

PN-ARL-020

5/19/87

FINANCIAL MANAGEMENT WORKSHOP

EXPENDITURE MANAGEMENT AND CONTROL

TRAINER MATERIALS

DETAILED OUTLINE OF WORKSHOP CONTENT

prepared by

MAURICE P. ARTH, SENIOR FINANCIAL CONSULTANT

for the

GOVERNMENT TRAINING INSTITUTE - MOMBASA.

MINISTRY OF LOCAL GOVERNMENT, REPUBLIC OF KENYA.

and

REGIONAL HOUSING AND URBAN DEVELOPMENT OFFICE, USAID

APRIL 15, 1987

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DETAILED OUTLINE OF WORKSHOP CONTENT

SUNDAY AFTERNOON AND EVENING

75m OPENING CEREMONIES

5:00-
6:15

A. WELCOMING REMARKS

B. INTRODUCTIONS AND APPROACHES

1. Introductions

Staff and participants

2. Schema for Entire Workshop Series

a. Financial Management -- Planning and Budgeting

b. Financial Management -- Revenue Generation

c. Financial Management -- Expenditure Management
and Control

d. Financial Management -- Planning, Organizing,
Staffing, Leading, and Controlling

3. Workshop Goals

a. To impart new knowledge regarding the importance
of -- and the means for -- managing and
controlling the recurrent and capital
expenditures of local authorities.

b. To develop new skills regarding practical ways of
identifying expenditure areas needing greater
attention and of establishing guidelines,
measuring performance, evaluating results, and
taking corrective measures to manage and control
expenditures better.

c. To develop attitudes and increase motivation on
the part of workshop participants to provide for
better management of and control over
expenditures in their local authorities.

4. Workshop Materials and Program

Refer to Item # 1: "Overall Program".

Refer to Item # 2: "List of Workshop Materials".

Extensive use will be made of graphic and tabular handouts that illustrate the substantive concepts to be provided in this workshop. Participants will frequently be asked to engage in small group exercises. They will have the experience of analyzing and developing solutions to problems and issues in management and control of expenditures over the five-day period of the workshop. Central government officials participating in the workshop will be drawn on throughout the workshop as experts in their respective fields.

5. Workshop Schedule

Sunday Afternoon and Evening

5:00 p.m. - 6:15 p.m. Opening Session
7:00 p.m. - 9:00 p.m. Opening Dinner

Monday - Friday

8:00 a.m. - 10:30 a.m. Workshop Session
10:30 a.m. - 10:45 a.m. Morning Break
10:45 a.m. - 12:45 p.m. Workshop Session
12:45 p.m. - 2:00 p.m. Luncheon Break
2:00 p.m. - 3:30 p.m. Workshop Session
3:30 p.m. - 3:45 p.m. Afternoon Break
3:45 p.m. - 5:00 p.m. Workshop Session *

* Sessions may run to 5:30 p.m. if necessary

Friday Evening

7:00 p.m. - 9:00 p.m. Closing Dinner

6. Workshop Logistics

Remarks as appropriate

120m OPENING DINNER

7:00-
9:00

MAKE EVENING READING ASSIGNMENT: Item #s 4 through 12

MONDAY MORNING (285 minutes, including a 15 minute break, are programmed out of 285 minutes.)

5m Call group to order.

8:00-
8:05

REPORTS ON PROGRESS MADE IN APPLYING CONCEPTS FROM THE REVENUE GENERATION WORKSHOP

We'd like to begin the day by asking local authority and central government teams to report on progress and results achieved in application of concepts and approaches presented in the most recent Financial Management Workshop on Revenue Generation.

Refer to Item #3: Workshop Exercise - Report on Progress Made in Applying Concepts from the Revenue Generation Workshop.

The leader should briefly review the major concepts from this previous workshop as a "refresher" for the participants. These concepts are presented in outline form in Item #3.

At the most recent workshop, participants were asked to develop a plan to increase the generation of revenue for their local authority.

5m Local authority teams are, therefore, now to prepare a report on progress achieved against and in terms of that plan.

8:05-
9:20

- o The leader should pass out to each local authority team a copy of the back-home program it developed at the previous workshop to assist the team in completing this exercise.
- o Alternatively, local authority teams may report on progress made since the last workshop in implementing the concepts and steps to increase revenue generation that were presented in that last workshop as outlined in Item #3.

