ISSUES

In many respects, financial records are similar to other kinds of administrative records, and thus many of the professional principles and practices described in other modules in this study programme are applicable. However, financial records also have unique features that require attention.

Financial record-keeping systems in government are so large and pervasive that changes to the system will need support at a senior level. Moreover, because financial management systems are subject to accounting and auditing standards and are under the close control and scrutiny of government financial officers, it is essential that records managers gain the support of senior managers and other stakeholders in order to provide an effective financial records management service.

It is the record managers' job to understand how records management can contribute to the organisation's financial management objectives and to articulate the case for efficient records management in terms that senior management can understand. Therefore, records managers must understand the unique qualities of financial records and the effect of good or poor financial records management on the government or organisation.

## Activity 2

Before reading further, write a brief description of as many special features of financial records that you can think of that will affect their management. How you could present these issues to senior managers in order to gain their support for improved financial records management?

Consider the following management issues related to financial records care.

## **The Volume, Scope and Complexity of Financial Records**

Financial records are voluminous. The records of financial transactions are one of the largest categories of records found in government. The benefit of managing these records translates into large savings in office space. Most of these records need to be kept for relatively short periods of time (often only 6 or 7 years, depending upon the relevant legislation), but during that time they are vital for controlling fraud and corruption. Records related to financial policy are smaller in volume compared to records of transactions, but policy records are very important for the process of developing and then executing policies. These records can be of considerable historical significance and need to be identified by as having archival value.

Further, financial records are found everywhere. Every aspect of government involves expenditure and thus requires financial management, which in turn generates records. These records need managing across the entire spectrum of government.

Moreover, financial management systems are complex. The scale of financial management and its importance to government has led to the development of a complex and inter-related set of functions and systems including budgeting, accounting, forecasting, purchasing and payroll. The range of controls and regulators (for instance internal audit, external audit) are also complex. Records managers must understand the basic principles involved with financial management in order to be credible when working with financial managers. Records managers must also understand financial management in order to analyse and appraise the records.

## **Financial Records and Accountability**

Records are essential for financial accountability. Records provide a reliable, legally verifiable source of evidence of decisions and actions about the management of government finance and are the basis for determining responsibility. They are a powerful tool in constraining individuals from engaging in corruption. But if financial records management systems are weak, public servants cannot be held accountable for their decisions and actions. Fraud and corruption will flourish. Records management is a cost-effective restraint. If corrupt officials know that there is an audit trail, they are less likely to take the risk. Conversely, a clear audit trail can protect the innocent from false accusations. Where the ultimate sanction of prosecution is appropriate, lawyers will rely heavily upon records to provide the evidence.

However, records management controls are often missing in government financial control systems. The organisation's financial instructions and the accounting manual will specify rules for the security and use of financial records. However, these documents tend not to prescribe rules for the management of records. At the same time, financial records are usually outside the jurisdiction of the organisation's records manager. As a result, this vital resource is not managed or controlled adequately. Failure to manage records can lead to the build up of unwanted records, overcrowding and disorganisation. This will make it very difficult to retrieve and use financial records efficiently and to carry out the audit process.

Auditors should comment where there is non-compliance with the legislative requirements for financial record keeping. Although rules, regulations and procedures for efficient management of financial records may exist on paper, they are of no value if they are not enforced. Auditors can make a powerful contribution to better records management by commenting on cases where record keeping is inadequate and insisting that management implements sanctions against persistent offenders.

## **Regulatory Requirements and Financial Records**

Financial records should be subject to tight regulation and control. Financial records are usually subject to legislation that forbids their destruction for a set period of years

after the accounts have been audited. Failure to observe these requirements could lead to prosecution. The legal framework affecting financial records comprises the constitution, which may provide for the supervision and audit of public accounts, and laws relating to finance, audit and government records. Finance and audit laws generally require ministries, departments and agencies to ensure that financial and accounting records are adequately kept and managed. They also empower the audit body to obtain access to all financial records.

Other legislation enacted in support of government functions may also give rise to financial records or specify conditions for their maintenance, use or disposal. For example, pensions legislation imposes an obligation on departments to maintain records of contributions. Revenue laws may indicate a time limit on the recovery of tax or duties, thereby establishing a minimum period for the retention of revenue files. Subsidiary requirements such as accounting instructions and financial regulations are frequently promulgated under powers conferred by a main law, such as a finance act. These subsidiary requirements lay down more detailed conditions and requirements for accounting and financial records, including their creation, filing, storage, production and disposal.

## **Financial Records and Computers**

Financial records are increasingly created using computers. Financial functions are usually among the first to be automated. Most countries have automated payroll systems and many have automated budget and accounting systems. In some countries the entire financial management function has been incorporated into a single automated integrated financial management system. Financial records are often the first electronic records that records managers are likely to encounter.

With the increasing use of electronic technologies, record keeping is becoming technically more complex. Although the fundamental principles for keeping records in an electronic environment are more or less the same as in a paper environment, the skills required to manage them may be different. Records professionals and information technology (IT) specialists need to co-operate closely. This may require the creation of a specialised electronic records unit within the National Archives. The unit will require specialised equipment and an enhanced set of professional capacities.

Computerisation has implications for audit evidence. The principles relating to audit evidence do not change because an audit is being carried out in a computer environment. Computer records in the form of data on magnetic disks or optical disks still provide the auditor with audit assurance.

There are few precedents that address the admissibility of computer records in a court of law. Where computer evidence has been submitted in legal cases the courts have taken into account expert evidence on the effectiveness of the IT control environment before assessing the reliability of the computer data. Computerised transactions or images of documents may be inadmissible as legal evidence unless controls can be shown to be so strong as to remove reasonable doubt about the authenticity and integrity of data held by the system. Some of these controls are recorded on paper. It



is therefore important that both the electronic records and the paper records that document the control environment are managed properly.

Creating an enabling environment will enhance the success of records management programmes. Institutions need to promote an environment which will encourage the better maintenance and use of records systems. Senior management should support an agenda for the future that includes

- developing a culture for creating, maintaining and using records
- strengthening the role of records management and records managers within an institution
- identifying and strengthening records legislation
- defining and implementing records related standards
- developing tools to assess the vulnerability of records systems to corruption and fraud
- imposing disciplinary action for poor record keeping and providing incentives for better records management.

## **The Need for Financial Records Management**

Financial records tend to be excluded from the records management process. Despite the fact that financial records are covered under the broad legislation governing the management of government records and archives, financial records tend to be stored separately from other records and even excluded from the jurisdiction of the records manager. In this situation, the volume of records may grow uncontrolled until it exceeds the space available to store it. Then the systems to control and retrieve the records will break down.

The breakdown of financial systems are often related to the breakdown in records management. People rarely make the link between problems in financial management and inadequacies in the way records are managed, yet records are the source of all the information used in financial management systems. If records become so disorganised that it is difficult or impossible to audit properly, the long-term effect will be that fraud or errors will not be detected or corrected.

When a system of financial management breaks down, the consequences are serious. Typical symptoms include the following.

- Monitoring systems are inadequate and information is difficult to access.
- Votes ledgers are not kept properly, and an important tool for expenditure control is lost.
- Accounts are not produced on time, rendering them of limited value for expenditure control and monitoring.
- The audit process is ineffective.

# SUMMARY

This lesson introduces the concept of financial management and explains its importance to government for

- accountability
- ensuring resources are matched to objectives
- efficiency
- economic stability.

Approaches to financial management change over time, and their success depends upon access to information. Reliable information is ultimately derived from accurate and complete records. It is not enough simply to change approaches to financial management systems without giving attention to information systems. It is essential that records managers understand the functions and processes that the records document so that they can ensure that records systems remain appropriate and effective. This lesson has discussed those changing approaches to financial management, and it has examined the relationship between financial management and records.

It has also considered the senior management issues involved in financial records management, emphasising the importance of securing senior management support for the involvement of records managers in financial records care. The issues examined include

- the volume, scope and complexity of financial records
- financial records and accountability
- regulatory requirements and financial records
- financial records and electronic technologies
- the need for financial records management.

# STUDY QUESTIONS

1. What are the different methods of budgeting that you might encounter in government administration?
2. What is the difference between cash accounting and accrual accounting?
3. Why do accounting and auditing rely on accurate records?
4. What does a records manager need to know about the impact of computers on financial records?
5. What are the factors that can improve the chances of success of a records management programme?

# ACTIVITIES: COMMENTS

## **Activities 1-2**

These activities will help you compare the information provided in this lesson with your own understanding of financial records and the related records management issues. Compare your answers with the information given in this lesson and refer back to this information as you proceed through this module.

## STAKEHOLDERS

Records managers need to understand the roles and requirements of stakeholders in financial management. Government systems are large and complex, and the fact that the public sector is accountable to the people adds a layer of complexity that is reflected in the various roles, responsibilities and information needs of public servants.

A stakeholder can be defined as follows:

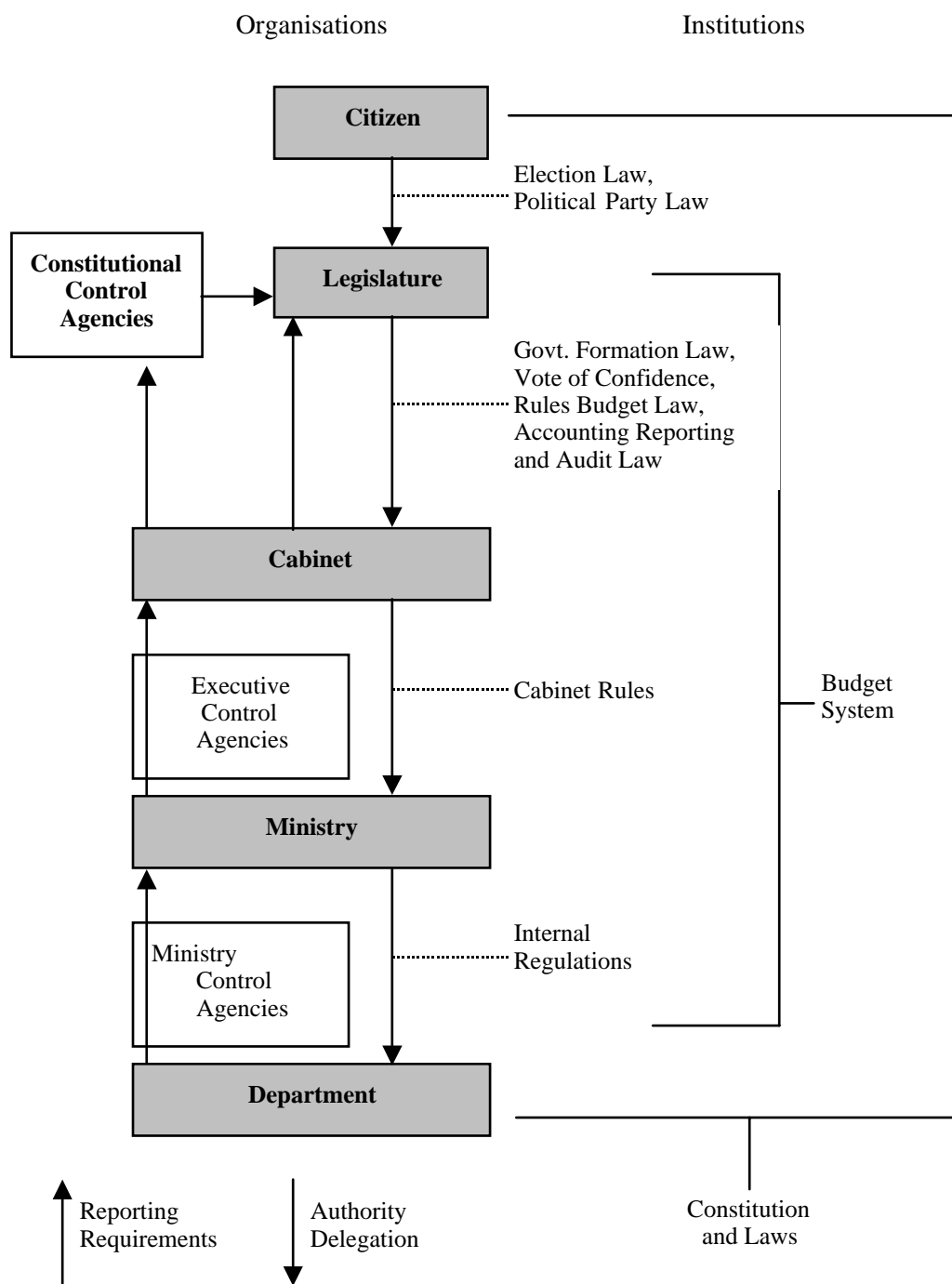
A **stakeholder** is any person, group or organisation that has a claim on the organisation's attention, resources or output, or is affected by that output.

Key stakeholders in public sector financial management include some or all of the following: the public, the head of state, the legislature, the government itself and in particular the cabinet. Ministers outside the cabinet, the civil service as a whole and separate departments are also stakeholders.

### **Activity 3**

Before reading further, write down as many stakeholders as you can think of who might be involved with or affected by financial management and therefore by the care of financial records.

The diagram below illustrates the relationship between some of the key stakeholders in relation to the budget function. It illustrates the delegation of authority within the framework of laws, rules and regulations, in a parliamentary system of government. In a presidential system, authority and control would be more diffused, but there still would be checks and balances to provide control. Records managers need to understand this internal framework if they are to understand how the various stakeholders interact.



**Figure 2: Conceptual Framework for the Budget Function**

From PREM Network, *Public Expenditure Handbook*, The World Bank, June 1998, p. 20.

# UPPER-LEVEL STAKEHOLDERS

## Legislature

The legislature usually has responsibility for acquiring and using financial resources and for overseeing their administration. The legislature sanctions the financial plan or budget and authorises the executive to

- make expenditures (within pre-determined limits)
- invest
- raise revenue (such as taxation, borrowing)
- administer programmes in accordance with any laws that may affect them.

The legislature is responsible for the management of the whole of government financial reporting. The documentation required and produced by this process includes

- annual budget
- the fiscal policy statement
- budget estimates and projections
- Public Accounts Committee reports.

The legislature has the right and responsibility to hold the government and its units accountable for the management of financial affairs and for the use of financial resources. In practice, independently audited government financial statements are an important means by which governments and units demonstrate their accountability. In many countries, the Public Accounts Committee scrutinises these statements.

## Executive

The executive has responsibility for the management of financial resources. This includes planning, directing and controlling operations and reporting on financial administration.

## The Public

The public has an interest in ensuring that public money is accounted for and spent wisely. Citizens rarely have direct access to public sector financial records except in the form of published government accounts. In practice these are seldom read by the general public, but citizens are, or should be kept informed about them by means of the press and national political debate.

## **International and Bilateral Aid Agencies**

Although these agencies are not part of the formal constitutional arrangements for public sector financial management, in many developing countries they are *de facto* stakeholders. They provide funding in the form of grants or loans for a large proportion of public sector projects in many countries in the world.

Examples of international bodies include the International Monetary Fund (IMF), the World Bank, the United National Development Programme (UNDP), and regional development banks such as the African Development Bank or the Asian Development Bank. The British Government's Department for International Development (DFID), United States Agency for International Development (USAID), Norwegian Agency for Development Cooperation (NORAD), and the Danish international aid agency (DANIDA) are all examples of bilateral donors. Each has its own rules for financial reporting on the projects it funds, and the recipient country will be expected to follow these rules. The records this generates are often kept separately from the government's other financial records, and their treatment may not be consistent with the government's financial instructions. This can fragment the financial management system, with information in several locations.

## **OPERATIONAL-LEVEL STAKEHOLDERS**

While all public sector organisations create and maintain financial records, certain core institutions have key roles to play in the operation of financial systems and management of the records they generate. The core agencies are described below.

### **Central Bank**

The central bank is responsible for maintaining the country's monetary policy, issuing bank notes, regulating and supporting the country's principal systems for clearing and settling payments and acting as fiscal agent for federal government debt.

In countries where the civil service accounting system has deteriorated, policy makers will rely on records of cash balances in the central bank. They provide a crude but accurate picture of how much has been spent and how much money the government has received from taxation and other sources. The records of the central bank are highly sensitive and are often managed entirely separately from other public sector financial records.



## **Finance/Economic Planning Agencies**

The ministry or department in charge of finance and economic planning plays a major role in translating the political objectives of the government into financial policies and workable instructions to departments and budgetary units.

The finance ministry is responsible for overall management and control of public expenditure, government debt, fiscal policy and long-term financial planning. It is also responsible for deciding what resources are necessary and how to distribute the resources. This brings the ministry close to the political sphere. In countries that operate planned economy models of economic development, the ministry in charge of planning, such as a National Development Planning Commission, may also contribute to planning the preparation of the budget and its execution.

The finance ministry's treasury function comprises two activities:

- setting policy
- physically handling funds.

For historical reasons, in many former British colonies the institution of the Treasury was abolished and replaced with a Department (later Ministry) of Finance responsible for policy and an Accountant General's Department responsible for the physical handling of funds.

In other countries that are part of the British administrative tradition, the Exchequer system, as it is known, often continues to operate. Responsibility for managing money is decentralised to ministries and departments, but they are ultimately answerable to the Permanent Secretary to the Treasury. The Treasury brings together and co-ordinates the data which is produced by each individual produced by each individual ministry or department. Each ministry must work within the confines of the appropriate government regulations and must produce accounts which, when submitted to the Permanent Secretary to the Treasury, provide data for the preparation of the final government published accounts.

## **Accountant General**

Some countries operate a centralised system of accounting controlled by an Accountant General. The Accountant General, as the government's principal accounting officer and adviser on accounting policy, is responsible for regulating the receipt and disbursement of funds. He or she is responsible for overseeing accounting policies and procedures and for introducing changes as appropriate. The Accountant General will normally be responsible for controlling any centralised accounting system used by the civil service. If the accounting system is computerised, the operation will often be in the hands of an IT unit run from within the Accountant General's department. Typically, there will be a separate payroll unit to handle the payment of civil servants. This payroll function is often computerised.

## **Supreme Audit Institution**

In many countries the supreme audit institution is the Auditor General's department or a National Audit Office. The supreme audit institution is responsible for examining, evaluating and reporting independently on the ministries and departments on the collection, expenditure and management of public funds and resources.

The supreme audit institution is also responsible for 'value for money' audits. Value for money audits examine the economy, efficiency and effectiveness with which an organisation has used its resources in discharging its functions.

- Economy involves minimising cost (spending less).
- Efficiency involves maximising output for a given input or minimising input for a given output (spending well).
- Effectiveness involves ensuring the results achieve the objectives, goals or intended effects (spending wisely).

While auditing has traditionally been about financial management and performance, there is a growing tendency to expand the role to include monitoring the performance of particular programmes or functions. External auditors are becoming involved in performance auditing for a range of government activities, involving reporting on how activities or programmes are carried out and what systems and controls are in place for monitoring and reporting. Auditors are thus increasingly interested in issues such as corporate governance of public sector bodies, ethical management, risk management and accountability.

## **Internal Revenue and Customs and Excise Departments**

These departments are responsible for the collection of government revenues. Internal Revenue usually comprises taxes on the income of individuals (income tax), on the profits of companies (corporation tax), on the gain in the value of capital assets (capital gains tax), on inherited wealth (inheritance tax) and on transfers of titles to assets (stamp duty). The Customs and Excise Department collects taxes on goods and services (value added tax), import and export duties (customs), and duties on petrol, spirits, tobacco, betting and gaming.

## **Heads of Ministries/Departments**

The heads of ministries and departments are responsible for the management of their internal accounting systems. In many countries, the permanent head of the department is the accounting officer, but he or she will usually be able to draw upon the services of an officer responsible for administration and finance who will be responsible for the daily operation of the financial management systems within the department. In many Commonwealth countries, there is an accounting cadre/service under the control of a head (usually the Accountant General); this group provides

accounting staff to ministries and departments. This group may also include internal audit staff posted to government departments.

In countries operating the Exchequer system there is no Accountant General (see above). Instead, ministries or departments have accounting staff appointed through the normal civil service appointments system – usually the Civil Service Commission. Individual ministries or departments operate and manage their own bank accounts, keep their own accounting records and are answerable in the final analysis to the Permanent Secretary to the Treasury. Thus each ministry has greater flexibility and degree of control over accounting and financial operations relating to their functions.