5m Ask a representative of each local authority team to report to the participants on progress made since the Revenue Generation workshop. In order to confine the length of the reports to 7-10 minutes each, if the reports become lengthy, ask the spokesmen to report on just 3 or 4 important areas on which real progress has been made.

9:20-
10:30

5m MORNING BREAK

10:30-
10:45

SUBSTANTIVE PROGRAM ON EXPENDITURE MANAGEMENT AND CONTROL

Now we want to turn to the subject of the present workshop: the management and control of expenditures.

A. RELATIONSHIP OF EXPENDITURE MANAGEMENT AND CONTROL TO FINANCIAL MANAGEMENT TO PUBLIC FINANCE

The following discussion, more or less a repeat of material presented in earlier workshops, is intended to re-orient participants to the primary objectives of these workshops.

10m

1. Importance of Sound Public Finance at the Level of Local Authorities

10:45-
10:55

Public finance is extremely important to a local government.

Query: From the point of view of an economist or political scientist, how might we define "public finance"?

Answer: The economist will say that public finance is the name given to the economic side of the total activity of a local authority. The political scientist will say that a local government is formed to provide for the needs of a given local population.

Query: What are examples of things that (1) the central government does for the wananchi, (2) the local authority does for the wananchi, and (3) the wananchi do for themselves?

Answer: Leader to make lists of responses in the above three categories.

Query: Ask what political and economic principle determines (1) what should be done at the local government level as distinguished from (2) what is done by the central government and (3) what by the wananchi themselves?

Answer: The wananchi should do for themselves those things they can do best. The central government should do those things it can do best. And those things that can best be provided through common action at the local level should comprise the responsibilities of the local authority.

Refer to Item #4: "Public Finance at the Local Level".*

As Item #4 suggests, these needs and service areas include infrastructure such as roads and major services such as water and electricity. They include facilities such as markets and slaughterhouses. They include safety and security in the form of askari and fire forces. They also include education, health, and many others.

On the one hand, as Item #4 indicates, carrying out these activities causes the expenditures of the local authority. On the other hand, to provide for these needs requires an inflow of money.

Query: Where does this money come from?

Answer: As also shown in Item #4, the revenue comes from:

- o the citizens themselves through charges for services rendered;
- o also from the citizens, fees, licenses and taxes;
- o borrowings from the central government and other sources;
- o increasingly limited grants from the central government; and
- o grants from outside agencies, sometimes foreign national or international.

*Note to all workshop leaders: Except for case studies, workshop exercises, and "road map" exhibits (Item #s 17, 18, and 39), experience has shown that the leader should NO refer immediately to exhibits during this five day program. Instead he should begin by engaging the group in a discussion of the concepts and should solicit examples from participants. It is very important eventually to go carefully over each exhibit -- tracing out diagrams and reading aloud substantially all examples since they have been carefully drafted (and field tested) to illustrate the concepts clearly. But going to the exhibits in this manner should be reserved to the last part of the discussion of each topic.

The two boxes near the extreme right side of Item #4 show (1) the total expenditures made to meet the needs of the wananchi and (2) the total revenues that must be raised and managed to pay for meeting these needs. The final box indicates that the financial health -- indeed, the very existence -- of the local authority depends on the matching both short-range and long-range of these expenditures and revenues. And this is what sound public finance is all about.

Refer to Item #5: "How the Local Financial Manager Looks on Public Finance."

Item #5 looks at public finance in a different way, i.e., from the point of view of the finance committee, clerk and treasurer -- more like an income and expenditure statement.

As you can see, it is still the needs of the community and the services provided to meet these needs that are responsible indirectly and directly for all revenue and expenditures.

However, in this exhibit, primary emphasis is put on balancing revenue and expenditures so as to yield satisfactory operating and overall results.

The leader should review the content of Item #5 with the participants.

Discussion

10m 2. Excellent Financial Management as the Key to Sound Public Finance 10:55-11:05

Query: From the point of view of management and staffing of the local authority, on what does sound public finance depend?

Answer: Leader to note responses. But the answer sought is as follows:

- o sound public finance depends on excellent financial management, and
- o this depends, in turn, on the management work of specialized personnel -- i.e., in the local authority, on the work of the treasurer and his staff.

Query: Why does sound financial management depend on the work of specialized personnel trained in financial management?

Answer: The answer is as follows.

- o Operating department heads are, of course, responsible in their individual areas for bringing in the various revenues and for expenditures.
- o However, it is only the professional financial manager, i.e., the treasurer, who is able to oversee and balance the overall picture of expenditures and income.

We do not mean to overlook the important roles of department heads and section heads. These persons must also accept the responsibility to be the financial managers both of the resources entrusted to their control and of the expenditures made with these resources.

But it is the financial manager, the treasurer, who in public finance matters is always at the right hand of both (1) the chief administrator, i.e., the clerk, and (2) higher-level authority, i.e., the council and its finance committee.

Discussion

5m 3. Controlling Expenditures as an Essential Element of 11:0
Excellent Financial Management 11:1

But excellent financial management and sound public finance don't just happen. Rather, a great deal of attention must be given to them.

Refer to Item #6: "Management Functions Performed by the Good Financial Manager".

Item #6 illustrates, from a broad management point of view, the five management functions performed by the good financial manager. These are Planning, Organizing, Staffing, Leading, and Controlling.

Item #6 also illustrates the twenty-three principal management activities that comprise these five major management functions.

Discussion

10m 4. Good Management and Control of Expenditures as a Major Step in the Financial Management Cycle 11:10-11:20

It is, however, the responsibilities for managing and controlling expenditures that are the focus of this particular financial management workshop. These are responsibilities that all of you share in some degree.

Indeed, managing and controlling expenditures is not only a general management responsibility of the financial manager. It also constitutes one of the major areas of technical work of the financial manager.

Refer to Item #7: "Another View of What Good Financial Management Involves".

Item #7 takes a different look at what good financial management involves -- putting greater emphasis on the technical work to be performed. As you can see, Item #7 suggests that good financial management begins with Planning and Budgeting. It goes on to Generating Revenue, Managing and Controlling Expenditures, and Evaluating and Reporting. All of these are supported by Organizing, Staffing, and Leading.

As you will note in Item #7, our present series of four workshops is organized around these several elements of the financial management cycle.

- o Our first two workshops dealt with the first three activities represented at the top and upper and lower right side of this diagram, i.e., Planning and Budgeting and Revenue Generation.
- o This present workshop will deal with Expenditure Management and Control on the lower left.
- o The fourth workshop will provide an overview of all of the management functions of the financial manager so as to keep the whole subject of good financial management in perspective. But it will concentrate, in particular, on the support activities represented in the center of the diagram.

Discussion (if any)

10m B. COMMON EXPENDITURE CATEGORIES IN LOCAL AUTHORITIES

11:20-
11:30

Expenditures of local authorities can be classified in a number of ways.

Query: What are major ways in which expenditures can be grouped?

Answer: By groupings such as the following (insist on drawing out from the group the first three categories below -- but do not press for examples at this point; this is to be done in connection with sections 1 to 4 below).

- o Organizational unit and program (e.g., education or markets)
- o Type of expenditure or line item (e.g., wages and salaries; or petrol, oil and tyres; or debt service)
- o Recurrent vs. capital (e.g., operating costs of the social services department (recurrent) or building new markets and roads (capital))
- o Functional activity (e.g., collection of revenue or procurement of goods)

Finally, later this week we will also discuss the management and control of expenditures by organizational levels, i.e., from a section manager in an operating department all the way up to the Ministry and the Office of the Controller and Auditor General.

Refer to Item #8: Ways of Categorizing Management and Control of Expenditures.

Discuss Item #8 briefly.

10m 1. Expenditures by Organizational Unit and Major Program 11:30-
11:40

Let's look first at a classification of expenditures by organizational unit or department and major program. Our object is two-fold.

- o First is to get out before the group where, concretely, the expenditures of local authorities occur that we must manage and control.
- o Second is to develop some useful classifications of expenditures for later analysis. This is being done on the assumption that approaches and techniques for expenditure management and control will differ depending on what type of expenditure is involved. For example, we will certainly use a different system to control overtime from that which we use to avoid bank overdrafts.

Query: What are the major organizational unit and program categories of local authority expenditures?

Answer: Some such listing as the following (leader to put responses on the flip chart -- note that this list below is alphabetized, not prioritized).