## **Internal Audit Units**

Internal audit is an appraisal or monitoring activity set up by the management of an organisation to review and evaluate accounting and internal control systems. As such, it can be considered to be part of an organisation's overall control system. In the central government sector, accounting officers are responsible for establishing appropriate internal audit arrangements within their departments. Often this takes the form of an internal audit unit.

## **Central Computing Bureau/IT Department**

Computerised financial systems need to be maintained by IT specialists. Sometimes these specialists are organised into units dedicated to supporting specific strategic applications, such as payroll. These units are often physically located at the ministry in charge of finance. In other cases, they are operated by a central computing bureau on behalf of that ministry. In either case, IT specialists have a responsibility for providing advice on the choice of IT standards, systems and applications.

## **National Archives/National Records Service**

The National Archives has a statutory responsibility for the preservation of financial records of permanent value. In addition it should have a role in ensuring that all government financial records are managed from the point of creation. It has an obligation to respect the interests of other stakeholders, especially the Auditor General and Accountant General, in controlling the security, use and treatment of financial records.

# SUMMARY

In this lesson we have surveyed the key stakeholders in the public sector financial function. We have seen that these can be divided into *upper level stakeholders* that provide a framework for accountability for government income and expenditure. The *operational level stakeholders* have a stake in making the financial management system work on a daily basis.

The stakeholders examined included

- the legislature
- the executive
- the public
- international and bilateral aid agencies
- the central bank
- departments responsible for finance and economic planning
- the Accountant General
- the supreme audit institution
- the internal revenue and customs and excise departments
- heads of ministries or departments
- internal audit units
- central computing bureaus and information technology departments
- national archival institutions and national records services.

# STUDY QUESTIONS

1. List the stakeholders in the government financial system in your country and explain their roles.
2. Draw a diagram to show the relationship between these stakeholders.
3. What are the four main documents that the legislation of your country requires to fulfil its role in holding government institutions financially accountable?
4. What is the difference in the role of the accountant general and the head of the supreme audit institution?

# ACTIVITIES: COMMENTS

## **Activity 3**

This activity will help you compare the information provided in this lesson with your own understanding of financial records and those stakeholders affected by their management. Compare your answers with the information given in this lesson and refer back to this information as you proceed through this module.

# **THE FINANCIAL MANAGEMENT SYSTEM: BUSINESS FUNCTIONS, PROCESSES AND OUTCOMES**

Lesson 3 examines the major business functions and processes that comprise public sector financial management. These functions and processes result in records; therefore it is critical to understand financial activities in order to manage the records.

*The nature of the financial records identified here in relation to outcomes will be discussed in greater detail in Lesson 4.*

It is important to remember that financial management is a system.

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**System:** A perceived whole whose elements 'hang together' because they continually affect each other over time and operate toward a common purpose. Systems consist of sub-systems or functions, processes, activities and tasks.

**Function:** The means by which an organisation or system fulfils its purpose.

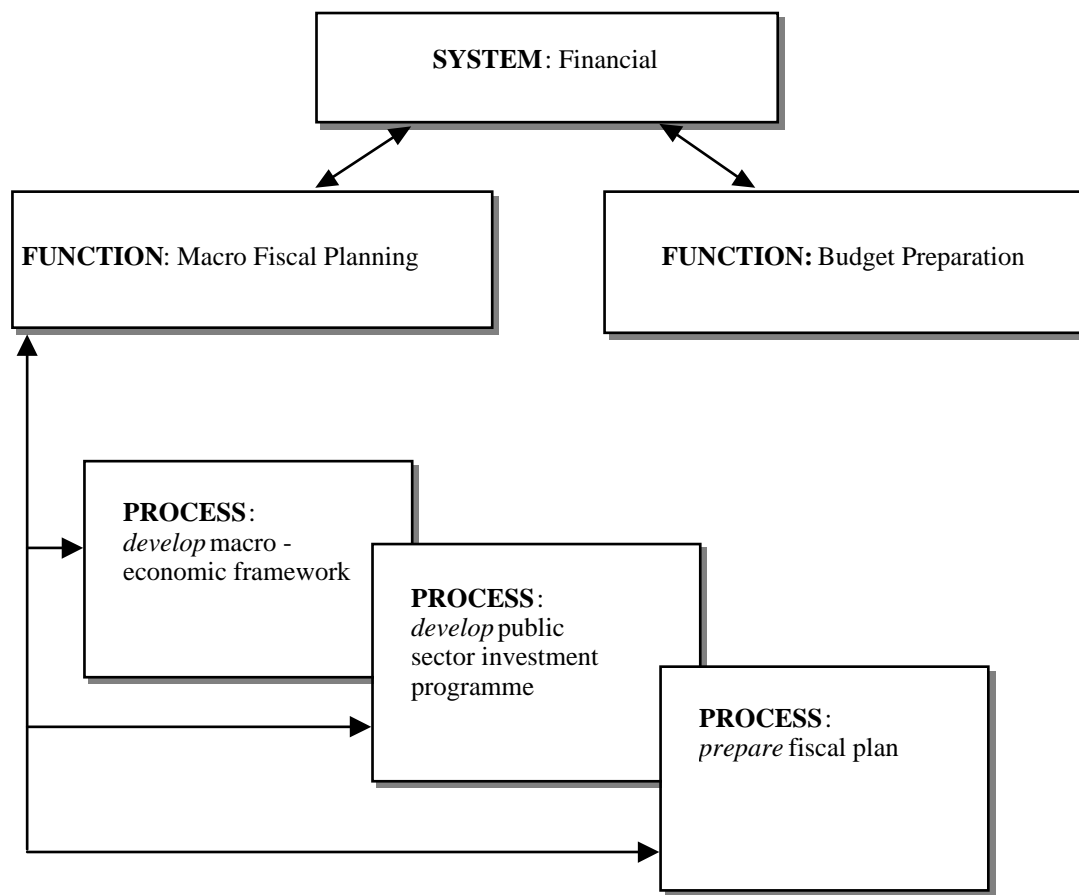
**Process (1):** The means whereby a system's functions are performed.

**Process (2):** The means whereby an organisation carries out any part its business.

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*For more information on systems, see Analysing Business Systems.*

Financial management systems are broadly similar all over the world. The functions and processes described in this lesson are generic.



*Figure 3: Functions and Processes of the Legislative Framework*

## THE LEGISLATIVE FRAMEWORK

The functions and processes that define the financial management system are derived from and must adhere to a legislative and regulatory framework or control structure. Controls are defined at several levels as described below.

- Financial legislation and financial instructions help to define the functional areas that govern financial management. The financial instructions specify the detailed controls needed to ensure that transactions are properly authorised and documented and that they do not exceed the amount of money assigned for that purpose.
- Within most legislative frameworks, revenue received by governments is paid into a fund, and any expenditure from the fund must be formally appropriated by the legislature. This fund becomes the basis for accounting and reporting in government.



- Regulations, administrative instructions and administrative practices specify the standards and procedures to be followed when carrying out functional processes. These controls include
  - controls at the document and transaction level to ensure correct processing, full and correct recording and audit trails
  - controls on access to ensure that only authorised personnel can record, change or report information
  - controls over the entire system to ensure that it embodies the established processing standards.

This framework of controls set the regulatory context for the main financial functions and processes described below. The records manager must thoroughly understand the particular laws, regulations and controls that apply when analysing a financial management system in real life. They are also important to take into account when making appraisal decisions. All of these will be written records that must be managed somewhere within the governmental system. In some cases (eg laws), they will be published. At this stage, it is sufficient that the student understands that they are important for ensuring that financial operations are in line with good practice and government policy.

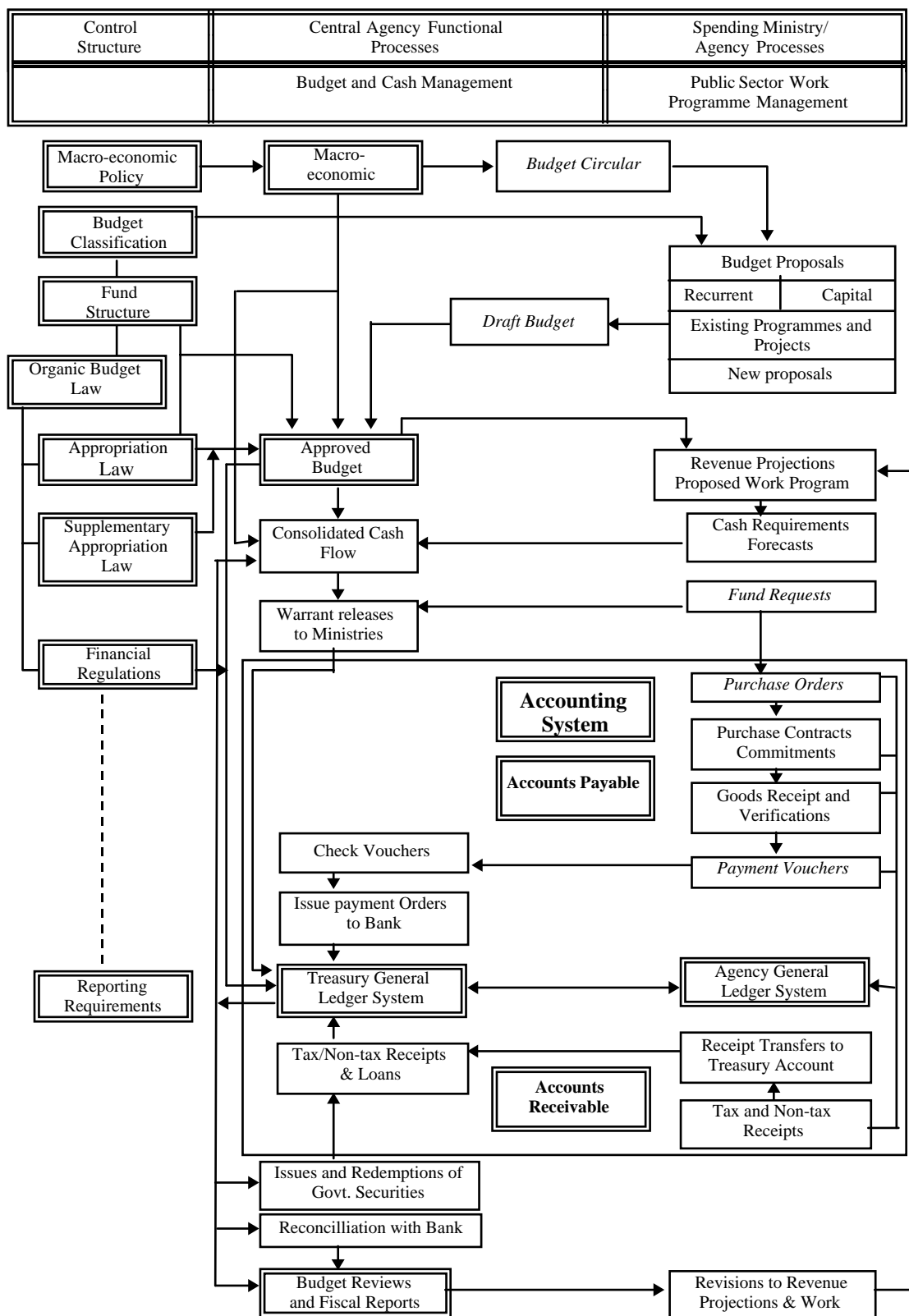
## FINANCIAL MANAGEMENT: MAIN FUNCTIONS AND PROCESSES

Figure 4 below illustrates the complex inter-relationships involved in financial management. It shows the links between the overall legislative and regulatory framework and the processes that flow from it. These processes relate to three aspects of financial management:

1. budget preparation
2. budget implementation and case management
3. accounts administration and auditing.

At the broader level, these processes are carried out by the central agencies responsible for budget and cash management. At a more specific level, they are carried out by the spending ministries and agencies in managing the public sector. The figure demonstrates how information, in the form of documents, flows through the central agencies and spending ministries regulated by the control structure.

The bulk of the records generated are accounting records, mainly payment vouchers, purchase orders and supporting documentation. However, the diagram also shows other categories of strategically significant records, for example the macroeconomic policy document, the budget circular and the draft and approved budget documents. The records that support the control structure are also important because they set the context for both the implementation of government policy through the public sector work programme and for the detailed working of financial management systems.



**Figure 4: Inter-relationships in Financial Management**

From PREM Network, *Public Expenditure Handbook*, The World Bank, June 1998, p 63.

# FUNCTIONS OF A FINANCIAL MANAGEMENT SYSTEM

The main functions of government financial management systems can also be understood in relation to the figure above. In broad terms, a financial management system can be broken down into ten primary functions. Together, these functions make up the financial management cycle, as described below.

1. *Macro-fiscal planning* establishes the policy objectives and needs for financial resources and a forward-looking strategy for revenue and expenditure. For example, the fiscal policy and medium-term expenditure plan should contain statements of government objectives, policies and priorities; strategies for achieving objectives; a resource framework for the plan period and a programme of sectoral development to be implemented during this period. It is the first step toward preparing the budget and involves contributions from line ministries as well as from the ministry of finance and other central agencies.
2. *Budget preparation* involves allocating resources to achieve the objectives of government. It is a management tool for national economic and fiscal planning and for controlling the use of funds to ensure that the stated objectives can be met. The budget preparation process is most successful when linked to a longer term macro-fiscal plan.
3. *Budget implementation* follows approval of the budget by the legislature, when funding allocated to specific areas and items of expenditure can take place.
4. *Budget monitoring and evaluation* provides a method of feedback to the fiscal planning and policy area. Linking budgeting to accounting enables financial managers to receive the feedback needed to adjust planned activities to expected resources.
5. *Cash management* is an integral part of financial management. It provides an up-to-date picture of the amount of cash in government accounts and the amounts of cash needed. Cash management compares data from cash flow forecasts and fiscal reports to data on cash balances, government bonds, treasury bills and cash deposit maturities. In many countries, cash management tends to occur at a high level involving the central bank (or similar body).
6. *Debt management* involves managing all transactions relating to external loans. It also serves as the mechanism for calculating the future cost of servicing the debt.
7. *Foreign aid management* matches aid agencies to projects and oversees the process of project negotiations.

8. *Revenue administration* executes tax policies through the levy and collection of revenues (including taxes, duties, etc) as stipulated by these policies. It also involves the valuation and collection of non-tax revenues, such as stamp duties or charges for government services.
9. *Accounts administration* is the means by which government assembles and analyses accounting information to help it to control business, safeguard assets, prepare financial statements and comply with legislation.
10. *Auditing* is the means of reviewing the accuracy and reliability of financial information produced by financial management functions.

It is important to understand these functions as a basis for analysing government financial systems. The objectives of each function are met through a series of processes as shown in the tables which follow.

#### **Activity 4**

Before studying the chart below, carefully consider each of the ten functions listed above. Find out which of these financial functions are carried out by your organisation and which are carried out by others. Identify who in your organisation is responsible for each of those functions that are carried out by your organisation. Write down the name of the department or agency. Then, choose two of the functions, other than the function of preparing an annual budget, which is given as an example below. For each of those two functions, write down all the processes you can think of that must be performed to fulfil that function.

For example, consider the processes that must be done to fulfil the function of preparing a budget. They will likely include

- determining initial budget allocations
- informing various agencies in the government of budget ceilings for the next year and seeking their input
- analysing the information received from those agencies
- preparing a draft budget as a result of that information received
- finalising the budget for presentation to the legislature.

Your list for the two functions you have examined should look the same: a short statement of each of the steps (processes) involved in completing that activity. You may need to discuss this activity with people in your organisation responsible for various parts of the financial management process.

When you have finished this activity, compare your findings with the information presented in the figure below.

<b>Function</b>	<b>Processes</b>	<b>Description of Outcome (if not self explanatory)</b>
<b>Macro-fiscal planning</b>	develop macroeconomic framework	an economic framework linking growth of national income, savings, investment and balance of payments to public expenditure
	develop public sector investment programme	a listing of investment projects (including possible sources) that a government intends to implement over a period of the programme (3-5 years)
	prepare fiscal plan	a medium-term rolling plan (3-5 years) showing forecasts of tax and non-tax revenues, estimates of additional incomes, estimates of resources from external and internal borrowings and projections of current expenditure
<b>Budget preparation</b>	make initial budget allocations to agencies and programmes	a listing of allocations linking the medium-term framework to annual budgeting based on the results of macro fiscal planning
	issue budget call circular containing budget ceilings and guidelines	a circular issued by the core agencies, indicating economic prospects, broad policy objectives, budgetary ceilings, and guidelines inviting line agencies to present programmes and projects for inclusion in the budget
	receive and analyse annual budget submissions	proposals for programmes and projects prepared by line agencies, in response to the budget call circular, for execution during the fiscal year
	prepare draft budget	a draft compilation of the public sector work programme based on submissions from line agencies
	finalise budget	the final budget prepared by the core agencies for presentation to the legislature. The legislature considers the final budget's framework in general and examines detailed proposals at budget committee level and then passes the budget into law at a final plenary session.

*Figure 5: Financial Management: Main Functions and Processes*

<b>Function</b>	<b>Processes</b>	<b>Description of Outcome (if not self explanatory)</b>
<b>Budget implementation</b>	prepare expenditure plans	line agency projections of expenditure based on planned programmes and projects
	prepare cash flow forecasts	a forecast of cash requirements over the year based on known and anticipated commitments for both recurrent and capital expenditures
	release funds to agencies	warrants issued by the Ministry of Finance authorising periodic release of funds to sector agencies within the budgetary allocations
	receive budget authorisation and execute programmes and projects	
	process payroll and pensions	
	procure goods and services. The process that consists of the following sub-processes which can be either centralised or decentralised: <ul style="list-style-type: none"> <li>• request goods and services</li> <li>• authorise expenditure</li> <li>• commit funds</li> <li>• issue purchase order</li> <li>• verify receipt of goods and services</li> <li>• receive bills/invoices</li> <li>• authorise payment</li> </ul>	

*Figure 5: Financial Management: Main Functions and Processes (cont.)*

<b>Function</b>	<b>Processes</b>	<b>Description of Outcome (if not self explanatory)</b>
<b>Budget implementation continued...</b>	pay for good and services	
	request budget adjustments/supplementary allocations	requests to transfer appropriations from one budget category to another or requesting the addition of supplementary allocations
	adjust budgetary allocations	revised budgetary allocations based on work programme priorities and funds availability
	authorise expenditure and implement expenditure controls	authorisations incurred after ensuring compliance with financial rules and regulations, availability of budgetary allocations and funds to cover the transaction
<b>Budget monitoring and evaluation</b>	prepare fiscal reports	reports detailing and explaining major deviations from the planned budget programme and suggesting corrective measures that might have to be considered
	monitor and evaluate budget implementation	
	monitor progress on agency programmes and projects	periodic reviews of actual expenditure and analysis of budgetary lags and variations with budgetary estimates – matching financial and physical progress and reallocation of funds where necessary

*Figure 5: Financial Management: Main Functions and Processes (cont.)*



<b>Function</b>	<b>Processes</b>	<b>Description of Outcome (if not self explanatory)</b>
<b>Cash management</b>	<p>monitor cash flows and expected cash requirements; issue and redeem government securities. This process includes the following sub-processes:</p> <ul style="list-style-type: none"> <li>• receive agency expenditure plans</li> <li>• receive revenue forecasts from revenue collection agencies</li> <li>• prepare overall cash flow forecasts</li> <li>• monitor revenue inflows</li> <li>• monitor maturities of cash and term deposits</li> <li>• monitor cash balances</li> <li>• monitor overall cash flows</li> <li>• issue and redeem securities</li> <li>• receive actual expenditure statements from agencies</li> <li>• receive and process agency requests for funds</li> <li>• release funds to agencies</li> </ul>	status reports and forecasts of cash requirements and availability and data on transactions relating to government's short term and cash deposits
<b>Debt Management</b>	float domestic loan offerings	
	account for receipts	
	project debt service requirements	
	service debts	cheques issued by the Accountant General's Office for payment of interest and repayment of principal. Debt management information is used in economic and policy analysis
<b>Foreign aid management</b>	co-ordinate aid inflows	aid agencies matched to projects and project negotiations overseen
	disburse and account for aid	disbursement and repayment transactions pertaining to external borrowings

*Figure 5: Financial Management: Main Functions and Processes (cont.)*

<b>Function</b>	<b>Processes</b>	<b>Description of Outcome (if not self explanatory)</b>
<b>Revenue administration</b>	administer tax revenue and tax collection systems	Implementation of the tax policies covering the actual levy and collection of revenues including taxes, duties etc as laid down in these policies
	administer non-tax revenues and associated revenue collection systems	implementation of the valuation and collection of other non tax revenue systems such as stamp duties, user fees/charges for services products supplied by the government
<b>Accounts administration</b>	administer payment and receipt systems	
	administer general and subsidiary ledgers and budget ledgers, including accounts reconciliations	
	account for fixed assets	
	account for inventory	
	develop costs for programmes and projects	recording and accounting of all government transactions relating to revenues, expenditures, public debt and other (eg fixed-asset) financial transactions
<b>Auditing</b>	audit government accounts	internal audit at the line ministry level during the course of the fiscal year and external audit carried out by the Auditor General through random checks and on the final accounts for the fiscal year

*Figure 5: Financial Management: Main Functions and Processes (cont.)*

# SUMMARY

This lesson has examined the concept of a financial system, the functions of financial management and the processes involved with completing those functions. The legislative framework establishes the basic principles of financial management and help to define the various functions; this legislative framework was discussed in this lesson. The lesson also examined the specific functions of financial management and the processes and outcomes involved. Figures were included to show graphically how functions and processes are related in government financial management systems.

# STUDY QUESTIONS

1. Draw a table showing each of the ten financial functions listed and which organisation(s) is/are responsible for this in your country.
2. Obtain a copy of your government's accounting manual and identify the main processes in your accounts administration against the relevant paragraphs in the manual.

# ACTIVITIES: COMMENTS

## **Activity 4**

You may find that when you have completed this activity you have identified more processes than are listed in this document. This is fine; the document cannot identify every specific process in place in all governments or organisations.

While you are discussing this activity with people in your organisation, you will want to talk with them about the types of records created as a result of the two functions you examined, as you will be considering these types of records in the next lesson.

This activity could take quite some time; spend as much time as you need to understand the relationship between functions and processes. You are asked only to examine two functions because of the time involved with this activity; if you wish, you may want to examine other functions.

## **FINANCIAL MANAGEMENT FUNCTIONS: INFORMATION SYSTEMS AND RECORDS**

Lesson 3 provided an introduction to the financial management system and the main functions and processes involved. Lesson 4 is concerned with analysing the records generated from these functions and processes. This lesson demonstrates how business systems analysis can be used to build up a picture of information flows in relation to financial functions and processes.

*Analysing Business Systems explores the techniques of business systems analysis in greater depth.*

### **INFORMATION FLOWS**

Each of the functions and processes examined in Lesson 3 requires records as inputs and generates records as outputs.

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***Input:*** Any resource required for the functioning of a process, in the course of which it will be transformed into one or more outputs.

***Output:*** The product of the transformation of inputs by a process.

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For example, a payment voucher to authorise payment of goods supplied to a ministry is an input to the accounting system. The output is the cheque issued to the supplier

One way to examine these inputs and outputs is to study the information flows associated with the particular process being examined. Stakeholders must be consulted, and individual processes can be analysed in greater depth by studying the information flows associated with the process. This analysis builds up a picture of the existing documentation controls and thus provides the basis for taking records management decisions.

The data gathering exercise should lead to a flow diagram with a narrative text, describing in detail the steps involved in the process. As each function will be made up of one or more processes, it is necessary to analyse each of them before the

complete picture will emerge. The records manager needs to understand the relationship between all these factors when making decisions about records.

This analytic approach is best illustrated with the following example.

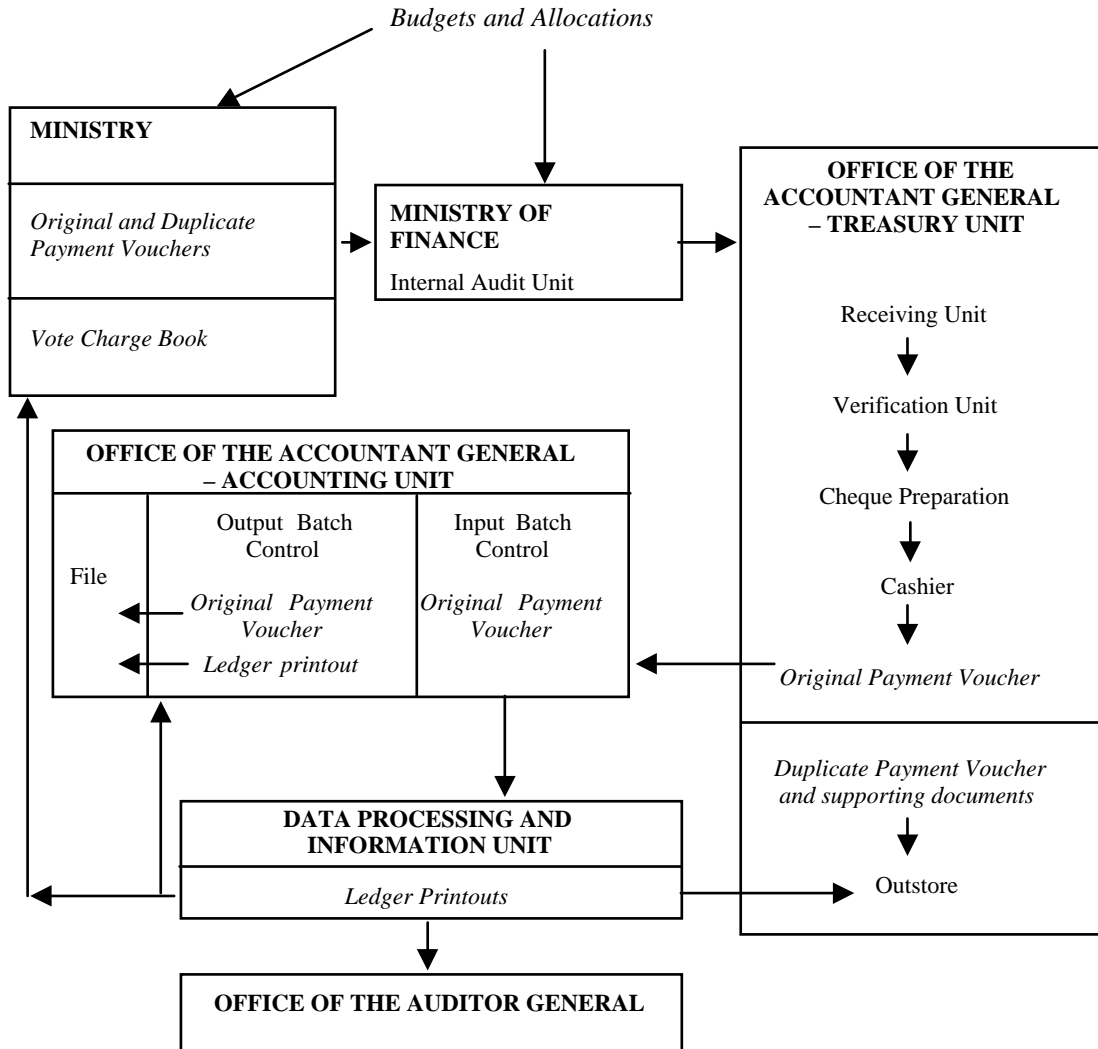
In a small Commonwealth country, a records manager was asked to improve the handling of records relating to payments. He began by studying the accounting manual, which was an invaluable source of information about the main accounting records, their formats and the procedures for processing payments.

The Auditor General's office should have documented the payments process as part of the routine audit of the financial system and recorded any departures from the accounting manual. However, the records manager discovered that this had not been done. It was therefore necessary to trace the payment process through the system and to interview the relevant officers at each stage.

Ultimately, the records manager produced the flow diagram shown below and a chart of the procedures, the records generated and the documentation controls in place.

By the time the records manager had completed the analysis, he had most of the information he needed to identify the series required to support the payments functions. In most cases the records derived from the records column in his chart formed clear series. His last step was to refine his analysis to define the series and to create retention schedules to cover all of the series created including the computer data files and the systems documentation.

**Budgets and Allocations**



*Figure 6: Illustration of Documentation Flow in Relation to the Payment Function*



## Analysis of Documentation Flow in Relation to the Payments Function

### Departments of State

<b>Procedures</b>	<b>Records</b>	<b>Documentation Controls</b>
1.1 Raise requisition	departmental requisition book	forms serially numbered copy retained in unit
1.2 Obtain goods, services	<ul style="list-style-type: none"> <li>• local purchase order (LPO)</li> <li>• Petty contract</li> <li>• Claim/petty cash voucher</li> </ul>	forms serially numbered copy retained in unit
1.3 Submit for payment	payment voucher in triplicate	ministry reference number; voucher dated LPO Number. account code. copy retained in unit.
1.4 Enter in main ledger	vote charge book	retained in unit for reconciliation with monthly print out from Accountant General.
1.5 Send to Internal Audit	<ul style="list-style-type: none"> <li>• voucher way book</li> <li>• payment vouchers and supporting documents e.g. requisition, invoices</li> </ul>	voucher way book signed by Internal Audit for receipt of original and duplicate payments vouchers, LPOs and all supporting documents.

### Internal Audit Unit

<b>Procedures</b>	<b>Records</b>	<b>Documentation Controls</b>
2.1 Receive vouchers	voucher way book of ministry/department	all vouchers from ministry signed by internal audit.
2.2 Register vouchers by department	departmental register	date of receipt and voucher reference.
2.3 Approve/check vouchers	payment voucher	voucher signed by principal accountant; date stamp
2.4 Ensure funds available	vote control book	vote control book; retained in internal audit unit.
2.5 Validate Local Purchase Order	LPO register	LPO register; retained in internal audit unit.
2.6 Ascertain daily cash flow for Ministry of Finance	daily register of vouchers	Maintained in date order with voucher reference; retained in internal audit unit.
2.7 Transfer vouchers to Treasury unit	voucher list/way book	Entries serially numbered. original and duplicate payments vouchers, LPOs and all supporting documents (requisitions, invoices) sent to Treasury receiving unit. Signed for by Treasury receiving unit.

### Treasury Unit

Procedures	Records	Documentation Controls
3.1 Vouchers received in Receiving Unit from: <ul style="list-style-type: none"> <li>• Internal Audit Unit</li> <li>• Ministry/Dept 'Below the Line' accounts and family allotments</li> <li>• Sub Treasuries and embassies</li> </ul>	voucher list/way book of internal audit unit voucher list/way book of accounting unit input batch control document	) ) All vouchers ) signed for ) date stamped ) RECEIVED ) and entered in ) Registers. )
3.2 Record documents	register of documents received	Register maintained by date received and payment voucher number.
3.3 Transfer to <i>Verification Unit</i>	register of documents received	Signed for by unit.
3.4 Record accepted vouchers	Voucher Control Form/Way Book for each Ministry: <ul style="list-style-type: none"> <li>• LPOs and Petty contracts</li> <li>• Recurrent payments including salaries and allowances</li> <li>• 'Below the Line' and family allotments, loans, court deposits</li> </ul>	maintained by payment voucher number.
3.5 Return rejected vouchers to originator	way book of rejected vouchers	Entered by date and purchase voucher number, signed for by originator.
3.6 Dispatch vouchers for payment <ul style="list-style-type: none"> <li>• foreign payments and special accounts to accounting unit</li> <li>• others to cheque preparation</li> <li>• payments less than 300D to cashier</li> </ul>	voucher control form/way book	signed for by accounting unit, cheque drawer, and cashier.
3.7 Draw cheque	cheques supporting documents cash book (cheque payments)	payment voucher given Treasury payment voucher reference number from cash book by cashier, in sequence. Voucher stamped PAID.
3.8 Transfer to: <ul style="list-style-type: none"> <li>• cashier</li> <li>• accounting unit</li> </ul>	cheque, duplicate payment voucher and supporting documents cash book (cheque payments) and original payment voucher	Cashier signs cash book for cheques. accounting unit signs for documents in way book.

**Cashier**

<b>Procedures</b>	<b>Records</b>	<b>Documentation Controls</b>
4.1 Issue cheque	duplicate payment voucher and supporting documents	To store, filed in Treasury payment voucher (TPV) number order.
4.2 Pay cash	cash book (cash payments)	Sent to accounting unit.

**Accounting Unit**

<b>Procedures</b>	<b>Records</b>	<b>Documentation Controls</b>
5.1 Prepare for data processing	payment cash books summary cash book salaries and allowances cash book input batch control form	check way book and sign batch daily vouchers in account code order (less than 40 per batch) batch numbers, Treasury payment voucher numbers and number of documents.
5.2 Take to data processing and information unit (DPI) at end of month	way book	batch numbers reconciled in way book. computer operators sign for batches.
5.3 Check computer processing	Print out of ledger by vote code and batch/voucher	All entries checked against vouchers. original payment voucher stored by month in batch number order.

*Figure 7: Analysis of Documentation Flow in Relation to the Payments Function*

The analytic technique described above can be applied to any process associated with a financial function. For example here is the same process of analysis and diagramming applied to the process for accounting for revenue generated by line ministries. Most government departments generate some revenue, for example by issuing licences or charging for publications. The main revenue generating departments are Customs and Excise and Revenue. These may have different procedures than those used in line ministries. The analysis of the procedures for recording revenue by a line ministry has been broken down into stages which represent the activities of a particular administrative unit. These have been numbered. Individual procedures have been sub-numbered. There is no particular rule that this system of numbering has to be used, but it makes it easier to follow. This analysis is important because it illustrates that the records generated by the process will be captured by the record keeping systems of different administrative units and how they relate to each other. It makes it easier to make informed appraisal decisions.

**Analysis of Documentation Flow: Revenue**

**1 Ministerial/Department**

<b>Procedures</b>	<b>Records</b>	<b>Documentation Controls</b>
1.1 Issue of Receipt Books	General Triplicate Receipt Book (GTR)	GTRs issued by Treasury Unit (Accounting Unit) on departmental requisition. Receipt Book Issue Note recording serial numbers signed for by receiving officer.
1.2 Receipt of cash and cheques	GTR – official receipt Revenue Voucher (AGF 2)	Copy 1 to payer Copy 2 to Receipts Section Copy 3 retained in GTR Book AGF 2 prepared and given Ministry reference number
1.3 Enter in Cash Book	Revenue Collector’s Cash Book	Entered from GTR and AGF2

**2 Treasury Unit Receipts Section (TURS)**

<b>Procedures</b>	<b>Records</b>	<b>Documentation Controls</b>
1.4 (i) Payment to Central Bank (ii) Payment to Sub-Treasury (iii) Payment to TURS	(i) Paying-In-Slips (ii) Sub-Treasury Cash Book (iii) TURS Cash Book (iv) AGF2	(i) Stamped by bank; (ii) Receipt issued, recorded in Sub-Treasury Cash Book; (iii) Receipt issued, recorded in TURS Cash Book
1.5 For revenue paid to Central Bank; take GTRs, Cash Book and Paying-In-Slip to TURS	GTRs Cash Book Paying-In-Slip AGF2	TURS check Paying-In-Slips against Cash Book, GTRs. TURS stamp examined
1.6 For revenue paid to Central Bank take GTRs, Cash Book and Paying-In-Slips to Treasury Unit Receiving Cashier (TURC)	GTRs Cash Book Paying-In-Slip AGF2	Cashier issues receipt for documents; Receipt posted to TUC’s Cash Book; Treasury Receipt Number given (TRV No) and entered on voucher. Duplicate AGF2, supporting documents to store in TRV no.

### 3 Accounting Unit

Procedures	Records	Documentation Controls
1.7 Accounting Unit: prepare for data processing	Receiving Cashiers Cash Book Sub-Treasury Cash Books TURS Cash Book Input Batch Control Original AGF2	Vouchers checked to Cash Books and batched. Batch numbers allocated and entered into Way Book
1.8 Take to Data Processing and Information Unit (DPI) at end of month	Way book and vouchers	Batch numbers reconciled in way book Computer operators sign for batches
1.9 Check computer processing	Print out of ledger by Vote Code and batch/voucher	All entries checked against vouchers Original AGF2 stored by month in batch number order

*Figure 8: Analysis of Documentation Flow: Revenue*

Accounting is at the core of any financial management system and generates a large proportion of the financial records in government. The following diagram provides an overview of the main information flows and records that would be found within the accounting function within a typical mixed paper/electronic environment in a small Commonwealth country. The boxes with shading indicate records. The arrows show the flow of information.