- | | |
|---|--------------------|
| o Bus Parks | o Parks/Recreation |
| o Clerk's | o Roads/Bridges |
| o Education | o Slaughterhouse |
| o Health/Sanitation | o Social Services |
| o Housing | o Treasurer's |
| o Markets | o Water/Sewerage |
| o Any other valid major categories that the group may suggest | |

Query: Does the listing on the flip chart embrace the great bulk of local authority expenditures and, if not, what major areas have been omitted?

Answer: Leader to note answers, if any.

Query: How would you rank these areas listed on the flip chart in order of size of expenditures in a typical local authority?

Answer: Leader to put priority rankings beside each category on the flip chart so as to represent group consensus. (If here, and in later listings, it appears that a separate ranking should be made for county councils, the leader should attempt this.)

Discussion

10m 2. Expenditures by Type of Expenditure or Line Item

11:40-
11:50

Next, let's look at a classification of expenditures by type of expenditures, i.e., by line item.

Query: What is a "line item" in Kenyan budget terminology?

Answer: One definition found in Kenyan government documents states that "the item is the lowest level of disaggregation in the printed budget and typically represents a type of expenditure, e.g., Personal Emoluments or Transport Operating Expenses. Items add up to make a project, programme, or activity...."

Query: What are the major type-of-expenditure or line-item categories in your local authorities?

Answer: Some such listing as the following (leader to put responses on a flip chart -- note that the list below is alphabetized, not prioritized).

- o Employee Benefits
- o Equipment, Tools and Materials
- o House Allowances
- o Loan Repayments
- o Office Supplies
- o Any other valid major categories that the group may suggest
- o Petrol Oil and Tyres
- o Rents
- o Utilities
- o Wages and Salaries

Query: Does the listing on the flip chart embrace the great bulk of local authority expenditures and, if not, what major areas have been omitted?

Answer: Leader to note answers, if any.

Query: How would you rank these in order of size of expenditure in a typical local authority?

Answer: Leader to put priority rankings beside each category on the flip chart so as to represent group consensus.

5m 3. Expenditures by Recurrent and Capital Categories

11:50

11:55

Another basic classification of expenditures utilized in all local authorities (and nearly all other organizations) divides expenditures into two major categories.

Query: What is this added classification of expenditures?

Answer: It is a classification categorizing expenditures as between:

- o recurrent or ongoing or operating and
- o capital or developmental.

Query: How would you rank these two categories in order of size of expenditure in an average year in the typical local authority?

Answer: Leader to put the group's priority rankings beside these two categories. But the proper answer is that in the typical local authority in an average year, recurrent expenditures vastly exceed capital expenditures.

10m 4. Expenditures by Functional Activity*

11:55-
12:05

Finally, it may be thought-provoking to attempt to classify expenditures by major functional categories.

Query: What do we mean by "functional categories"?

Answer: The dictionary distinguishes "function" from its close synonyms as indicating the definite end or purpose served and the particular kind of work performed. More succinctly, "function" is "the work performed".

Query: What are some major functional categories of expenditures, i.e., categories by work performed?

Answer: Some such listing as the following (leader to put responses on flip chart).

- o Collection of Revenue
- o Contracting for Work To Be Undertaken
- o Preparation of Plans and Budgets
- o Procurement of Goods
- o Procurement of Services
- o Any other valid categories that the group may suggest.

Query: How would you rank these in order of expenditure in a typical local authority?

Answer: Leader to put priority rankings beside each category on the flip chart so to represent group consensus.

Discussion

We do not intend to use this classification of expenditures further in this workshop. However, you may wish to consider whether your local authority is exercising adequate control over expenditures categorized by function.

*The leader may omit this section if he prefers.

20m 5. Case Study: Actual Expenditures of Local Authorities in Order of Size

12
12

Refer to Item #9: Case Study - Actual Expenditures of Local Authorities in Order of Size.

Item #9 shows expenditures of three local authorities* classified into the first three of the above four categories and, within categories, listed in order of size.

Point out that in each case the great bulk of the expenditures are concentrated in just 5 or so departments/programs and 5 or so line items. The Principle of the Critical Few would suggest that these are the areas where the greatest attention should be given to the management and control of expenditures.