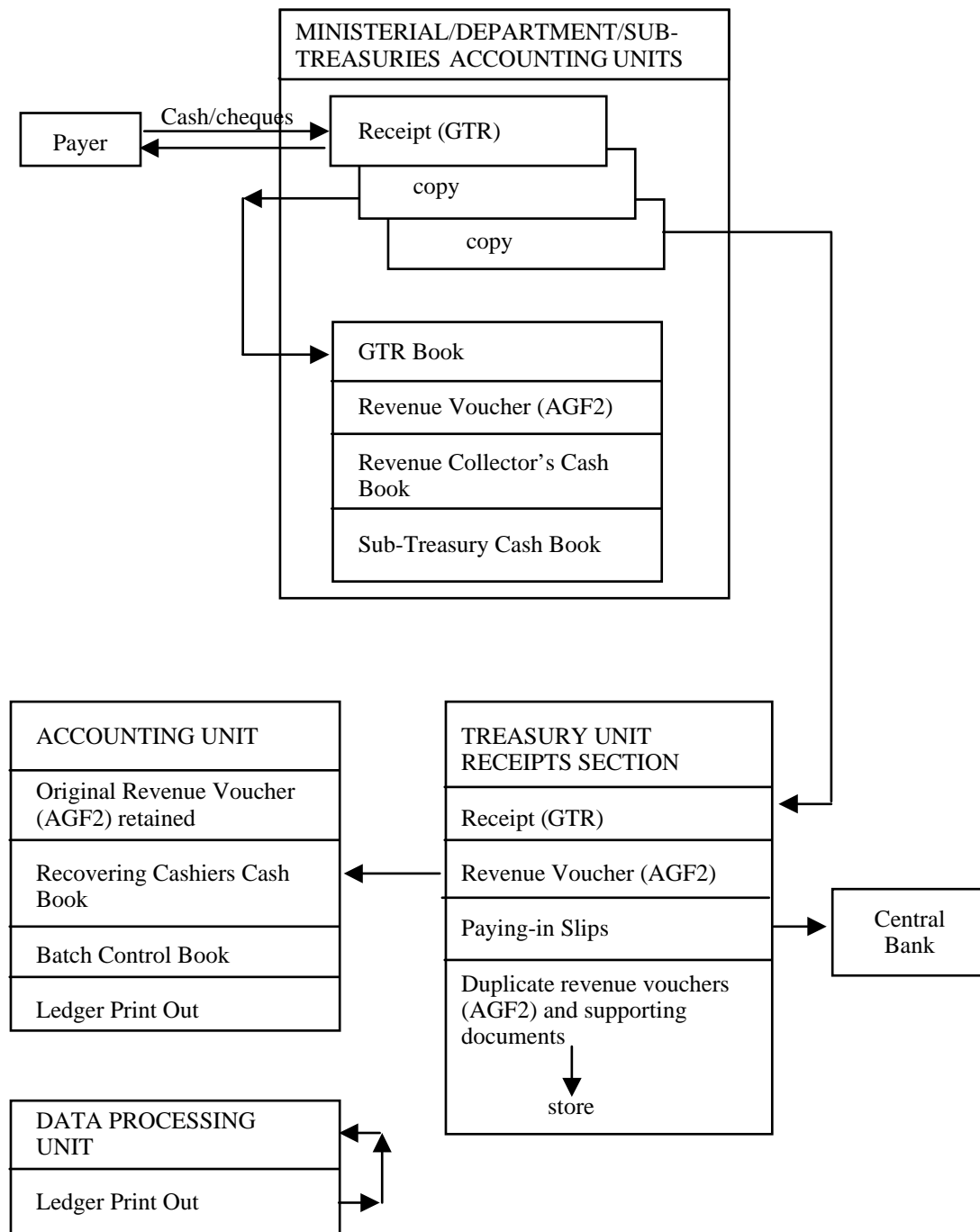


Figure 9: Outline of Documentation Flow: Revenue

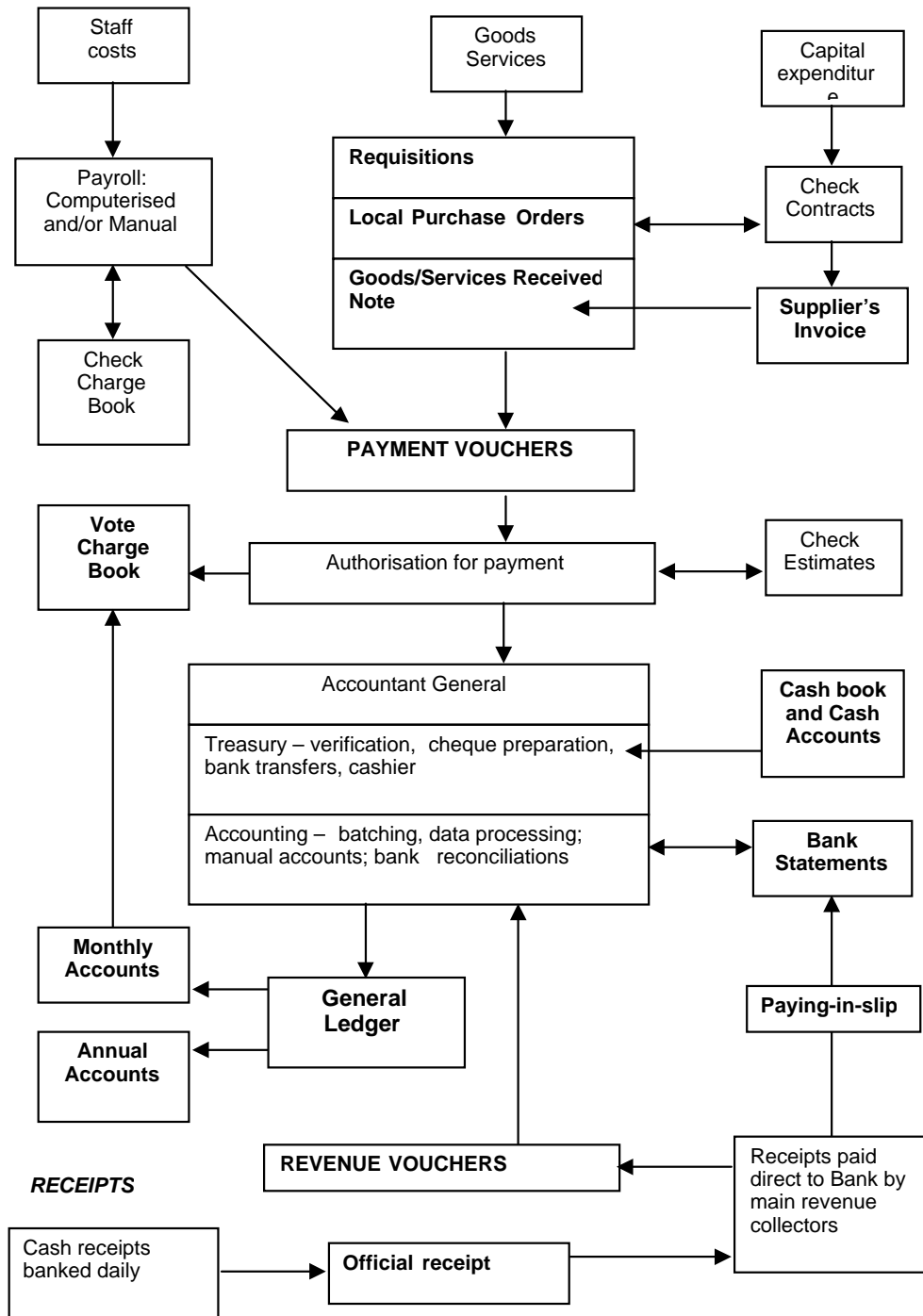


Figure 10: Documentation Flow Within the Accounting Function



The analytic process could ultimately be extended to any area of financial management. The table below provides an overview of the main financial management functions and relates them to the following areas:

- information systems
- the principal records inputs required
- the records outputs generated
- the main users or beneficiaries of the system (the stakeholders).

It is important to understand that financial management in the public sector is very complex and therefore in many countries different systems are used to support a particular function. For example, the revenue administration function will normally have at least two distinct sets of systems: tax administration systems and customs administration systems. In many countries these systems are computerised, but they could also be manual systems, or a mixture of the two. The macroeconomic framework document, the fiscal plan and budget records will be used to determine what taxes and customs are collected. The systems will be used to administer the process of tax and customs gathering and the most important records generated by these systems will be records of the tax and customs revenue.

Each of the functions listed in the table below will generate large volumes of transaction records. The table provides a high level 'at a glance' listing of all government financial management functions. It is important to thoroughly understand the table because it provides the means for the records manager to have a meaningful dialogue with financial managers about the systems they use and the records generate by them.

For each function, the associated processes should be analysed when setting up a records management programme. The table provides a framework to assist records managers in planning this process, prioritising the detailed analytic work, identifying the main systems that generate records and relating them to broader functional areas, identifying key stakeholders to be consulted and identifying important categories of records.

Complete the following activity and then compare your findings with the information presented in the figure.

### Activity 5

Before studying the chart below, look back at the two functions you examined in the last lesson, when considering the processes involved with fulfilling those functions. For each of those two functions, look again at the processes involved and identify:

- the principal systems supporting those functions. What are they called and are they computerised or manual systems?
- the principal records inputs required (the records needed to perform the process)
- the records outputs generated (the records that result from the process)
- the main stakeholders (the users or beneficiaries of the system).

For example, look again at the processes you identified to fulfil the function of preparing an annual budget. The records required for this process will include

- macroeconomic framework document
- public sector investment programme document
- fiscal plan
- public sector work programme
- expenditure reviews (previous year)
- fiscal reports (previous year)
- budget guidelines and ceilings
- line agency budget submissions
- draft budget.

The records generated by this process include

- initial budgetary allocations to programmes/projects' budget call circular
- line agency budget submissions
- draft budget
- approved budget

The main stakeholders include

- Ministry of Finance budget division
- Treasury
- line agencies
- Parliament
- National planning agency
- central bank
- revenue collection agencies
- ministry of public service
- donor agencies
- records management agency.

Your list of inputs, outputs and stakeholders should look the same. You may need to discuss this activity with people in your organisation responsible for various parts of the financial management process.

*Financial Management: Main Information Systems and Records*

<b>Function</b>	<b>Main Information System(s)</b>	<b>Record Inputs Include:</b>	<b>Record Outputs Include:</b>	<b>Stakeholders</b>
<b>Macro-fiscal planning</b>	systems for macroeconomic forecasting	external economic data; public sector work program document; fiscal reports (previous); expenditure reviews (previous); accounts data; data on tax revenue collections; data on non-tax revenue collections; data on domestic borrowings; data on external borrowings grants/grants in aid; debt service projections; data on civil service complement/emoluments/benefits	macroeconomic framework; public sector investment programme; fiscal plan	<i>Responsible:</i> Ministry of Finance; Ministry of Finance budget division; planning agency  <i>Associated:</i> treasury; central bank; revenue collection agencies; records management agency
<b>Budget preparation</b>	systems for budget preparation; spending agency budget preparation systems; public enterprise budget preparation systems; tax systems; customs systems	macroeconomic framework document, public sector investment programme; fiscal plan; public sector work programme; expenditure reviews (previous); fiscal reports (previous); budget guidelines and ceilings; line agency budget submissions; draft budget	initial budgetary allocations to programmes/projects' budget call circular; line agency budget submissions; draft budget; approved budget	<i>Responsible:</i> Ministry of Finance budget division; treasury; line agencies; Parliament  <i>Associated:</i> planning agency; central bank; revenue collection agencies; ministry of public service; donor agencies; records management agency

<i>Financial Management: Main Information Systems and Records</i>				
<b>Function</b>	<b>Main Information System(s)</b>	<b>Record Inputs Include:</b>	<b>Record Outputs Include:</b>	<b>Stakeholders</b>
<b>Budget implementation</b>	systems for budget execution and fiscal reporting; core government accounting system; spending agency budget execution systems; public enterprise budget execution systems; payroll and pension systems; personnel information systems; purchasing systems	expenditure review; public sector work programme; fiscal reports; fiscal plan; public sector investment programme; approved budget, public sector work programme; cash flow forecasts; fiscal reports; contracts; purchase requests; cost evaluations; bids; reviews of contractor performance; inventory documents; personnel documents; payroll documents; expenditure authorisations; commitment transactions; invoices; vouchers; shipping documents; inventory documents; receiving reports; payment authorisations;	expenditure plan; budget warrants; purchase orders; procurement transactions; payment vouchers; payment receipt transactions; virement request transactions; expenditure authorisations	<i>Responsible:</i> Ministry of Finance budget division; treasury; line agencies  <i>Associated:</i> planning agency; central bank; revenue collection agencies; ministry of public service; donor agencies; records management agency
<b>Budget monitoring and evaluation</b>	systems for monitoring investment projects; systems for monitoring public enterprises; spending agency investment projects monitoring systems	approved budget; public sector work programme; fiscal plan; public sector investment programme; macro-economic framework; fiscal reports	fiscal reports; expenditure reviews	<i>Responsible:</i> Ministry of Finance budget division; treasury; line agencies  <i>Associated:</i> planning agency; central bank; revenue collection agencies; ministry of public service; donor agencies; records management agency
<b>Cash management</b>	cash management systems	cash flow forecasts; fiscal reports; expenditure review; data on domestic borrowings; approved budget; public sector work programme; fiscal plan; macroeconomic framework	liquidity position; issues and redemptions of government securities	<i>Responsible:</i> Ministry of Finance budget division; treasury; line agencies;  <i>Associated:</i> revenue collection agencies; Ministry of Public Service; records management agency

<i>Financial Management: Main Information Systems and Records</i>				
<b>Function</b>	<b>Main Information System(s)</b>	<b>Record Inputs Include:</b>	<b>Record Outputs Include:</b>	<b>Stakeholders</b>
<b>Debt management</b>	debt management systems	fiscal plans; public sector investment programme; fiscal reports; expenditure reviews; data on issues and redemptions of government securities; approved budget; public sector work programme	data on domestic borrowings	<i>Responsible:</i> treasury <i>Associated:</i> Ministry of Finance; Ministry of Finance budget division; planning agency; central bank; records management agency
<b>Foreign aid management</b>	foreign assistance co-ordination system	public sector investment programme; fiscal plan; approved budget; public sector work programme; approved budget; data on external borrowings/grants/etc	data on external borrowings/grants/grants-in-aid; data on foreign aid disbursements/repayments	<i>Responsible:</i> treasury; planning agency <i>Associated:</i> Ministry of Finance; Ministry of Finance budget division; central bank; records management agency
<b>Revenue administration</b>	tax administration systems; customs administration systems	macroeconomic framework; fiscal plan; approved budget	data on tax revenue/collections; data on non-tax revenue/collections	<i>Responsible:</i> revenue collection agencies <i>Associated:</i> Ministry of Finance; Ministry of Finance budget division; Treasury; planning agency; Central Bank; records management agency
<b>Accounts administration</b>	core government accounting system	approved budget; public sector work programme; financial transactions; data on government receipts/receivables; data on government payment/payables; expenditure authorisations	balance sheets; trial balance; general ledgers; subsidiary ledgers; accounts receivable ledgers; accounts payables ledgers; fixed-assets accounts ledgers; cost accounting reports	<i>Responsible:</i> Ministry of Finance budget division; treasury; line agencies <i>Associated:</i> archives and records management agency
<b>Auditing</b>	systems for auditing	work programme; government books of accounts – ledgers – transactions; audit plan; assets and liabilities	audit reports	<i>Responsible:</i> Auditor General <i>Associated:</i> line agencies; archives and records management agency

*Figure 11: Financial Management: Main Information Systems and Records*

## SUMMARY

Financial management systems require records as inputs and generate records as outputs. The records manager needs to analyse individual processes in detail to grasp how the records and documentation controls fit into the larger financial management system.

Lesson 4 has shown how to document a process and analyse it and described the means of applying the principles involved to the various functions that comprise financial management.

# STUDY QUESTIONS

1. Why is it important to study the information flows within a financial function?
2. Describe the steps you would need to take to analyse an information flow.
3. Document the processes, records and documentation controls for processing a change to an employee's monthly pay after a promotion in your organisation, from the point that the line ministry issues an instruction to the payroll unit for processing.
4. Draw a diagram of this process.
5. Taking the example of the documentation flow for the payment function (Figure 6), identify which documents are inputs and which are outputs.

# ACTIVITIES: COMMENTS

## **Activity 5**

When you have finished this activity, compare your findings with the information presented in Figure 11. You may find that when you have completed this activity you have identified more records than are listed in this document, and you may have listed different stakeholders. This is fine; the document will relate specifically to the situation in your own government or organisation.

This activity could take quite some time; spend as much time as you need to understand the relationship between functions, processes and records. You are asked only to examine two functions because of the time involved with this activity; if you wish, you may want to examine other functions.



## **MANAGING FINANCIAL RECORDS IN A MIXED PAPER/ELECTRONIC ENVIRONMENT**

Records managers concerned with financial records are likely to find that records are created and used in a mixed paper/electronic environment, in which some records are maintained in paper form and some electronically. Usually the first financial management function to be computerised is the payroll, because payroll management is a routine operation and the benefits of automation are substantial. Accounting and debt management systems are also prime targets for computerisation. Such systems produce both paper and electronic records, but the electronic records do not need to be kept for long periods. Therefore, in practice the records manager should focus on managing the paper inputs and outputs.

Some governments have installed integrated financial management systems, which are computer-based, inter-related sets of sub-systems that plan, process and report upon financial resources. Integrated financial management systems are discussed separately in Lesson 6.

Although financial records may differ from other records in certain respects, they should be managed as part of the framework of the organisation's overall records management policy. There is no universally applicable system for the management of financial records. Every organisation must take account of its own particular context, needs and resources. However, an effective mixed paper/electronic system would be expected to reflect the basic elements discussed in this lesson.

The lesson considers the implications of computerisation for the management of financial records. It then explores the steps involved in managing financial records in a mixed paper/electronic environment.

## **IMPLICATIONS OF COMPUTERISATION FOR FINANCIAL RECORDS MANAGEMENT**

It can be very difficult to protect electronically created personnel information and make it available. *Managing Electronic Records* explores these issues in detail. In

summary, the following key factors affect the management of electronic records over time.

- The electronic storage media is fragile and changes with time.
- In order to understand the record when it is retrieved in future, it is essential to capture sufficient accurate contextual and structural information about the record.
- Changes in technology mean that records that were generated on computers ten years ago may not be accessible today. Electronic records must be moved to new computer systems ('migrated') periodically so that they remain accessible.
- Often the responsibility for the management of the integrity of electronic records has not been assigned, making it difficult to ensure they are cared for adequately.

Typically, problems with automation arise in three areas. First is the maintenance of electronic records. Records are dependent upon the computer environment in which they were created and if those computers cease to be available, the records may become inaccessible. Second is the control of access to records. Many people can gain access to information in computers, so it is important to ensure only authorised personnel work with electronic records, otherwise information may be altered inappropriately or without approval. Third is the control of versions of records. Because computer records can be altered easily, and the changes may not be readily apparent, it is important to ensure official records are protected from change over time.

Where there has been no attempt to manage electronic records, the organisation is exposed to a number of risks, including

- uncontrolled accumulation of records, documents and data
- inadvertent destruction of records, documents and data
- unauthorised tampering with records and documents
- absence of systems documentation and associated structural and contextual information (known as 'metadata').

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**Metadata:** The information about a record that explains the technical and administrative processes used to create, manipulate, use and store that record.

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The consequences of inadequate care of electronic records may include the following:

- increased risk of wholesale, unsystematic and possibly illegal destruction of records
- loss of valuable business records and archives
- increased risk of security breaches
- unauthorised alteration or deletion of records (loss of evidence)
- public embarrassment

- unnecessary delays or breakdowns in the business process
- lack of public accountability
- system paralysis or, at the very least, difficulties in accessing information.

Essentially the records manager needs to answer a number of basic questions.

1. Are the financial systems producing electronic records?
2. Is there a need to keep the records electronically?
3. Is there a risk that they cannot be accessed when needed because the media, software or hardware may become obsolete?
4. Can printouts from the system provide all the information needed?

In many cases, the automated systems are carrying out high volume, routine transactions, such as payroll. It is not usually necessary to keep these records for long periods because they usually cease to be of use to the original creators after they have been audited and kept for their statutory retention period. They seldom have permanent cultural or historical value.

In practice, for the present the records manager can usually concentrate on managing the paper records that form the inputs and outputs to the computerised system, as well as related paper records such as contracts and policy documents. Nonetheless, the electronic records should be scheduled for retention or disposal along with the paper records. In future, it is very likely that electronic records will become the main format in which financial records will be preserved, and it will be essential for records managers to develop the capacity to do so.

## ROLES AND RESPONSIBILITIES OF ELECTRONIC RECORDS MANAGERS

Although the fundamental principles for keeping records in an electronic environment are more or less the same as in a paper environment, the skills required to manage them may be different.

As the Canadian archival writer and educator Terry Cook has noted:

...for the first time, [records managers and archivists] are not producing, managing, and saving physical things or artefacts, but rather trying to understand and preserve logical and virtual patterns

that give electronic information its structure, content, and context, and thus its meaning as a 'record' or as evidence of acts and transactions.<sup>1</sup>

Managing records within an electronic system or in a mixed paper/electronic environment requires new partnerships between information professionals. In general, the decision to use computers to manage financial records will be taken by senior managers, with technical advice from information technologists. The development and introduction of computerised financial systems should involve collaboration between all key individuals, including financial managers, information technology (IT) staff and records managers. Financial managers, as the users, need to determine their own requirements. IT systems programmers will be primarily concerned with developing and introducing current systems and preparing for the next generation of systems. It is the role of the records professionals to bring a longer term perspective to the project and to ensure that records management principles are safeguarded.

In many countries, records managers previously have not been involved in the management of financial records. When extending records management into what may be, in effect, a new area, there is potential for a conflict of interests in the management and control of the records. The roles and responsibilities of the records manager, the accounting staff and the auditors are complementary, but the scope of their duties must be clearly defined, documented and communicated.

The scope of the records management authority's powers and responsibilities should be defined and set out in a records procedures manual. This should be distributed to all staff concerned and the financial and accounting staff should be encouraged to see the records procedures manual as a complement to the financial instructions and accounting manual.

The written procedures should clearly define the records management process and its application to financial records. Financial instructions, audit and accounting manuals should also reflect records management requirements. Records management procedures should be monitored and updated on a regular basis. The introduction of records management techniques and practices will require careful staff training.

The first action is for records managers to understand the objectives of financial records management, and then be clear on the key principles of financial records care, regardless of whether the records are in paper or electronic form. Then they can consider the criteria for an electronic records system.

## **Objectives of Financial Records Management**

Developing and implementing a financial records management system requires clarity about its aims and objectives irrespective of whether the system is manual, electronic or mixed. The objectives involved normally include

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<sup>1</sup> Terry Cook, "Electronic Records, Paper Minds: The Revolution in Information Management and Archives in the Post-Custodial and Post-Modernist Era," *Archives and Manuscripts* 22 (November 1994): 302.

- maintaining the financial record throughout its life in a consistent and structured manner
- supporting the audit function and external accountability of the organisation
- enabling the organisation to meet its legislated financial obligations
- meeting the accounting, reporting and financial management needs of the organisation, including economic and fiscal policy and planning
- protecting the integrity and accuracy of the record to guarantee the organisation a reliable source of financial information
- providing ready access to and retrieval of financial information
- making cost-effective use of resources allocated to the creation, maintenance and use of financial records, thus ensuring timely disposal of financial records without compromising their integrity and utility as an information resource
- adding value to the financial information system through documentation and control of financial records.

## **General Principles of Financial Records Management**

The following principles should provide the basis for managing financial records.

- Managing financial records is the joint responsibility of accounting, audit, financial and records personnel.
- Financial records should be managed throughout their life, from the point of creation to their ultimate disposition.
- Records should be identified and documented in relation to financial functions.
- Records should be arranged to permit their retrieval by accounting periods and by financial activity.
- Records should be protected against unauthorised access, alteration, copying and destruction.
- Control should be exercised over the structure, content, location and movement of records.
- Records should be retained for the length of time required to meet statutory obligations and the needs of financial operations, management, audit and research.
- Records and record systems should be subject to audit and review.

## **Criteria for an Electronic Records System**

All too often, projects developed without the input of records managers fail to meet their objectives because there has been inadequate attention to records issues. The

records manager must ensure the following safeguards are in place to ensure electronic records are protected.

- The information in the existing financial management system must be well-organised, accurate, easily accessible and sufficiently reliable to move to an integrated system.
- The integrity of the electronic records must be maintained: that is, the records must be complete, accurate and verifiable.
- Appropriate security procedures and systems (such as access restrictions/permissions) must be imposed to ensure that (1) only authorised information is input into the system and generated from the system and (2) only authorised individuals can access or amend records. There must also be appropriate back-up procedures and storage facilities to ensure records can be restored if necessary.
- It must be possible to retrieve the records when needed for administrative, legal or historical purposes, and records should only be destroyed with proper authority according to records schedules.
- There need to be appropriate management structures in place to support the operation of the system, including legislation to support the legal admissibility of electronic information if there is no parallel paper system.
- There must be adequate administrative provisions to support the ongoing maintenance of the system, including financial resources, adequate physical conditions and sufficient staff. For example, there must be a reliable power supply; there need to be secure backup and storage procedures and facilities; the electronic and paper records need to be stored in appropriate environmental and physically secure conditions.
- The organisation's accounting manual will usually specify record formats for accounting records, and in some cases it will define rules for the handling and custody of financial records. However, accounting manuals do not normally establish standards for managing records. Records managers need to work with officials in financial agencies to establish standards in such areas as retention periods, records formats, media, control systems and equipment.
- There must be an effective training programme for users and custodians of records.

In addition to ensuring these standards and requirements are in place, records professionals can also help the development of the financial records system by

- identifying records with continuing utility and enduring value
- determining, with the stakeholders, how long valuable records need to be maintained and accessible in order to meet administrative or archival requirements
- identifying the structural and contextual information (metadata) that needs to be captured and maintained with electronic records of enduring value if they are to remain identifiable and accessible over time

- working with systems developers to ensure that electronic records can be preserved over time and public access provided, as specified in archival legislation.

*These issues are explored in greater depth in Managing Electronic Records and Organising and Controlling Current Records.*

### **Activity 6**

Does your organisation automate its financial management functions? If so, write a description of exactly what processes are automated. Who manages the system? How is it used? If your organisation does not have an automated financial management system, write a brief description of whether you think such an automated system could be installed and what advantages and disadvantages it might bring.

## **MANAGING FINANCIAL RECORDS IN A MIXED PAPER/ELECTRONIC ENVIRONMENT**

Following are specific actions that can be taken to manage financial records in a mixed environment. They primarily refer to the paper inputs and outputs.

### **Series Control**

It is important to establish control over records series from the time that they are created and to maintain control throughout their life. Within each series, there is usually a further level of control over individual record items. There may be, for example, serial numbered vouchers, checks or forms classified by account codes or a chronological arrangement of documents by financial years or monthly accounting periods.

Information about the records series can be recorded in a register of records series held in each agency. Such a register would record essential contextual information about the series. This contextual information should include

- title and description
- date range
- creating agency
- system of arrangement and control

- records format
- related series
- related legislation/financial instructions
- related accounting manual procedure
- storage location
- disposal authority and action.

## Identifying Financial Records

Individual records must be clearly labelled on the front cover to ensure that they can be readily identified and maintained. Each item should be clearly marked with the following information:

- creating agency
- series and item numbers
- title
- financial year
- control number.

A number of principles apply to the process of identifying financial records.

1. Where more than one volume of a record is created in a financial year, each volume should be given a single, sequential number (1, 2, 3, and so on), with the sequence starting again at the beginning of each financial year.
2. The main components of financial information systems will be accounting records, which should be created and maintained as discrete record series.
3. Each item should be part of a clearly defined record series.
4. Some types of financial records are retained in a general filing system. These may include policy documents, authorities such as warrants, budget papers, tenders, contracts and project documentation. The organisation's registry or records office should play a role in their management. In a decentralised organisation the files may also be managed by sub-units, individual action officers or secretaries, who should take account of financial information management requirements.
5. In order to identify records in a consistent way, file titles should use terms obtained from a master list of authorised terms. File titles should also include the financial year and, where appropriate, the accounting code. For example:



## **Arranging Financial Records**

Where possible, records should be arranged by financial year and then by month, accounting code or control number, as appropriate. This will greatly assist retrieval and facilitate the audit process. Files should be arranged by file number, while file plans should provide for retention and retrieval of records by financial year, expenditure head and document type.

## **Determining Storage and Security Needs**

Equipment used for storing financial records should be capable of accommodating the variety of formats and sizes in which these records are created. Adjustable shelving allows optimum use of floor space and shelving. It is important that the accommodation should be secure and that doors should be locked when the storage areas are unoccupied.

Accounting and financial documents are frequently stored in lever arch files, binders and box files. This is appropriate for current records but semi-current records should be transferred to file covers, labelled and placed in records storage boxes on open shelving. Boxes, which are less costly, provide greater protection for documents against damage from dust, humidity, fire and water and make for easier handling, identification and processing. Lever arch files can then be recycled.

### **Activity 7**

How does your organisation presently arrange its financial records? Describe the processes followed. Do these processes follow an established method and is that method documented? Where? Are people trained to arrange the records according to the method chosen? How are they trained?

How does your organisation physically store its financial records? Are they stored in boxes, files, binders or other containers? Explain the systems used.

Then, write at least three recommendations for how you would improve the process of arranging financial records to make the information more accessible. Then write at least three recommendations for how you would improve the process of storing financial records, to make them more physically secure.

## **Managing the Physical Location and Movement of Records**

In order to aid retrieval, help maintain physical integrity and prevent unauthorised access or use, it is essential that the location of financial records be controlled. Following are basic guidelines for retaining control of the physical movement of financial records.

- While current, financial records are usually held in the unit that creates them, but they may be stored elsewhere. For example files containing warrants or contracts should normally be held in the records office or registry.
- The storage location of current and non-current records should be clearly identified and recorded in the series location register.
- Some financial records (such as cheque books and specimen signatures) may have to be kept in specially secure accommodation such as a safe or strong room. The *Financial Instructions* or *Accounting Manual* will usually specify which financial records must be kept in specially secure accommodation. All financial records must be kept securely owing to their sensitive nature.
- Day-to-day retrieval and movement of financial records within the records creating unit does not normally require recording. Records retrieved from their permanent location for operational purposes should be returned at the close of business each day.
- When a record is removed from a record series for use outside the record creating unit, this use should be authorised and noted in an issue record and the movement recorded in a transit or way book.
- The movement of records should be monitored on a regular basis, and it is advisable to limit the number of records that may be issued to another agency and the period for which they may be retained by that agency without notification.

## **Protecting the Information in Electronic Records<sup>2</sup>**

There are particular issues and risks associated with processing and retaining records on a computer system that are not encountered in wholly paper-based systems. These include

- the inadvertent destruction or corruption of electronic records
- unauthorised tampering with electronic records
- the possibility that electronic records and operating systems will become obsolete because of constant upgrading or changing of computer systems over time.

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<sup>2</sup> The specific auditing provisions have been adapted from Australian Taxation Office Ruling TR97/21, Income tax: recordkeeping - Electronic Records, 1997, <http://www.ato.gov.au>

Various precautions must be in place to protect against the loss of data during a temporary or permanent loss of computer facilities. This precautions include

- introducing a disaster recovery plan
- regularly producing back-up copies of systems software, financial applications and underlying data files
- storing back-ups together with a copy of the disaster recovery plan in an off-site fire safe
- introducing arrangements with one or more organisations possessing compatible data processing equipment to handle essential work in the event of a computer crashing.

*For more information on protecting electronic records, see Managing Electronic Records. See also Preserving Records and Emergency Planning for Records and Archives Services.*

## **Managing Forms**

Forms and reports are used extensively in accounting and financial information systems. Controlling of their design, eliminating unnecessary forms and limiting the number of copies produced and distributed are essential aspects of forms management.

Financial forms should be eligible for audit, legal or informational purposes, and it is helpful if forms can be printed on self-carboning paper when multiple copies are required. The use of carbon paper and separate forms results in illegible copies, particularly if these are handled by more than one person.

The purpose, use and distribution of financial management forms should be kept under regular review. For example, forms may be revised when changes take place in the operating environment, such as with the development of computer networks or the introduction of a new accounting system.

## **Monitoring and Reviewing Records Systems**

The financial records management system should be monitoring regularly to ensure that it is meeting its objectives cost-effectively. Such monitoring should also identify weaknesses or areas for improvement. Users and external auditors should be asked for feedback.

It is also important to monitor changes in the financial and technological environments, particularly the impact of information technology.

## Conducting a Records Management Audit

A records management audit should be carried out on financial records at random intervals two or three times a year. The audit or inspection should check that records management procedures are understood and are being carried out consistently. It can be undertaken more frequently where computerised accounting applications are in use and provide for audit trails. This audit should be performed by the internal audit unit or by the records authority.

Audits should check that

1. the financial records required by law and internal regulations are maintained and readily accessible
2. standard disposal actions have been carried out under approved disposal authorities.

Copies of the audit report should be forwarded to the records authority and to the accountable head of the agency, who should be able to take responsibility for ensuring that appropriate action is taken on any recommendations made.

The audit report provides a basis for action where a records problem is identified. It should be particularly useful to accounting officers, who are responsible for producing and maintaining financial records, and to the head of the ministry of finance, who has broad policy responsibility for the operation of the government's financial and accounting system.

## APPRAISING AND DISPOSING OF FINANCIAL RECORDS

Despite the introduction of computerisation, the volume of financial information and records in most organisations continues to grow. The appropriate and timely disposal of these records is an essential aspect of managing financial records. Disposal is also at the centre of accountability. As Chris Hurley, a former Keeper of Public Records in Victoria, Australia, expressed it:

The statutory regulation of the disposal and treatment of government records is the foundation, in a democratic society, upon which all other measures of public and internal scrutiny of the affairs of government rest.<sup>3</sup>

These two concerns, the reduction of records holdings and the retention of records as evidence in support of accountability, need to be reconciled in the disposal of financial records.

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<sup>3</sup> Quoted in Judith Ellis, ed., *Keeping Archives*, 2d ed. (Australia: Thorpe, 1993), p. 191.

Perhaps more than other types of records, financial records are found in a range of records systems throughout an organisation. The planning, appraisal and implementation of the disposal process requires co-operation and co-ordination throughout the organisation to ensure that audit trails and the evidential qualities of records are maintained while the volume of records is controlled. Three key points to consider are outlined below.

- The extensive use of forms and the practice of copying of documents in accounting and financial transactions leads to a high level of duplication of records. As auditors generally require the original of a document, it is important to clearly establish which records are duplicates and which copies may be used in place of originals. For example, is it appropriate for accounting and auditing purposes to attach supporting documents to a copy of a voucher instead of the original?
- The period of the financial year is also a determining factor in the creation and use of many financial records. This fact can be used in a positive way to assist in the disposal process, to ‘trigger’ action when disposal is required.
- Accountable documents, such as licence receipt books, are usually subject to financial regulations or instructions that provide for their handling and disposal. Care needs to be taken to identify these and accommodate their accounting requirements in the records management process.

## **Appraisal Criteria**

Appraisal involves determining those records worthy of ongoing retention because of their continuing utility or enduring value. The following issues should be taken into account in the appraisal of financial records.

- Legislation and regulations may contain requirements for the retention and disposal of records. Particularly relevant are laws relating to finance, customs and excise duties, taxation, pensions, social security, employment and audit. Also important are statutes concerning evidence and limitations on action for claims. For example, statutes bearing on retention periods for accounting records may include the Civil Evidence Act, Value Added Tax Act, Companies Act, Consumer Protection Act, Data Protection Act, Financial Services Act and the Limitation Act.
- Financial records may provide the creating organisation with valuable administrative, legal and fiscal evidence. A knowledge of the administrative context in which the records were created, including an understanding of financial systems and the functional relationships of records, is required for a proper assessment of these values.
- The records may also provide valuable information of wider research interest. For example, research into political, economic and social activities has demonstrated a clear interest in the long-term preservation of financial records.

- The cost of retention and the availability of resources should be considered when appraising records. Cost is a critical factor given the volume of many series of financial records and the technological support required for electronic records.
- The utility of the records must be considered. The utility of records is dependent on their completeness, accuracy, arrangement, physical condition and accessibility. These factors are in turn linked to the quality of records management, including the maintenance and use of financial records by accounting and finance staff.
- Aggregate financial information may provide more information in less space than other records. Financial records may comprise summaries, consolidated accounts, annual statements, statistics and reports. Where aggregation has occurred, consideration should be given as to whether there is a need to retain supporting documents.
- Financial records may be duplicated. The duplication of transaction records is a common feature of manual or 'mixed' financial record-keeping systems because of the need to keep different stakeholders informed. Duplicates should be removed from the system as soon as they are not needed.

## Developing Retention Schedules

Developing retention schedules for financial records requires consultation with and input from key stakeholders, including the accounting authority, finance departments, the external audit body and the records authority. Consultation also helps ensure stakeholders comply with the appropriate financial regulations or accounting instructions relating to retention periods.

The appraisal process usually results in the development of two kinds of schedules. General schedules cover financial records in common use throughout government agencies, frequently referred to as administrative or housekeeping records.

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***Administrative records:*** Records relating to those general administrative activities common to all organisations, such as maintenance of resources, care of the physical plant or other routine office matters. Also known as housekeeping records.

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Functional schedules relate to records created by agencies in the performance of their own particular function, often called operational records.

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***Operational records:*** Records created for the purpose of carrying out the core functions of an organisation. Also known as functional records.

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When determining schedules, the following points should be considered.

- General disposal schedules should not be overly customised. The advantages of uniform retention periods for records of the same type that perform the same function are lost if those schedules are altered too significantly. Further, it becomes more difficult to monitor the use of the schedule.
- The schedules should be clearly laid out and presented in language that is readily understood by non-records personnel. After all, it is financial personnel, not records managers, who will be involved in implementing the schedules. Terms that are familiar and in general use in accounting, audit and finance areas should be used to describe the records.
- The contents of the schedules are arranged by financial system and by record class, providing appropriate links to functions and statutory requirements.
- ‘Triggers’ for initiating disposal action are required. For financial records, the end or start of the financial year or completion of audit, or a specified number of years after those events, are convenient points in the records’ life to indicate when the schedule should be applied.
- Monitoring the application of the schedules is essential to ensure that disposal objectives are achieved and that retention periods and disposal decisions are relevant. Financial policy, the regulatory framework and the accounting system should also be kept under review to enable the schedules to be updated as necessary.
- Documentation should be kept of all records destroyed or transferred, in order to maintain the audit trail and enable agencies to account for all their records.

Appendix 1 illustrates a sample retention schedule for accounting records. The example, taken from the United Kingdom, illustrates the range and variety of accounting records that may be encountered. The disposal periods are based upon a detailed analysis of relevant legislation, accounting practice, audit requirements and user needs.

Every country has different requirements for the disposal periods, and the terms used to describe the records may also differ from country to country. Nevertheless, the types of accounting records will be similar, and the list may at least provide a useful starting point in analysing retention requirements.

### **Activity 8**

Choose one of the sections shown in the retention schedule in Appendix 1, such as bank account records or salaries and related records. Consider each type of record described in the section and write down why you think the retention period given has been chosen. Can you think of any legal, administrative or financial reasons why the record has been retained for the time given?

Once you have completed your analysis of the records identified in one section of the figure, consider the similar records created by your organisation. Write down how long those same records are kept by your organisation.

Then, examine the similarities and differences between the retention periods given in the figure and those of your organisation. Are they the same? Where are there any differences? Can you describe the reason for the differences?

## **Identifying Financial Records of Archival Value**

Among the classes of financial records that should be considered for retention as archives are

- strategic fiscal planning documents
- policy and expenditure guidelines
- approved published budgets (including supplementary budgets)
- public accounts committee reports
- audit reports
- financial statements and end-of-year accounts
- statistical reports
- records of exceptional events, activities or transactions, especially when these events or activities set a precedent.

### **Activity 9**

What criteria is used to appraise financial records in your organisation? Describe the main criteria and the processes followed. Then, write at least three recommendations for how you would improve the process of appraising financial records.



# SUMMARY

This lesson has considered the implications for managing financial records in a mixed paper/electronic environment. Financial systems produce both paper and electronic records. Most of the electronic records do not need to be kept for long periods. At the moment, it is wise for the records manager to focus on managing the paper inputs and outputs rather than trying to preserve electronic records. This lesson has examined the implications of computerisation and discussed the issues surrounding the recommendation to care for records in paper form.

This lesson has also looked in more detail at the steps involved in managing financial records, including

- understanding the roles and responsibilities of electronic records managers
- clarifying the objectives and general principles of financial records management
- determining the criteria for an electronic records system.

The lesson then examined the specific actions that can be taken to manage financial records in a mixed environment, including

- controlling series
- identifying financial records
- arranging financial records
- determining storage and security needs
- managing the physical location and movement of records
- protecting the electronic record
- managing forms
- monitoring and reviewing records systems
- conducting a records management audit.

It then discussed the issues involved with appraising and disposing of financial records, including

- determining appraisal criteria
- developing retention schedules
- identifying financial records of archival value.

# STUDY QUESTIONS

1. What are the basic questions the records manager needs to be able to answer when making decisions about records from mixed paper/electronic financial systems?
2. What are the main principles that provide the basis for managing financial records?
3. What information is needed to identify and maintain financial records?
4. What factors does the records manager need to take into account in maintaining control of the physical movement of financial records?
5. What are the main issues that must be taken into account when appraising financial records?
6. Name four categories of financial records that could be considered for permanent preservation as archives.

# ACTIVITIES: COMMENTS

## **Activities 6-9**

Each of these activities is designed to help you compare the information provided in this lesson with the reality of financial records management in your organisation. Answer each question to the best of your ability and focus your attention on understanding current practices and how they are different from or the same as the practices discussed in this lesson.

# ACCOUNTING RECORDS RETENTION SCHEDULE<sup>4</sup>

## Bank Account Records

TYPE	ITEM	DESCRIPTION	DISPOSAL
Cheques and associated records	1	cheque book/butts for all accounts	2 years
	2	cancelled cheques	2 years
	3	dishonoured cheques	2 years
	4	fresh cheques	6 years
	5	paid/presented cheques	6 years
	6	stoppage of cheque payment notices	2 years
	7	record of cheques opened books	2 years
	8	cheque registers	2 years
	9	record of cheques drawn for payment	6 years
Bank deposits	10	bank deposit books/slips/butts	2 years
	11	bank deposit summary sheets; summaries of daily banking; cheque schedules	2 years
	12	register of cheques lodged for collection	2 years
Bank reconciliations	13	reconciliation files/sheets	2 years
	14	daily list of paid cheques	2 years
	15	unpaid cheque records	2 years
Bank statements	16	Bank statements	2 years
	17	bank certificates of balance	2 years
Electronic banking and funds transfer	18	cash transactions; payment instructions; deposits; withdrawals	Disposal action in line with paper records
	19	audit trails	Retain for the same period as the base transaction record

<sup>4</sup> United Kingdom Public Record Office, *Retention Scheduling: Accounting Records* (London, UK: Public Record Office, 1998).