It will be noted that in most cases (though the patterns for county councils differ somewhat from those for municipal and town councils):

- o expenditures by departments and programs are the largest for Treasurer's, Clerk's, Vehicles and Maintenance, Cleansing and Refuse Collection, Councillors' Expenses, Water Services, and Social Services, more or less in that order;
- o expenditures by line item are the largest for Staff Salaries and Wages; House Allowances; Petrol, Oil and Tyres; and Travelling and Subsistence; and
- o expenditures for Recurrent Operations are typically very much larger than for Capital Development.

Note also that, on pages 2, 5, and 8 of Item #9, Salaries and Wages for these three local authorities vary from 24.7% of total expenditures to 38% to 55.5%.

Query: Does this range of variation seem understandable and likely to be appropriate?

Answer: Leader to note responses and lead discussion.

*In these case studies:

Municipal Council A is Meru
Town Council B is Kitui
County Council C is Murang'a

Refer to Item #10: Expenditures of Typical Local Authorities in Order of Size

Item #10 summarizes the results of these case studies and other information to show a typical prioritization -- in order of size of local authority expenditures -- by the three basic classifications that we have been discussing.

Query: Do participants agree that the order of prioritization shown in Item #10 is more or less representative of Kenya's local authorities? What significant changes, if any, would they suggest in the order of items in the three columns on Item #10?

Answer: Leader to note and lead discussion of participants' responses.

Discussion

C. EXPENDITURE CATEGORIES IN ORDER OF DIFFICULTY OF MANAGEMENT AND CONTROL

We've done a good job of finding out, by several different classifications, where the expenditures are that, as good financial managers, we must attempt to manage and control. Some of these categories are easier to control than others. Let's spend a few moments seeing if we can agree (1) on criteria for determining areas of difficulty and (2) on which categories are the most difficult to control.

20m

1. Criteria for Determining Areas of Difficulty in Management and Control of Expenditures

12:25

12:45

First, we will see if we can discover some criteria or standards of good management and control of expenditures that might help us in determining where we are having the greatest difficulty in managing and controlling them.

Query: What are some criteria that we might employ in determining where we are having difficulty in managing and controlling expenditures?

Answer: Answers -- to be listed on a flip chart -- will include such items as the following:

- o Expenditures versus plans and budget that are:
 - too high
 - too low
 - not included in plans and budget
- o High control costs compared with the level of expenditures
- o Services or goods paid for that do not meet expectations regarding quantity:
 - quantity less than expected
 - quantity more than expected
- o Goods or services paid for that do not meet expectations regarding quality:
 - goods supplied or work performed at a quality level lower than expected
 - goods supplied or work performed at a quality level greater than expected

- o Expenditures for goods and services that are delivered/provided on timing inconsistent with expectations:
 - behind schedule
 - materially ahead of schedule
- o Payments for goods and services inconsistent with the timing expectations of the accounting section:
 - made much later
 - made much earlier
- o Expenditures in violation of bylaws, regulations, policies and/or procedures
- o Lack of proper documentation of procurement and expenditures
- o Purchases not balanced among sources where this is a desirable objective, i.e., unduly concentrated on:
 - local suppliers
 - distant suppliers (e.g., in Nairobi and Mombasa)
- o Procurement and expenditures made on timing in advance of receipt of funds intended for payment, i.e., inconsistent with cash availabilities and cash flow analysis
- o Expenditures for which at least circumstantial evidence exists of bribery, kickbacks, siphoning off of funds, and the like
- o Etc.

Refer to Item #11: Criteria for Determining Difficulty in Management and Control of Expenditures.

Item #11 summarizes many of the criteria that we have just been discussing. The leader should review this in some detail with the participants.

The first criterion listed in Item #11 for determining possible areas of difficulty in managing and controlling expenditures is the consistency of actual expenditures with our plans and budgets. It would be interesting to see if we can learn anything useful about where we have difficulty in controlling expenditures by comparing (1) estimates of expenditures made before the beginning of a financial year with (2) actual results realized when the year is over.

2. Case Study - Estimated and Actual Expenditures of Local Authorities

Refer to Item #12: Case Study - Estimated and Actual Expenditures.