### Expenditure Records

<b>TYPE</b>	<b>ITEM</b>	<b>DESCRIPTION</b>	<b>DISPOSAL</b>
Cash books/sheets	1	Expenditure sheets	6 years
	2	Cash books/sheets	6 years
Petty cash records	3	Petty cash records/books/sheets	2 years
	4	Petty cash receipts	2 years
	5	Postal cash book/sheets; postage/courier account/cash records; register of postage expenditure; postage paid record; postage books/sheets	2 years
	6	Summary cash books	2 years
Creditors	7	Creditors' history records; lists/reports	6 years
Statements	8	Statements of accounts outstanding; outstanding orders	2 years
	9	Statements of accounts – rendered/payable	2 years
Subsidiary records	10	Copies of extracts and expenditure dissections	1
	11	Credit note books	2 years
	13	Debit note books	2 years
Vouchers	14	Vouchers – claims for payment, purchase orders, requisition for goods and services, accounts payable invoices etc	6 years
	15	Wages/salaries vouchers	6 years
	16	Copies of vouchers	1 year
	17	Voucher registers	2 years
	18	Voucher registration cards and payment cards	6 years
	19	Voucher summaries	1 year
Costing records	20	Advice/schedule of vouchers despatched; delivery notice	1 year
	21	Cost cards	2 years
	22	Costing records, dissection sheets, etc	2 years

### **Ledger Records**

<b>TYPE</b>	<b>ITEM</b>	<b>DESCRIPTION</b>	<b>DISPOSAL</b>
General and subsidiary ledgers	1	General and subsidiary ledgers produced for the purposes of preparing certified financial statements or published information	6 years
	2	Creditors' ledgers	6 years
	3	Other ledgers (contracts, costs, purchases etc)	2 years
Related records	4	Audit sheets – ledger postings	2 years
Journals	5	Journals – prime records for the raising of charges	6 years
	6	Journals – routine adjustments	2 years
Trial balances and reconciliations	7	Year-end balances, reconciliations and variations to support ledger balances and published accounts	6 years

### **Salaries and Related Records**

<b>TYPE</b>	<b>ITEM</b>	<b>DESCRIPTION</b>	<b>DISPOSAL</b>
Salary records	1	Employee pay histories	6 years
	2	Salary rates register	When superseded
	3	Salary ledger cards/records	6 years
	4	Copies of salary/wages/payroll sheets	2 years

**Receipts and Revenue Records**

<b>TYPE</b>	<b>ITEM</b>	<b>DESCRIPTION</b>	<b>DISPOSAL</b>
Books/butts	1	Receipt books/butts; office copies of receipts – cashiers’, cash register, fines and costs, sale of publications, general receipt books/butts/records	6 years
	2	General remittance books/records	6 years
	3	Receipt books/records of imposts (stamp duty, VAT receipt books, etc)	6 years
	4	Irregular remittance books	2 years
Cash registers	5	Copies of forms	6 years
	6	Reconciliation sheets	6 years
	7	Audit rolls	2 years
	8	Summaries/analysis records	2 years
	9	Reading books/sheets	2 years
Cashiers records	10	Handover books	2years
Revenue records	11	Revenue cash books/sheets/records; receipt cash books/sheets	6 years
	12	Daily revenue dissections	1 year
	13	Periodical revenue dissections	1 year
Debtors’ records and invoices	14	Copies of invoices/debit notes rendered on debtors (invoices paid/unpaid, registers of invoices, debtors ledgers, etc)	6 years
	15	Source documents/records used for raising of invoices/debit notes	6 years
Debts and refunds	16	Copies of invoices and copies of source documents	2 years
	17	Records relating to unrecoverable revenue, debts and overpayments (register of debts written off, register of refunds, etc)	6 years

### **Stores and Services Records**

<b>TYPE</b>	<b>ITEM</b>	<b>DESCRIPTION</b>	<b>DISPOSAL</b>
Stores records	1	Goods inwards books/records	6 years
	2	Delivery dockets	2 years
	3	Stock/stores control cards/sheets/records	2 years
	4	Stock/stores issue registers/records	2 years
	5	Stocktaking sheets/records, including inventories, stock reconciliations, stocktake reports	2 years
Purchase order records	6	Purchase order books/records	6 years
	7	Railway/courier consignment books/records	2 years
	8	Travel warrants	2 years
Requisition records	9	Requisition records	2 years

### **Other Accountable Financial Records**

<b>TYPE</b>	<b>ITEM</b>	<b>DESCRIPTION</b>	<b>DISPOSAL</b>
Asset registers	1	Assets/equipment registers/records	6 years after asset or last one in the register, is disposed of
Depreciation registers	2	Records relating to the calculation of annual depreciation	6 years after asset or last one in the register, is disposed of
Financial statements	3	Statements/summaries prepared for inclusion in quarterly/annual reports	6 years
	4	Periodic financial statements prepared for management on a regular basis	Destroy when cumulated into quarterly/annual reports
	5	Ad hoc statements	1 year



# **INTEGRATED FINANCIAL MANAGEMENT SYSTEMS**

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An **integrated financial management system (IFMS)** is a computer-based, inter-related set of sub-systems used to plan, process and report on financial resources in a broad spectrum of financial management areas.

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Most governments around the world have either implemented an Integrated Financial Management System (IFMS), or are planning to do so. In the near future virtually all important government financial records will be contained in an IMFS, as electronic records, or will be generated by it, as paper outputs. Within the next decade records managers need to come to grips with the record keeping implications of IFMS systems or the national archives will be unable to fulfil its statutory responsibility for financial records.

In an IFMS, one central database contains all the aggregated data and facilitates the flow of information between the inter-related system parts. A transaction is entered once when it is processed, and then the information is aggregated and expressed in various reporting formats. Information about the transaction can thus be shared throughout the system.

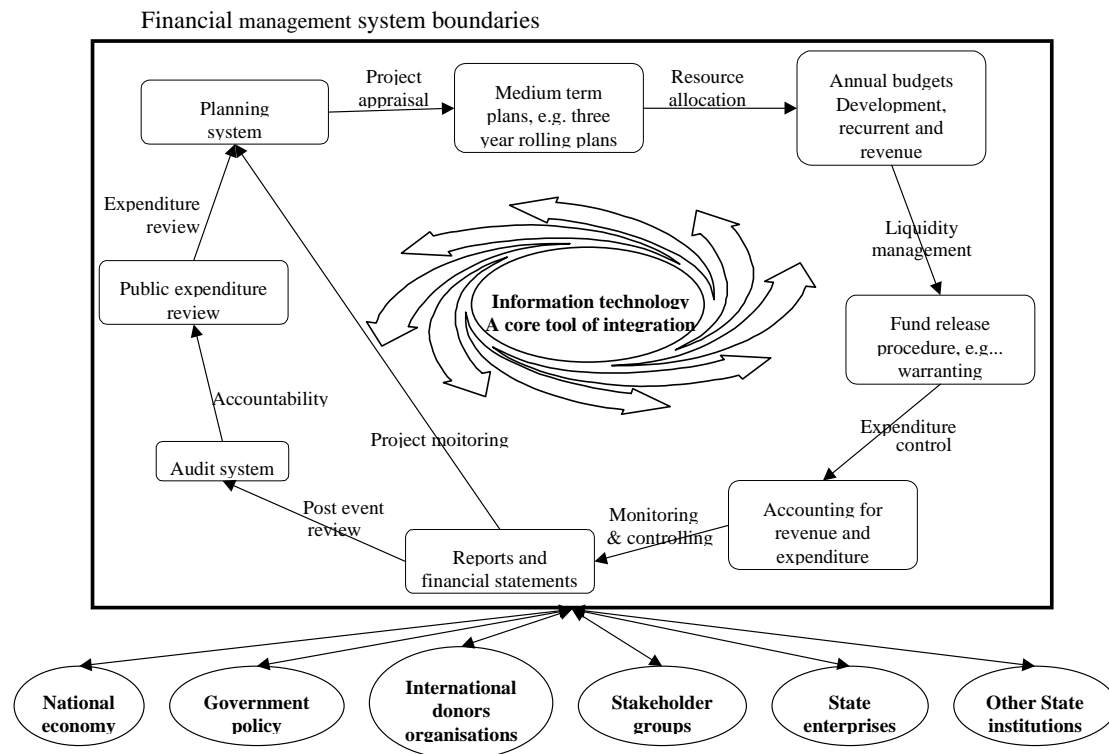
Integrated financial systems are most commonly used for budgeting, accounting, cash management and debt management. As governments around the world begin to introduce integrated financial management systems, it is important that records managers should become acquainted with the concepts involved so that they can contribute to the planning process.

There is another significant reason why records managers and archivists should be interested in IFMS systems. An increasing proportion of financial management processes within IFMS systems are conducted in a wholly electronic environment. Because IFMS software developed in the private sector does not meet public sector accountability requirements, it is not possible to use 'off the shelf' software. Instead the software must be specially designed or adapted when it is first introduced and again when it is subsequently upgraded.

This need to create special software for integrated financial management makes it more difficult to manage information and records. In particular, it is more difficult to migrate information to new computer systems, since the old and new systems may not be easily compatible. Records managers and archivists therefore have reason to be

concerned that the official record will be distorted. This issue is explored in greater depth later in this lesson in the section on electronic systems and records.

Figure 12 below illustrates the complex nature of the relationships and information flows between the financial management functions, main information systems and stakeholders.



**Figure 12: Financial Management System Boundaries**

From Michael Parry, 'Integrated Financial Management' Training Workshop on Government Budgeting in Developing Countries, December 1997, p. 7.

There are many ways of implementing an IFMS. No two systems will be the same. Some of the major variables include

- the number of sub-systems integrated
- the degree of centralisation or decentralisation embedded in the design and operation of the system
- the delegation of responsibility and accountability
- the type of technological infrastructure.

An IFMS should be tailored to the needs of the organisational unit or group of organisational units for which it is developed. The key point to grasp is that an IFMS is an electronic record keeping system. As with other electronic record keeping systems, the records manager needs to be involved in the design stage in order to ensure that records management requirements are incorporated into the system.

Attempts to ensure that these requirements are added later are likely to prove costly or even impossible. The records manager must understand who are the stakeholders, why IFMS systems are needed, what they do and in broad terms how they work in order to make a useful contribution to the design team. The following sections provides this necessary context.

## MAJOR STAKEHOLDERS

The stakeholders in public sector financial management were discussed in Lesson 2. Their roles in the government-wide adoption of IFMS must also be considered.

### **The Legislature**

IFMS systems make it possible to provide the legislature with improved factual information, thus enabling a better understanding of the government's choices for the allocation of resources.

### **Ministry of Finance and the Accountant General's Department**

The Accountant General, who usually reports to the ministry in charge of finance, is responsible for establishing and operating the uniform chart of accounts, the single bank account and the appropriate linkages from departmental systems into the single centralised database. He or she is responsible to the legislature for the preparation of reports that reflect the state of financial management across government. Typically annual accounts are presented to the legislature every year, although in some countries, long delays occur before the presentation of final audited accounts. Examples of these types of whole-of-government reports include

- the statement of revenues and expenses, which shows the financial performance over the year
- the statement of assets and liabilities, which shows the financial position at the end of the period
- the statement of cash flows, which shows how government has financed its activities.

The ministry of finance is also often responsible for public debt management. In that role, it requires information on individual loans, their terms, due dates and interest. Using the IFMS capacity, individual transactions that service the debt can be accounted for centrally and reconciled with information about the types of loans involved.

## **Heads of Agencies**

Many IFMS projects decentralise responsibility and accountability for financial management to heads of agencies. The responsibilities are usually specified in the financial frameworks approved by the legislature and developed in policies and procedures issued by the ministry of finance. The head of the agency can devolve responsibility to chief financial officers and individual project or programme managers.

At the agency level, IFMS systems must be able to supply data to the centralised database but still enable sufficient reporting and monitoring to ensure that the responsibilities and accountabilities are appropriately fulfilled. Many IFMS implementations include components that are tailored to the management of departments and correspond to the central components of budget, accounting, cash management and debt management. Sometimes departments have quite separate financial management systems, which report their transactions up to the centralised database for consolidation into whole-of-government accounts.

## **Auditor General**

The Auditor General is responsible for reviewing and forming an opinion on the accuracy of the accounts produced by the government and its departments. Audited financial results are usually required for every department in addition to the government's own audited financial statements that are often tabled in Parliament. The auditor must be assured that the systems that produced the data are accurate, reliable and complete. The issues of auditing an electronic system have given rise to a specialised branch of the audit profession known as EDP (electronic data processing) auditors.

## **Internal Auditors**

Internal auditors work with management in an IFMS to ensure that internal controls are appropriate and that the systems are operating as they are intended. They also check that the financial information generated by the system is correct, that applicable rules and regulations are appropriate and that there is compliance.

## **Individual Departmental Staff**

An IFMS is about distributing responsibility and accountability for financial action out to the operating environment, where the transactions happen. The availability of timely information reflecting status of programmes and budgets improves the capacity of individual managers to make appropriate decisions and gives them a greater degree of responsibility. Using the IFMS as a monitoring system and a managerial tool requires significant training and sometimes adjustment.

## Civil Society

Citizens benefit from the reforms introduced by IFMS by greatly improved transparency in government operations. Better information is available on

- the performance of the government as a whole
- the performance of specific agencies serving the government
- the goods and services produced by agencies for government
- the resources administered by agencies on behalf of the government.

Moreover, the fact that many stakeholders can easily obtain up-to-date information should encourage greater transparency and help to discourage corrupt practices.

## WHY ARE INTEGRATED FINANCIAL MANAGEMENT SYSTEMS SO ATTRACTIVE?

IFMS systems enhance the efficiency, accountability and transparency of financial management functions; they also introduce accountability to programme areas. In particular, an IFMS can

- improve the quality of decision making regarding the use of financial resources
- make financial consequences of decisions more apparent
- provide financial information that is timely, reliable and relevant.

The various components of the IFMS support these goals by doing the following.

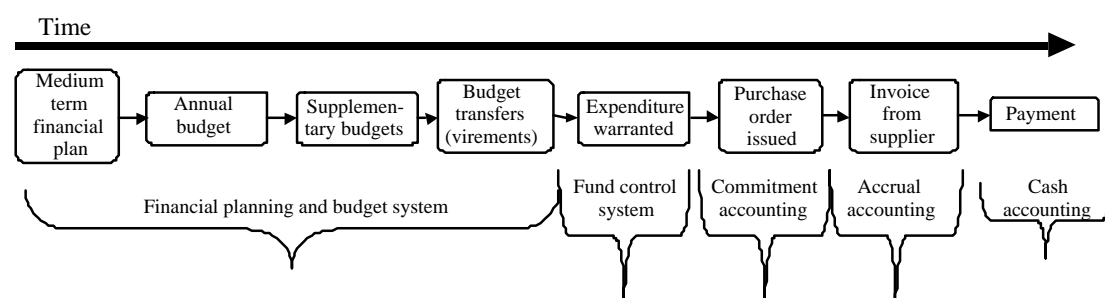
- An IFMS integrates budgeting estimates with accounting data, in order to track the progress of projects.
- It aggregates financial information and uses this data to produce financial snapshots of the organisation.
- It combines information from various departments across government to produce institutional profiles of spending on particular types of activity.
- It improves cash management in order to
  - improve cash flows and forecasts
  - reduce borrowing costs
  - increase investment income
  - assure the availability of funds when needed
  - facilitate payment of bills.

- It improves public debt management in order to
  - ensure that money is not borrowed before it is needed
  - make it possible to offset foreign exchange risks more completely
  - give policy makers a clearer picture of liability.
- It enables the production and reporting of timely and accurate financial information, thus improving the confidence of creditors that the government or organisation is able to pay bills on a timely basis.

For many countries, implementing an IFMS at a national level involves a major review of the financial management infrastructure. Public finance management is very complex, and significant effort in terms of design, negotiation and political will is involved if reforms are to be achieved. Such reforms are supported by the international financial institutions such as the World Bank and the International Monetary Fund.

# IFMS SYSTEMS AND TECHNICAL PROBLEMS

The very nature of IFMS software brings with it high risks in preserving records over time, as indicated in the introduction to this lesson. There is a significant difference between public sector and commercial financial management in that in the public sector, for reasons of accountability, it is necessary to track expenditure through its various stages, as illustrated in Figure 13 below.



*Figure 13: Stages of Expenditure*

From Michael Parry, *Integrated Financial Management' Training Workshop on Government Budgeting in Developing Countries*, December 1997, p 9.

This means that it is not possible to buy 'off the shelf' commercial software, and specially adapted software must be developed. Moreover, whereas commercial software is regularly upgraded, with the capacity to migrate data from one version to the next, IFMS systems in the public sector must be replaced by custom built systems each time there is an upgrade. This can make it very difficult to migrate the data, and over time data held on the old system may become impossible to read.

*The principles of managing electronic records are examined in Managing Electronic Records.*

## Activity 10

Find out if the civil service in your country has developed or is considering developing an IFMS. If so, what reasons have been identified for developing such a system? If not, explain if you think such a system could and should be instituted and why or why not.

# FUNCTIONS OF AN IFMS

An IFMS may encompass a number of sub-systems. Exactly how many sub-systems are linked will vary, but the core components usually managed by sub-systems include

- budgeting
- accounting
- cash management
- debt management.

Other components that might be integrated into an IFMS include

- asset management
- personnel management
- procurement.

Each of these components is discussed below.

The way the IFMS handles these individual functions is very similar to individual computerised systems described in other sections. The main difference is that data is entered only once and then is reused as appropriate. For example, both the personnel system and the payroll system needs to store information about staff members' names. In addition to saving staff time re-entering data, the other big advantage is to ensure that information remains consistent. Thus if a woman marries and changes her name, in an integrated system, the name has only to be amended once. Where the systems are separate, it is possible for one system to be updated and the other to be neglected, which can cause confusion and double reporting.

## **Budgeting**

Budgeting involves planning for, implementing and evaluating policies, activities and programmes. Budgeting can be done for the whole of government or for individual units of the larger organisation. As a management tool, budgeting it is a way of monitoring expenditure to ensure that activities 'stay within budget'. Budgeting also acts as a major performance indicator of how efficiently and effectively government funds are being used.

An IFMS allows the organisation to formulate a budget, execute actions against that budget, reprogramme activities to accommodate changes in the amount of money available and evaluate the success of the budget at the end of the time. An IFMS also allows the organisation to decentralise budgeting down to the operating areas of departments, where responsibility for delivering services and products of government is located. Providing greater local control over budgeting is key to obtaining greater accountability for government services. If the organisation can receive timely reports



of expenditure against budget expectations, it can manage its finances and performance much more effectively. With this degree of internal performance monitoring, it is possible to delegate authority for a greater number of tasks.

The budgeting component feeds into the accounting component in that the accounting system reports against the budget estimate. The reporting capacity needs to be closely linked to budgeting to provide the type of reports required for decision making and monitoring.

## **Accounting**

The accounting component of the IFMS records and integrates the results of the individual financial transactions that occur daily, thus providing the basic data for other components of the system.

The accounting system allocates financial transactions against the agreed chart of accounts, which is based on the budgeting process. IFMS systems then allow comparison across agencies and programme types.

In an IFMS, reporting can be ad hoc or it can be structured to produce standardised reports. A fully operational IFMS allows programme managers to obtain information electronically about their programme and to structure reports to meet their own requirements. Standardised reports such as balance sheets, statements of operations and cash flow statements can also be produced automatically at various levels of aggregation, such as by department or for the whole government. Internal reports, such as comparison of actual expenses to budget estimates, can be fed back into the budget planning process. These accounting reports can be updated rapidly to reflect transactions undertaken and allow informed decision making.

## **Cash Management**

Cash management within an IFMS is about managing the flow of public sector resources in ways that minimise costs and maximise effectiveness. This is a change from the traditional view that saw the cash management function as just involving the payment of bills. The IFMS enables active monitoring of the cash reserves of government and helps to ensure that the resources are consolidated and managed so that they are available for distribution as required.

A major benefit of this cash management is the capacity to produce cash flow projections based on the expected receipts and expenditures. Thus it is possible to ensure that funds are available when required and that cash is not left idle but earns appropriate interest.

The cash management function is closely aligned to the budget function. The budget provides the master plan for spending. Linked to the cash management function, the budget provides the data for the cash flow projection that then determines when and in what form money will be available for expenditure. Certain priorities for expenditure are agreed by policy makers and authorisations for payments are assigned. The

accounting function provides feedback to the cash management system about actual expenses and what remains to be paid, as well as what has been collected. Similarly, there is a close relationship between cash management and public debt management; the public debt system provides resources to cash management and also makes demands in terms of loan repayments.