This is done in Item #12 for our three case-study local authorities. This exhibit shows:

- o the estimates made before the budget year began,
- o actuals reported after the year was over,
- o the differences between these two,
- o the percentages that actual expenditures were of estimated expenditures, and
- o the ranking of departments and major programs and of line items in terms of apparent relative difficulty in managing expenditures so as to meet plans as reflected in budgets (based just on these figures alone).

No firm conclusions can be drawn from these case studies. However, areas of apparently general difficulty include:

- o for major departments and programs, at least for Municipal Council A: the categories of Roads, Housing, Sewerage, and Water Services, and
- o for line items: the categories of Vehicle Licenses and Insurance; Electricity, Water and Conservancy; Equipment, Tools, and Materials; Insurance Other than Vehicles; and Repairs and Maintenance of Buildings.

The preceding discussion of criteria makes it clear that there is no simple measure of difficulties encountered in managing and controlling expenditures.

Discussion

75m LUNCHEON BREAK

12:45
2:00

MONDAY AFTERNOON (180 minutes, including a 15 minute break, are programmed out of 180 minutes.)

5m Call group to order.

2:00-
2:05

C. EXPENDITURE CATEGORIES IN ORDER OF DIFFICULTY OF MANAGEMENT AND CONTROL, contd.

3. Workshop Exercise: Expenditures of Local Authorities Ranked in Order of Difficulty in Management and Control

Refer to Item #13: Workshop Exercise - Expenditures of Local Authorities Ranked in Order of Difficulty in Management and Control.

Item #13 is essentially identical to Item #10 except that space is provided to rank the categories of expenditure in order of the difficulties encountered in properly controlling them.

25m

Please break up into local authority groups.

2:05-
2:30

Each group is to place numbers beside the ten items in the first column that constitute the greatest difficulty experienced by its local authority in properly managing and controlling expenditures by department/program. "1" will represent the category of greatest difficulty, "2" the second most difficult category, and so on.

Then, please repeat the above exercise for the second column of expenditure category items on Item #13 -- i.e., by type of expenditure or line item.

Finally, please repeat the above exercise for the two items in the third column of expenditure categories on Item #13, i.e., for recurrent and capital expenditures.

30m

After twenty minutes, the leader is to ask -- and record on the flip chart -- the rankings given to the first item on each list, the second item, and so on. Limit the rankings listed on the flip chart to #s 1 to 5.

2:30-
3:00

The leader should then attempt to summarize a consensus of the entire group on the relative order of difficulty in controlling expenditures among the items listed in each column.

4. Workshop Exercise: Prioritization of Difficulties Encountered in Managing and Controlling Expenditures

We have identified our expenditure categories and have ranked them by order of difficulty in control. Now let's find out what the participants see as the major difficulties encountered in control of them. What experiences did we have in the backs of our minds when we did the preceding rankings in order of difficulty in control?

Refer to Item #14: Workshop Exercise - Prioritization of Difficulties Encountered in Managing and Controlling Expenditures.

30m	Form four groups composed, respectively, of (1) treasurers, (2) clerks, (3) councillors, and (4) MLG participants and any others present. Each group should complete the exercise, putting its results on flip charts.	3:00 3:30
15m	AFTERNOON BREAK	3:30 3:45
30m	Complete the above exercise.	3:45 4:15
45m	When done, ask a spokesman for each group to summarize the results of the group's deliberations. Start with reports from the councillors, then going on to clerks, treasurers, and the MLG (and any others), in that order. Attempt to summarize from the four reports an overall consensus on the several areas of greatest difficulty. Draw attention to any interesting differences in perceptions of the four groups.	4:15 5:00

During the remainder of this workshop, we should be focussing primary attention on two things already discussed, as follows:

- o the major categories of expenditures that we have identified, and
- o the major problems that we are encountering in managing and controlling these expenditures.

Please note again that we are not limiting this workshop just to questions of adherence to budgets, procedures, and the like. Rather we are primarily concerned with ensuring that our local authorities get full value for every pound and shilling spent.

MAKE EVENING READING ASSIGNMENT: Item #s 15 through 29 except for #25.

TUESDAY MORNING: (285 minutes, including a 15 minute break, are programmed out of 285 minutes.)

5m Call group to order.

8:00-

8:05

0m D. EXPENDITURE MANAGEMENT AND CONTROL SYSTEMS

8:05-

8:15

We shall begin our discussion of how to manage and control better our expenditures by looking at the question of control systems.

Query: What do we mean by an "expenditure control system", and do we need anything as "fancy" as one or more control systems for our expenditures?

Answer: The answers given should encompass the following ideas.

- o By "expenditure control system", we are referring to an orderly and well-defined set of steps and interrelationships for ensuring that expenditures are made according to plan, within budget, and pursuant to published regulations, policies, and procedures.
- o It is impossible to control every expenditure on an individual, ad hoc basis. Instead, it is necessary to establish some common approaches -- that is, systems -- that can be utilized with respect to major categories of expenditure. Thus, we cannot use the same control system:
 - o for ensuring that goods are delivered per purchase order specifications that we use
 - o for ensuring that payments are made to meet the supplier's timing requirements or
 - o for control of and reimbursement to a petty cash account or
 - o for payment of loan amounts due.

Because the many types of expenditures require control systems with many different types of characteristics, we must, in this workshop, look not just at one but at several types of systems.

Discussion

15m 1. What Are We Trying To Control?

8:15
8:30

In designing a control system, a key question is what we are trying to manage and control.

Query: Is it the outflow of shillings according to budget that we are trying to manage and control?

Answer: This is part of it.

Query: But it is enough for us to assure that funds paid out are in line with our expenditure budget -- and why?

Answer: The answer is "No" Even if our expenditures are made strictly in accordance with the approved budget, they are not being properly managed and controlled if, for example:

- o deliveries are late,
- o goods do not meet specifications,
- o expenditures exceed cash availabilities, or
- o money is pocketed by dishonest people.

A good answer to the question of what we are trying to control is some such group of ideas as an outflow of funds for the provision to our local authorities of goods and services on a basis that:

- o is consistent with our plans and budgets;
- o is timely;
- o assures full value for money expended;
- o is cost-effective;
- o is consistent with reasonable payment expectations of suppliers; and
- o is prudent in regard to our evolving resource availabilities.

Refer to Item #15: Control Systems - Definition and Considerations.

Item #15 provides both a definition of a control system and a statement of what we are trying to control.

15m 2. Total and Partial Control Systems

8:30-
8:45

Some control systems might be called "partial control systems", and some might be called "total control systems."

Query: What is the difference between a partial and a total control system?

Answer: The answer is as follows:

- o A partial control system identifies a problem but does not assure its correction.
- o A total control system is designed not only to detect problems but also to correct them more or less automatically.

Refer to Item #16: Partial and Total Control Systems - Definitions and Examples.

Item #16 gives a definition and three examples of a partial control system, as follows.

- o A fire protection system that merely detects smoke and sounds an alarm
- o A water system that merely alerts an engineer to some trouble with the chlorine level or water purity or pressure
- o A cash flow system that merely indicates, from income and expenditure planning data, projected cash availabilities and requirements

Query: What are other examples of a partial control system?

Answer: Leader to note answers on flip chart.

Item #16 also gives a definition and three examples of a total control system, as follows.

- o A fire prevention system that not only detects a fire and sounds an alarm but also turns on sprinklers to put out the fire
- o A water system that not only detects under-chlorination of the water but automatically adds chlorine to bring the water flowing through the main water lines up to specifications

- o A cash flow analysis and control system that:
 - not only regularly monitors actual cash and projects the relationship between future cash availabilities and cash requirements,
 - but also, in periods of potential cash shortage, assures that instructions are sent to spending department heads to hold expenditures to specified levels

Query: What are other examples of a total control system?

Answer: Leader to note answers on flip chart

Discussion

10m 3. Criteria for Effective Control Systems

8:45-
8:55

Let's assume that we have an objective of establishing effective control systems for our expenditures.

Query: What are some of the standards or criteria that we might state to tell us if our control systems are effective?

Answer: The answers given should include such ideas as the following.

- o Controls should be:
 - exercised over the proper activities,
 - timely,
 - accurate.
 - cost effective, and
 - understood and accepted by those affected.

Refer to Item #17: Criteria for Effective Systems for Management and Control of Expenditures.

Item #17 lists these above criteria and indicates some relevant considerations with respect to each. We will be discussing each of these criteria and these related considerations over the next little while.

15m a. Controls over the Proper Activities

8:55-
9:10

As we just discussed, a first criterion of an effective control system is that we must control the proper activities.