## **Public Debt Management**

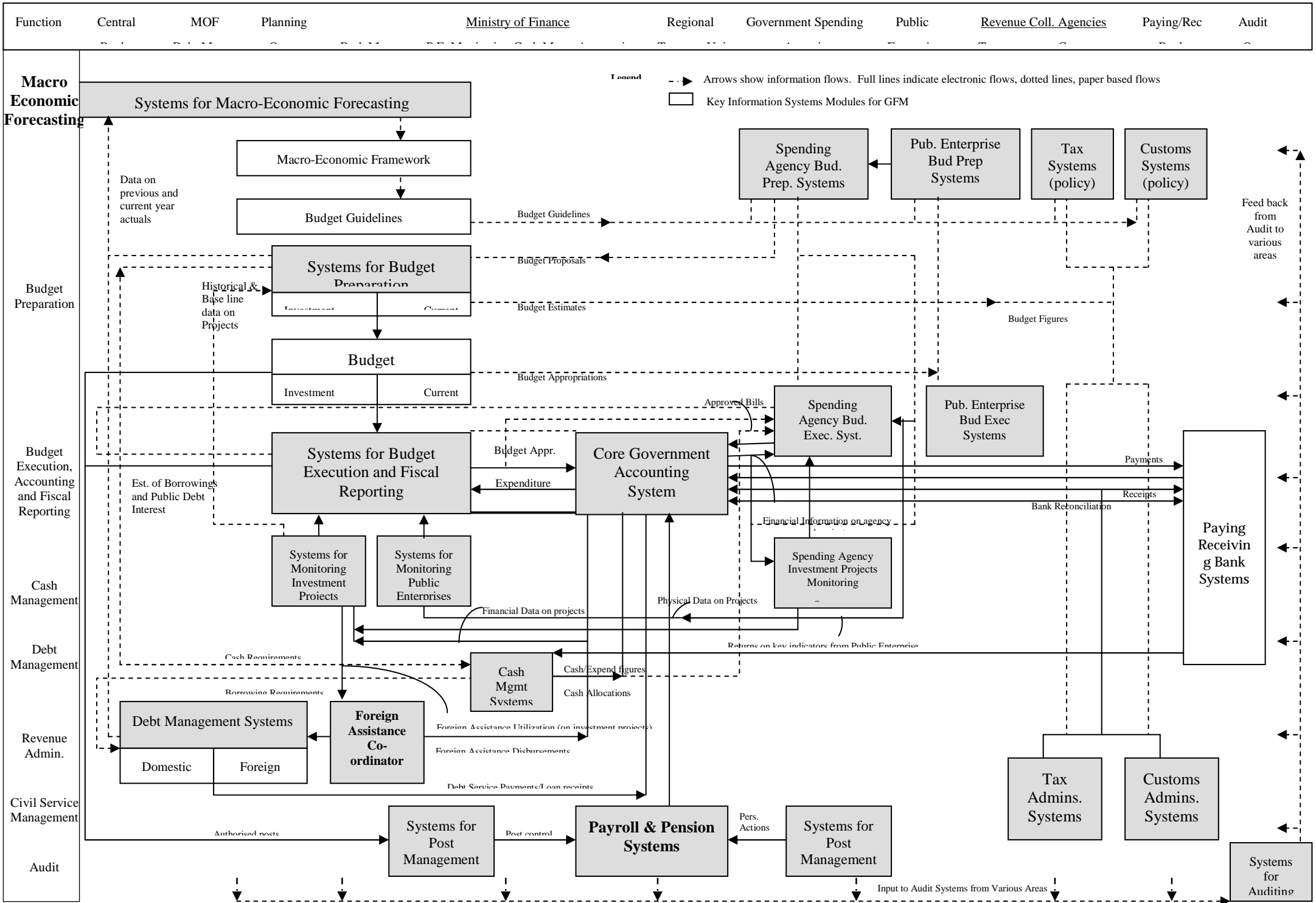
The need to manage public debt appropriately became starkly apparent in the 1980s when many countries were thrown into crisis because of heavy and unsustainable debt burdens. Some countries did not know how much they owed or to whom. Debt financing is a complex issue involving multiple currencies, variable interest rates, syndicated debt (ie borrowing from a group of banks who spread the risk among several financial institutions), restructuring of debt and debt swaps. Dealing with such complex concerns requires highly trained staff. Significant attention was paid to this problem by the world funding bodies and various independent pieces of software to manage debt were developed.

Debt management is a concern of the central government department responsible for financial management. However debt management has an integral relationship with the IFMS system as it often provides the budget resources to carry out such capital intensive programmes. Working out what money is due for repayment and when needs to be built into the budget planning and cash flow projections to ensure that funds are available and that penalties for late payment are not incurred. The actual payment takes place in the cash management system. The accounting function records the transactions that reduce or increase debt, reports on the debt transactions and provides consolidated reports on debt liabilities.

## **Other Components of an IFMS System**

In addition to core components, an IFMS system can have other components for related functions. For example, personnel systems, which involve the administration of payroll or pensions, have an impact on the financial management function. Sometimes a personnel management component will be found within the IFMS. In other cases, the personnel function will be managed separately but there will be a process for feeding appropriate information into the finance system. Similarly, asset management systems supply data to financial systems concerning depreciation and commitment of funds.

The potential scope of an IFMS is shown in Figure 14: Scope of an IFMS. This figure is from PREM Network, *Public Expenditure Handbook*, The World Bank, June 1998, p. 64.



# KEY FEATURES OF AN IFMS

Traditionally governments have tended to regard the various sub-systems within financial management as being largely separate systems, within separate ministries or departments, carried out by persons with different skills.

An IFMS involves more than one organisational unit. It might be government-wide, in which case all of the departments of state and other organisations that contribute to the government's finances would be included. Alternately, the IFMS might serve the whole of a local authority, where it could cover the individual departments as well as the independent services.

In linking the sub-systems together, the IFMS should include as a minimum

- a uniform classification of accounts
- an identified and cohesive legislative framework
- a standard set of rules and definitions
- one bank account.

These features are discussed in greater detail below.

## Uniform Classification of Accounts

A uniform classification of accounts, or uniform chart of accounts, ensures that budgeting and accounting are co-ordinated, or that reporting is carried out against items in the budget. This extract from a chart of accounts illustrates the principle.

<u>Group</u>	<u>Account</u>	<u>Sub Account</u>
CHECKING	1000	
	1001	BANK
CASH	1010	CASH
	1050	
	1055	MY SAVNGS #1
	1060	MY SAVINGS #2

*Figure 15: Chart of Accounts*

This classification system will be determined by the Accountant General or the official with overall responsibility for the accounting function.

Classification of accounts can be developed in layers (nested) to meet the needs of different users. At the whole-of-government level, higher layers of aggregated data will be needed to meet the requirements of the parliament and external investors. At the policy-making level a different layer of categorisation may be needed, and within operational levels a far greater degree of breakdown will be necessary. As long as these categories can be aggregated up into the higher categories, the detail required can be specified to suit operational needs.

## **Standard and Consistent Legislative Framework**

Any financial management system, whether paper or electronic, requires a standard and consistent legislative or regulatory framework. Each country will have its own specific legislation that identifies the broad framework within which government agencies operate. Such legislation identifies the responsibilities and accountabilities of the various officers of government and defines the measures of compliance. The package of legislation that sets the framework for the operation of the system will include a number of specific laws.

The legislation will define responsibilities for major financial functions such as budgeting, accounting, cash management, debt management and reporting and define the types of agencies that are subject to the provisions specified. Legislation might also address the organisation of different types of government agencies and the process of reviewing and monitoring government functions. (This last function usually takes place in the office of the Auditor General.) For example, it will state whether or not government-owned businesses and local government authorities are covered by audit or accountability requirements. It will also identify key reporting requirements for the agencies covered, and it will define internal and external audit functions. Relevant legislation might refer to the government's financial management and accountability to the public.

## **Standard Set of Rules and Definitions**

As the information from financial management systems will be aggregated to meet different user needs, standards and rules for the development, maintenance and use of an IFMS must be set centrally so that they will apply across all the parts using the system. International accounting standards are now being established by international bodies to allow comparisons across systems.

## **One Bank Account**

Within an IFMS, all transactions and monies must flow through a single bank account. This account is usually established at the country's central bank, and all

revenue collection is consolidated into this account. There may be any number of sub-accounts established for individual agencies or programmes, but the IFMS systems ‘sweep’ the sub accounts daily and aggregate the transactions into the central account. The use of a single account enables the central finance unit of government to manage the cash for the whole entity and manage the overall finances.

## OTHER BASIC ISSUES TO CONSIDER

When analysing an IFMS, the following issues should also be considered.

### **Centralisation and Decentralisation of Responsibilities**

Most IFMS are based on the principle that controls and standards are set centrally and their execution or operation is decentralised. There are many ways to achieve this division between centralised and decentralised management. Decentralising responsibility for the financial management to departmental heads and the heads of budgetary units helps them to monitor and manage more closely the finances for which they are responsible. But with this devolution of responsibility goes greater accountability. All parts of the government need to comply with procedures and policies related to reporting and managing performance.

### **Technology**

Technology has made the concept of IFMS practical to implement. Data entry takes place at the place the transactions occur and then rolls through the various parts of the application updating accounting reports against budget estimates and aggregating across units and finally across departments, to provide a whole picture of government expenditure. With the powerful distributed computing capacity now available, data can be fed from departments to a centralised database, which is usually located at the ministry of finance.

Within the IFMS framework, there are many ways of providing the necessary integration of both hardware and software. Systems can operate as independent units, they can be centralised or they can operated in distributed database environments.

### **Centralisation and Decentralisation of Usage**

In older systems, government agencies typically provided the central department with details of cash commitment and expenditure details along with claims for payment using paper-based forms. This information was then keyed into the central computer

to update records. The central agency then provided individual agencies with extensive paper reports from the system on their budgets, expenditure and available funds. In newer systems, the individual departments are able to enter their own data directly into the central system. The database is physically controlled and located with the central agency, although departments can access the data and enter their transactions into the central system via tailored computer screens.

## **Distributed Databases**

In this technology configuration, a core system is implemented in the central finance ministry linked to 'feeder' databases operated by line ministries. Because the database is distributed, different users can access it without interfering with one another. However, the central database management system (DBMS) must periodically synchronise the scattered databases to make sure they all have consistent data.

## **Independent Units**

In this approach, the ministry of finance allows each line ministry to design its own system, providing it meets certain standards for interfaces and reporting requirements. The use of these standards makes it possible for the line ministries to feed information by diskette or other means into the central system operated by the ministry of finance.

# **RECORDS GENERATED FROM IFMS**

Because IFMS systems vary so much, it is not possible to identify specific types of records generated. In general, the record-keeping requirements of the IFMS will be largely the same as the requirements for any paper based system. Automating processes does not change the fundamental principles of what records are needed and where they are required to be kept.

The information contained in a record kept in a computerised system is generally the same as would be contained in a manual system. For example, the report of the general ledger will be very similar in appearance to a 'traditional' general ledger report. The main difference is that in some IFMS systems the user is given on-line information on the status of a transaction throughout the entire process. It is claimed that the ability of many stakeholders to easily obtain up-to-date information increases transparency and discourages corrupt practices.

The key to working out the record-keeping requirements in integrated financial management systems is understanding the layers of responsibility and accountability specified in the way the system is designed and set up. The delegation of responsibility for action and accountability will dictate where the record-keeping

responsibilities lie. The financial management framework will identify what responsibilities are delegated and to whom. Records reflecting the conduct of the delegated responsibilities will need to be maintained at the point that the actions take place.

## **IFMS Framework Data**

The framework (ie the basic design and structure), standards, rules, policy, procedures and manuals that surround the IFMS specify and define the system. Therefore, it is important to preserve those records that detail the process of designing and establishing the IFMS. Moreover, records assigning financial responsibility and accountability are crucial to working out who is authorised to conduct certain transactions. Delegations and authorisations are critical records for the operating of a financial system, but these will often not be found in the system itself.

Maintaining records about the rules and assumptions built into the system will be crucial. These records include documents about accounting standards, policies and procedures. Audit reports on the management, performance and operational aspects of the system produced by internal auditors should be kept for periods of between five to seven years. Again, these types of records will not reside in the financial system itself.

## **Framework Documents within the System**

Basic control records which provide the framework for the system operation will also need to be kept. A key record is the uniform classification of accounts. This determines the allocation of categories to transactions and is a critical operational control record.

Formal reports can be specified for the system. The formal reports that are used as a basis for decision making should be treated as records and maintained in ways that protect their integrity. To achieve this within electronic systems can be complex, as the nature of the integrated system is such that data is constantly being updated. Often the report needs to be 'frozen' or made tamper-proof. Working out which reports need to be managed in this way can be done in conjunction with an auditor. Any reports that are formally transmitted through a management chain would be likely to fall in this category. All formal statements, such as the department's annual financial statements and anything which is formally audited and signed off by an auditor, would also need to comply.

## **Base Transaction Data**

The accounting component of an IFMS deals with the recording and categorisation of transactions, so it is here that the base records of the transaction are to be found. At the initial entry level, the requirement is to record and explain all transactions in



sufficient detail that the transaction can be understood. This will involve recording the date, the amount and the character of the transaction. The recording of initial transactions will usually take place at the budgetary unit level, and it is here that the responsibility for maintaining an adequate record of the transaction lies.

The process of reconciliation, which ensures that the individual entries balance with the totals recorded in the system, takes place within the system. Reconciliations of transactions usually take place at a set time: the end of the day, the end of a shift work period, weekly, monthly etc. The transactions and the reconciliations together provide a complete picture of the financial activities for the set period. Reconciliations occur throughout the system and may be the responsibility of the budgetary unit, the finance section of a department, or the central Ministry.

Aggregations of transactions take place in those parts of the system that produce ledgers, journals and financial statements. These are summary records of the individual transactions with various degrees of specificity. The ledger contains summary details about each transaction. Journals record variations in the ledger. Financial statements are summaries of the ledgers and journals reporting on financial transactions against specified categories at various time periods (such as monthly, quarterly and so on). By studying the specification of responsibility and accountability for the system it will be possible to identify responsibility for record keeping. It may be at the level of the budgetary unit, or may be at the level of the department.

The major point of record keeping in any financial system is the point of entry of data into the system. The data reflecting the transaction must explain the transaction and be accurate. This general rule applies to any points of data entry into the IFMS.

## **Audit Trails**

Audit trails are essentially no more than a chronological log of every transaction that happens within a system. In other words these are electronic records generated by the system that are essential for demonstrating that the system has integrity. They ensure that transaction records the system produces are complete, accurate and authorised. Reconstructing the path of a transaction using these trails is very time consuming, but possible. Audit trails allow a transaction to be traced through a system forward to its ultimate destination and backwards to relevant source transactions. More sophisticated logging techniques also record who had access to the system at a particular time, what data was viewed in addition to the normal logging, and what data was added, deleted or changed.

Event logging is a common computing protection technique. In large systems, these logs create very big files. This data can easily be segregated by time chunks (daily, weekly, monthly) and stored in back up or 'archive' systems. Typically these logs are not kept beyond the time it takes to audit the annual accounts.

## Legal and Audit Issues

An IFMS is a record keeping system. The system is consistent with the archival principle that the records of an organisation are different in quality from literary manuscripts because they arise from the regular business of an organisation. These records have been created by staff following procedures that are reinforced by a variety of controls that ensures their completeness, accuracy and authenticity. The archival principle of continuous custody is important because it guarantees that this system of control has not been broken. In the world of electronic records, the traditional techniques for achieving these guarantees are harder to apply. Auditors and lawyers are the professions that have a particular concern for ensuring that financial records complete, authentic, authorised and admissible in a court of law. Archivists and records managers need to understand the legal and audit issues in order to ensure that the financial records generated by an IFMS meet the needs of the government, management and the public.

There are few precedents that address the admissibility of computer records in a court of law. Where computer evidence has been submitted in legal cases the courts have taken into account expert evidence on the effectiveness of the IT control environment before assessing the reliability of the computer data. Computerised transactions or images of documents may be inadmissible as legal evidence unless controls can be shown to be so strong as to remove reasonable doubt about the authenticity and integrity of data held by the system. Some of these controls are recorded on paper. It is therefore important that both the electronic records and the paper records that document the control environment are managed properly.

Because of the integrated nature of an IFMS (that is, data is entered once and rolls through the system according to a pre-programmed route), the controls on the system itself are critical. To be able to verify that the information which is accumulated, aggregated or moved within the system itself, is accurate and reliable, it is essential to ensure that the system is reliable and that it is doing what it is supposed to do. Some of the auditing controls used to verify this are

- access controls: controls over access to the computer system by some form of identity recognition, such as password, card system, personal identification number and so on
- input and output controls: controls which ensure the accuracy and security of the information received and transmitted
- processing controls: controls which protect and ensure the integrity of the information processed by the system
- back-up controls: controls that guarantee the retention of back-up copies of computer files, computer programs and the recovery of computer records in case of system failure.

Auditors also need assurance that the system is understood by the staff who use it and that it is operating effectively. It is essential that records are available to explain the basic aspects of the system operation, including

- the operation of the various components of the system

- the controls built into the system
- the flow of data from input to output
- details of file organisation and controls
- details of record content, context and structure
- the program logic
- audit trails or logs of records added, deleted and amended that relate to the system
- disaster recovery procedures.

Records must be available to allow an auditor to understand:

- the access controls on who is permitted to access and alter data
- procedures for monitoring access
- all changes or upgrades to the software and hardware employed
- migration of data which may have taken place across either software or hardware
- back-up procedures and procedures for compliance.

# SUMMARY

Integrated financial management systems are being introduced world wide. They are sophisticated computer systems which greatly increase the transparency of and accountability for government information. There are many ways of implementing IFMS, but each implementation should include

- budgeting
- accounting
- cash management
- debt management.

Some of the key issues involved are:

- standards and rule setting are centralised, while the actual operations of the system are decentralised to where the business of government is actually being done
- transaction information is recorded once at the point closest to where the transaction takes place and then aggregated and accumulated from that point into centralised systems
- responsibility and accountability are distributed for management of programmes, activities and units out to the people doing the work by providing timely, reliable accurate and complete information systems against which to monitor performance.

Because of the many variations in ways of implementing IFMS it is difficult to determine precisely which records should be kept. Some of the general rules that will assist in determining specific record keeping responsibilities are

- records should be aligned to responsibilities and accountabilities determined in the framework structures
- framework documents that support the design and processes of the IFMS will be critical records
- many of these records will live outside the IFMS system
- policies, procedures, manuals will be important records
- controls on access, inputs and outputs, processes and back ups will be needed for audit purposes
- documenting the system and its operating environment is crucial to proving that the system operated as it was intended.

# STUDY QUESTIONS

1. Who are the main stakeholders in an IFMS system?
2. How do these stakeholders differ from the stakeholders in a traditional mixed paper/electronic system?
3. What are the main variables that determine the way an IFMS is implemented?
4. Where are the main advantages of an IFMS system for government financial managers?
5. Why do the electronic records of an IFMS system present several problems for public sector records managers?
6. What are the core sub-systems that are found in most IFMS systems?
7. What other sub-systems might be added?
8. List the four features that are generally considered as the minimum required for an IFMS system?
9. What is the main advantage that an IFMS system provides in handling data? Why can this only be achieved in an integrated system?
10. Why is it necessary to understand the various controls that must be applied to an IFMS system?
11. List the four auditing controls used to verify that the information is accurate and reliable.
12. What records need to be kept to document the basic aspects of systems operation?

# ACTIVITIES: COMMENTS

## **Activity 10**

This activity will help you examine the situation in your country and compare it with the suggestions and ideas outlined in this module. Read through this lesson carefully once you have completed the activity and compare your findings.

## WHAT TO DO NEXT?

This module has examined the management of financial records. It has addressed the importance of good record keeping for efficient and effective financial management, and it has outlined the role and importance of stakeholders in financial records management. It also explained the business functions and processes of financial management, in relation to the records generated and examined the information systems and records created by financial management functions. It considered how to manage financial records in a mixed paper/electronic records environment and introduced the concepts involved with integrated financial management systems.

## ESTABLISHING PRIORITIES FOR ACTION

This module has introduced key activities in the management of current and semi-current financial records within the public sector. But which tasks should you undertake first? Which are high-priority and which are low? Each institution will make different decisions based upon:

- the state of record-keeping systems
- the state of preparedness and training of the records staff
- the appropriateness of the legislative and regulatory framework
- the government's priorities for managing the financial function.

The latter is particularly important – records management is there to serve the wider priorities of the organisation, not the other way round. However, it is possible to offer some recommendations for action, which will help organisations manage their financial records more efficiently. Complete the activity below then consider the suggestions offered here.

### Activity 11

Based on the work you did throughout this module, identify the priorities you would establish to establish or improve the financial records management system in your organisation.

## **Priority 1: Assess the Existing Situation**

Almost any change to the existing systems needs to be based on a solid understanding of functions, processes and user requirements. It is also vital to develop a good understanding of the present state of the records. Existing record systems should be surveyed to identify strengths and weaknesses. This should cover

- the legal and regulatory framework
- organisational structures and training for records specialists
- policies, procedures and guidelines
- the completeness of the records inventory and retention schedules
- vital records and disaster recovery arrangements
- records storage
- security of access, including physical security.

One of the key facts to establish is whether problems are widespread or whether they are concentrated in one or two administrative units. The former would suggest problems with the overall framework in which the record system is operating; here a strategic approach may be most effective. The latter might suggest that a more limited and focused approach would be more appropriate.

## **Priority 2: Analyse the Information Flows**

An analysis of the way information flows within the organisation and between organisations will identify unnecessary duplication, sometimes because it is simply not needed and sometimes because the activity it supports is no longer meaningful activities. The analysis will also assist in identifying the boundaries of the record keeping system and its main stakeholders (see Lesson 4). This is important because it is easy to define the boundaries of the system too narrowly and then run into problems later. Lessons 3 and 4 identify the main functions, processes, information systems, records and stakeholders and may assist in this analysis. The analysis may be represented in a simple flow chart or it may result in a much more detailed set of diagrams and descriptive text depending upon the need. As a general rule, wholly manual systems require rather less intensive analysis because manual systems are much more tolerant of imprecision and ‘unwritten rules’ than automated systems. The techniques outlined in the *Analysing Business Systems* Module provide an appropriate methodology.

## **Priority 3: Identify the Stakeholders and the Organisation’s Policy Objectives**

Stakeholders will be able to provide valuable information about whether a policy is really going to be implemented, whether it has had to be modified in the light of



events and whether large automation projects are being considered. Financial management is a dynamic area, and priorities can change rapidly. Stakeholders (eg auditors or accountants) will also be able to provide information about problems they are experiencing or which they anticipate for the future. For example, do they experience delays in obtaining the information they need? Do they consult the records at all? If not, why not? A questionnaire can provide a useful way of gathering information it should usually be supplemented by interviews.

*See Restructuring Current Records Systems: A Procedures Manual for a methodology for information gathering.*

It is also important to identify the organisation's policy objectives for financial management before determining a plan of action. There are likely to be policy statements and planning documents on the government's objectives for the ministry of finance as well as policy documents specifically on financial management issues. Business plans, where they exist, usually have implications for the management of finance, and this in turn has implications for the management of financial records. For example, if the civil service changes the approach to budgeting or accounting, these will all have implications for the management of financial records.

Financial management is an area that readily lends itself to computerisation. Many countries are in the process of automating processes that were hitherto largely paper based systems, or integrating hitherto separate computerised systems into integrated financial management systems. The records manager should be in a position to support this process by providing an electronic records management service if required.

It is important to remember that different stakeholders will have differing and sometimes conflicting objectives and priorities. If there are existing automated financial management systems, or plans to introduce them, the IT department will also be a stakeholder with its own agenda, as well as being a service provider.

## **Priority 4: Stabilise Existing Record-keeping Systems**

The information gathering exercise should make it possible to decide where best to direct the financial records improvement programme. It is advisable to stabilise the existing system for managing paper records as much as possible before attempting to introduce automated systems.

One of the most common problems in neglected records systems is that they are congested with vouchers, output data, files and other records that are not required on a daily basis. In such conditions it is almost impossible to provide the information that financial managers and auditors need.

A significant step forward will be achieved by identifying and physically removing from the system those records that have not been used for a designated period of time which could be, for instance, ten years. Moving the inactive records physically out of the storage areas will relieve the congestion problem. If these records are still needed,

they must be transferred to secure, low cost storage provided by the organisation or maintained as a central facility, in a systematic manner.

*Managing Records in Record Centres describes the process of transferring records to storage in logical and ordered ways.*

Where the intent is to introduce computerisation, the phasing of the decongestion exercise should be timed to coincide and support the development of the electronic system.

Once the inactive records are housed securely, it will be possible to restore a logical order to the active records. See the manual on restructuring records systems.

## **Priority 5: Plan Improvements**

Having gathered relevant information and stabilised or repaired the existing systems, improvements can be carefully planned based on:

- the strengths and weaknesses of the existing system
- how information flows within the system
- what the main stakeholders think about the service being offered
- what the stakeholders want to achieve in the area of financial management and what they intend to change
- whether there are plans for automating financial management information systems that will have an impact upon records management.

At this stage it will be possible to examine possible technological solutions to support the objectives of the stakeholders and the organisation as a whole. Although technology is important, it should come last in the planning.

When the planned improvements are finally implemented they are likely to gain support and be successful because:

- users have been consulted
- it is possible to demonstrate where problems are occurring and why
- it is possible to demonstrate that the changes proposed will bring concrete benefits to financial management.

## **Priority 6: Encourage Better Records Management Practices**

Before any sustainable progress can be made, it is necessary to establish the principle that all records, both paper and electronic are to be considered part of the organisation's records management regime. This should not undermine the authority

of any of the stakeholders nor contradict the rules established in the financial instructions or the accounting manual. It may be necessary to spend some time with stakeholders to explain the role of the records manager, the benefits records management can bring to an organisation and the means by which records management controls reinforce accounting and audit controls.

Training is essential to achieving improvements. Senior managers need to be sensitised to the issues involved. Records managers need to develop a greater understanding of financial management requirements. Accounts staff need training in techniques for controlling the arrangement, retention, movement and storage of records. An effective way of approaching these issues is to identify and train an accounts officer (or a team of officers) in records management skills to serve as a training officer within the accounting cadre.

Finally, a partnership with the audit department will do much to ensure that records management is a vital part of the government's programme for efficiency and accountability. Auditors' work is all about records, and they readily understand the significance of records management systems. They should be encouraged to comment where poor record keeping is harming the effectiveness of financial management systems and to raise these issues in their reports to the legislature.

## GETTING HELP

Many institutions, particularly in countries with limited resources, have little access to resources for financial records work. However, there are places you can go to get more information or to obtain assistance. Following are names and addresses of agencies that could be contacted for assistance.

*See the Additional Resources document for information on other organisations and associations involved with records and archives management generally.*

## International Organisations

### **International Federation of Accountants (IFAC)**

535 Fifth Avenue  
26<sup>th</sup> Floor  
New York, NY  
10017, US  
Tel: +1 212 286 9344  
Fax: +1 212 286 9570  
Email: [mariahermann@ifac.org](mailto:mariahermann@ifac.org)  
Website: <http://www.ifac.org/>

IFAC is a world-wide organisation of national professional accountancy organisations that represent accountants employed in public practice, business and industry, the public sector and education, as well as specialised groups that interface frequently with the profession. Currently, it represents over two million accountants. IFAC strives to develop the profession and harmonise its standards world-wide to enable accountants to provide services of consistently high quality in the public interest.

### **International Organisation of Supreme Audit Institutions (INTOSAI)**

General Secretariat  
Austrian Court of Audit  
Dampfschiffstrasse 2  
A-1033 Wien, Austria  
Tel: +43 1 711 71-8350/8478  
Fax: +43 1 718 09 69  
Email: [intosai@rechnugshof.gv.at](mailto:intosai@rechnugshof.gv.at)  
Website: <http://www.intosai.org>

INTOSAI is the professional organisation of supreme audit institutions (SAI) in countries that belong to the United Nations or its specialised agencies. SAIs play a major role in auditing government accounts and operations and in promoting sound financial management and accountability in their governments. As citizens, international donors and others have increasingly higher expectations of national governments, these governments depend on SAIs to help ensure public accountability. INTOSAI supports its members in this task by providing opportunities to share information and experiences about the auditing and evaluation challenges facing them in today's changing and increasingly interdependent world.

Regional Branches:

- AFROSAI – African Organisation of Supreme Audit Institutions
- ARABOSAI – Arab Organisation of Supreme Audit Institutions
- ASOSAI – Asian Organisation of Supreme Audit Institutions
- CAROSAI – Caribbean Organisation of Supreme Audit Institutions
- EUROSAI – European Organisation of Supreme Audit Institutions
- OLACEFS – Organisation of Latin American and Caribbean Supreme Audit Institutions
- SPASAI – South Pacific Association of Supreme Audit Institutions

### **Information Systems Audit and Control Association (ISACA)**

3701 Algonquin Road, Suite 1010  
Rolling Meadows, Illinois  
60008, US  
Tel: +1 847 253 1545  
Fax: +1 847 253 1443  
Email: [chap.coord@isaca.org](mailto:chap.coord@isaca.org)  
Website: <http://www.isaca.org/>

The ISACA is concerned with IT governance, control and assurance. ISACA does that by providing value through various services such as research, standards, information, education, certification and professional advocacy. The Association helps IS audit, control and security professionals focus not only on IT, IT risks and security issues, but also on the relationship between IT and the business, business processes and business risks.

Local chapters are established in the following regions: Africa and Europe; Asia; North America; Oceania; and South and Central America.

### **International Consortium on Governmental Financial Management (ICGFM)**

Website: [www.financenet.gov/icgfm.htm](http://www.financenet.gov/icgfm.htm)

The ICGFM is a world-wide communication network of financial managers, accountants, auditors and economists at the municipal state, federal (US) and international levels to promote better understanding of governmental financial management. It is the only world-wide international grouping of organisations and people actively involved in government financial management, representing over 250,000 interested people.

### **International Federation for Information and Documentation/Archives and Records Management Special Interest Group (FID/ARM)**

FID Secretariat

PO Box 90 402

2509 LK The Hague

The Netherlands

Tel: +31 70 3140671

Fax: +31 70 3140667

Email: [fid@python.konbib.nl](mailto:fid@python.konbib.nl)

Website: <http://fid.cibuctt,ck:8000/cttes1.htm>

FID/ARM has been formed to acknowledge a need for this topic to be included in FID activities and to address all aspects of archives and records management, especially as they relate to information management policy and implementation of technology. Archives and records in their various media formats will be included in the coverage.

## **National or Regional Organisations**

### **Chartered Institute of Public Finance and Accountancy (CIPFA)**

3 Robert Street

London WC2N 6BH

United Kingdom

Tel: +44 20 7543 5600

Fax: +44 20 7543 5700

Website: <http://www.cipfa.sift.co.uk/>

CIPFA offers specialised training for accountants in the public services. It also provides cost effective, relevant support services designed to keep financial professionals informed with the latest thinking on key public sector issues.

### **The Institute of Chartered Accountants in England and Wales (ICAEW)**

Chartered Accountants' Hall  
PO Box 433  
Moorgate Place  
London EC2P 2BJ  
United Kingdom  
Tel: +44 20 7920 8100  
Fax: +44 20 7920 0547  
Website: <http://www.icaew.co.uk/>

The Institute of Chartered Accountants in England and Wales is the largest professional accountancy body in Europe and its qualification is recognised around the world as a prestigious business qualification. The Institute's website provides a *Library of Information Services* with numerous links to relevant sites.

### **The Chartered Institute of Management Accountants**

63 Portland Place  
London W1N 4AB  
United Kingdom  
Tel: +44 20 7637 2311  
Fax: +44 20 7631 5309  
Website: <http://www.cima.org.uk>

The Institute is an independent body whose aim is to promote and develop the science of management accountancy, to provide a professional organisation for management accountants and to examine those wishing to enter the profession. Wide international recognition has been achieved and more than 12,000 of the Institute's members are working in over 120 countries outside the British Isles. The uniqueness of the CIMA qualification is maintained by insisting that the skills and practical experience needed for membership can be acquired by working in a relevant business situation, with strong emphasis on exposure to the various management functions.

### **The Canadian Institute of Chartered Accountants (CICA)**

277 Wellington Street West  
Toronto, ON  
M5V 3H2, Canada  
Website: <http://www.cica.ca/>

The CICA, together with the provincial and territorial institutes of chartered accountants, represents a membership of 60,000 professional accountants in Canada and Bermuda. The CICA sets accounting and auditing standards for business, not-for-profit organisations and government. It issues guidance on control and governance, publishes professional literature, develops continuing education programmes and represents the CA profession nationally and internationally.

## **The Institute of Chartered Secretaries and Administrators**

16 Park Crescent

London W1N 4AH

United Kingdom

Tel: +44 20 7580 4741

Fax: +44 20 7323 1132

Website: <http://www.icsa.org.uk/icsa>

The Institute of Chartered Secretaries and Administrators is the leading professional body for company secretaries and corporate administrators in the public, private and voluntary sectors and acts as the professional forum for 46,000 Members and 27,500 students world-wide. The mission of the Institute is the promotion of professional administration.

### **Activity 12**

Find out if your institution has any information about any of the agencies listed above. Does your organisation receive publications, participate in conferences or meetings or otherwise work with any of these groups?

In your opinion, which groups should your institution consider communicating with first, if any, and what would you expect to achieve by doing so? How would you go about building a productive relationship?

## OTHER SOURCES

There are a few publications available about financial records management. This bibliography includes key works that might be of value, particularly in your institution's resource centre or library. Some are more easily obtained than others, and some more up-to-date than others. Core publications are identified with an asterisk (\*).

*Core publications are also identified in the Additional Resources document; refer to that document for information on more general publications on records and archives management.*

ARMA Standards Committee: Filing Systems Task Force. *Alphabetic Filing Rules* (Second Edition), (ARMA, 1995).

ARMA Standards Committee: Filing Systems Task Force. *Filing Procedures – A Guideline*, (ARMA, 1989).

ARMA Standards Committee: Filing Systems Task Force. *Numeric Filing – A Guideline*, (ARMA, 1989).

ARMA Standards Committee: Filing Systems Task Force. *Subject Filing – A Guideline*, (ARMA, 1988).

Australian Taxation Office, Taxation Ruling 96/7, Income Tax: Record keeping - Section 262A - General Principles <http://www.ato.gov.au/>

Australian Taxation Office, Taxation Ruling 97/21, Income Tax: Record keeping - Electronic Records <http://www.ato.gov.au/>

Barrett, Pat, 'The Challenge Facing Auditors in the Changing Public Sector Environment' Keynote address by, Commonwealth Auditor General to the Information Systems Audit and Control Association (Canberra Chapter), 26.11.1996.

- \* Bartel, Margaret, 'Integrated Financial Management Systems: A Guide to Implementation.' *LATPS Occasional Paper Series*, No. 19. December 1996. Available electronically at <http://www.worldbank.org/>

Bennick, Dr Anne. *Active Filing for Paper Records*, (ARMA, 1989)

Cox, David. *Financial Accounting Tutorial*. Osborne Books, 1998.

Parry, Michael. 'Integrated Financial Management.' Training Workshop on Government Budgeting in Developing Countries, December 1997. Available electronically at <http://www.mcgl.co.uk/I-ept-fm.htm>. Look under 'Technical Documents' section.

PREM Network. *Public Expenditure Handbook*. Washington, DC: The World Bank, 1998.

Wood, Frank. *Business Accounting 1*, 7th ed. London, UK: Pitman, 1996.



### **Activity 13**

Check your institution's library or resource centre. What books or other resources do you have about personnel issues in general and financial records care specifically? Are any of the publications listed above available in your institution? If so, examine two or three of them and assess their currency and value to your institution. If not, identify two or three publications you think would be most useful to help develop or expand your library. Devise a plan outlining how you could realistically obtain copies of these.

# SUMMARY

This lesson has provided an overview of the entire module, *Managing Financial Records*. This lesson has then discussed how to establish priorities for put into place the foundations for a financial records management programme. These include:

Priority 1: assess the existing situation

Priority 2: analyse the information flows

Priority 3: identify the stakeholders and the organisation's policy objectives

Priority 4: stabilise existing record-keeping systems

Priority 5: plan improvements

Priority 6: encourage better records management practices

The lesson then outlined ways to find out more information or get help with financial records issues. The lesson concluded with a discussion of valuable information resources relevant to financial records management.

# STUDY QUESTIONS

1. In your own words, explain the reason why the priorities proposed in this lesson are offered in the order they are in.
2. Indicate two of the organisations listed in this lesson that you would choose to contact first and explain why.
3. Indicate two of the publications listed in this lesson that you would choose to purchase first and explain why.

# ACTIVITIES: COMMENTS

## **Activity 11**

Every institution will find itself at a different stage of development in terms of financial records management. The priorities established will have to take into account the particular needs of that institution, the region and the country.

## **Activity 12**

If resources are limited, it is wise to communicate with international organisations first, as they often obtain and filter information from national or regional associations. Thus valuable information is passed on to your organisation through the international group, which can save resources for all. It is also advisable to focus on general information before obtaining specialised publications or information.

## **Activity 13**

As mentioned in relation to the previous activity, it is important to begin with general information and ensure you have a good resource library of introductory and overview publications before developing a more specialised library.

## **GLOSSARY OF FINANCIAL TERMS**

This glossary includes many valuable terms related to financial management. These terms are not included in the master glossary to the MPSR study programme.

Abstract of Accounts	The term used in government accounting to describe a shortened form of the annual final accounts.
Accountant General	The chief accounting officer of the government.
Accounting Officer	Any officer required to account for receipts or payments of public money.
Advance	A disbursement of public money before it is due, or before receipt of goods, or a loan to be repaid.
Appropriation Account	<p>The detailed statements of expenditure and receipts which show the excess and savings on each sub-head of the estimates.</p> <p>OR An end of year account which composes amounts authorised by parliament in the estimates with actual payments made and receipts brought to account and explains any substantial differences under each sub-head.</p>
Appropriation Law	A law authorising the spending of the total provided in the expenditure estimates and appropriating it according to the heads of expenditure.
Arrears of Revenue	Revenue which has not been collected at the due time.

Assets	Resources possessed or to be possessed. OR All things owned having some money value.
Balance Sheet	A statement of assets and liabilities.
Below the Line	Items following after the transactions relating to revenue and expenditure. Such items relate to those other than included in the estimates of revenue and expenditure for example, imprests, loan repayments, advances and deposits etc.
Capital Expenditure	Non recurrent expenditure. Money spent on construction works, roads, machinery and plant, etc., having an expected working life of more than one year. OR Expenditure on new construction, land, extensions of and alterations to existing buildings and the purchase of any other fixed assets (e.g. machinery and plant, and vehicles) having an expected working life of more than one year. Also includes expenditure on capital grants and stocks and lending for capital purposes.
Cash Book	A book in which account is kept of cash/cheques received and paid out.
Contract	Any legally binding agreement between two parties, for example, to carry out works or supply goods on certain terms.
Counterfoil Receipts	A receipt with a serial number issued from a book of official receipt forms.
Departmental Vote Book	A book showing the unexpended balance on certain sub heads of expenditure.
Draft Estimates	The estimates up to the time they are finally approved.

Establishment	The number of various grades of posts authorised by the estimates.
Financial Year	Any period of twelve months adopted by an organisation as its' accounting year.
General Warrant	The authority issued by parliament empowering the accountant general to make the payments provided for in the estimates.
Grant in Aid	A grant from voted monies to a particular organisation or body where any unexpended balances of the sums issued during the financial year will not be liable for surrender to the consolidated fund.
Integrated Financial Management System	A computer based integrated financial management system including budgeting, ledger/stores, cash accounts, with the ability to produce final accounts.
Imprest	An advance of cash made to an officer who requires to make payments on the public service.
Imprest Warrant	A warrant issued by an authorised officer allowing particular officer to receive an Imprest.
Inventory	A schedule of articles for record purposes.
Ledger	A book, a mechanised, or computer record containing a number of accounts for persons/organisations.
Ordinance	A law.
Other Charges	All items in a head of the expenditure estimates not properly falling under personal emoluments.

Outturn	Actual expenditure, normally in a financial year.
Personal Emoluments	All payments comprising salary, including allowances etc.
Public Debt	All loans raised by the government and not yet repaid to the lender(s).
Public Money	Money in the hands of government.
Public Works	All forms of construction provided for from government funds.
Receipt Voucher	A voucher supporting a payment into public funds.
Reconciliation	A statement of the entries bringing into agreement balances from two different sources.
Self Accounting Department	A department entrusted with the receipt, custody and disbursement of public money rendering a monthly account to the accountant general.
Sinking Fund	A fund set up to provide for the redemption of a loan or to replace an asset.
Sub Head	Sub divisions of the heads of the revenue and expenditure estimates.
Special Warrant	A warrant issued by the authority of parliament permitting payments to be made which have not been provided for in the estimates.



Suspense Account	A below the line account in which items are retained pending disposal.
Tender	An offer to supply goods or services at a stated price.
Tender Board	A board of officers whose duty is to consider tenders that have been submitted.
Treasury	The central accounting department of a government (also used to describe the accountant general's department).
Trial Balance	The balances of the accounts in a ledger which have been extracted to prove the accuracy of the ledger postings.
Virement	Treasury sanction permitting savings on one sub head to meet excesses on another.
Vote, a	An individual estimate for a specific service
Vote, to	To approve provision for expenditure on a specified service.
Write Off	To strike off charge.