People will direct their activities (1) towards the items that are controlled and (2) to meet the control standards. Therefore, the activities must be carefully chosen. Often, the sets of activities controlled must also be carefully balanced.

Two examples follow (the leader may use one, both, or neither example as he sees fit).

- o A study showed that teachers of composition can be grouped between those who place primary emphasis on grammar, on spelling, on penmanship, on vocabulary, and on idea content. Their students reflected these biases in the teachers' "control systems" by also placing their primary emphasis on these same factors -- to the detriment of good, overall writing.
- o Another example is whether the military leader in peacetime places his major attention (1) on the troops being in proper dress and able to go through parade-ground drills with great precision or (2) on the ability of the men to shoot straight, their skill levels in combat training, and the like? Too many local military commanders place the greatest emphasis on what is often called "spit and polish" and not on combat readiness. This is, in large part, because on inspection visits of higher-level commanders, it is often only the performance of the troops on parade that is observed and that serves as the basis for evaluation of the leadership of the local commanders.

In the field of financial management:

- o does our control system place its major emphasis (1) on market collectors showing up on time and proper dress or (2) on the turning in to the treasurer's office of all money collected?
- o or does the treasurer or chief accountant place undue emphasis:
 - on neatness of accounts, or
 - on accuracy of accounts, i.e., on addition and subtraction of figures, or
 - on timeliness of completion of accounts, or
 - on getting the section's work done by the official closing hour, or
 - on not "rocking the boat", i.e., not raising issues that are unpleasant for management to face?

Exercising expenditure control in a way that involves undue emphasis on any one of such factors as the above could have the result of sabotaging the entire control effort.

As Section B of Item #17 indicates, in assuring that the proper activities/expenditures are controlled:

- o Expenditures selected should be critical to accomplishment of program results.
There is no point in controlling activities not essential for achievement of the desired performance objectives.
- o Expenditures to which the control systems are to apply should be those for which expenditure levels are meaningful.
There is no point in spending a lot of costly effort to control expenditures that are so small as not to be significant.
- o Expenditures selected should be those that can be adjusted if findings from the control system warrant.
There is little point in controls if corrections are not possible in the expenditures being controlled.

Discussion

15m b. Timely Controls

9:10
9:25

A second criterion of an effective control system is that controls must assure provision of needed information on a timely basis.

- o In a local authority, the control system may not generate information on actual receipts rapidly enough to permit making appropriate corrections in expenditure activities within the given week or month or year.
- o Or, reports on work being accomplished in a road maintenance operation may not be made available quickly enough to permit adjusting manpower expenditures effectively and efficiently on a day-by-day basis.

Query: What are added examples?

Answer: The leader should list responses on a flip chart.

To summarize, as noted in Section C of Item #17, for controls to be sufficiently timely:

- o Variance reports should be prepared rapidly enough that they can be acted on to correct performance.
- o Corrective actions should, to the greatest extent, still be possible.

Discussion

15m c. Accurate Controls

9:25-

9:40

A third criterion of an effective control system is that the data measurements be both taken and reported accurately.

Management is expected to take corrective actions based on the findings of the expenditure control system.

- o Yet measurements are often imprecise.
- o Moreover, honest (i.e., unintended human) errors are sometimes made.
- o In addition, pressure to achieve the pre-set control standards sometimes leads to falsification of control system reports.

It is widely known that field commanders and political leaders often report more casualties on the part of the enemy and fewer on the part of their own troops than actually occur. The costs of this may well be perpetuation of an armed conflict well beyond the time when a negotiated settlement -- or even surrender -- or other corrective action -- would be appropriate.

Query: What are examples illustrating the issue of accuracy of control data in the area of expenditure management and control?

Answer: The leader should note responses on flip chart. Three additional examples are as follows.

- o It is not uncommon to report less siphoning off of expenditure monies by collectors and others than supervisors know occurs.
- o To make his payables section look better, figures may be fudged by the chief accountant on reports of the average number of days required by the accounting staff to pay invoices.
- o Data on work performed by local authority hourly employees may not be accurate enough to assure that the authority is getting fair value for wages paid.

As Section D of Item #17 indicates, in order to assure the accuracy of control measurements:

- o The item measured should be capable of being accurately measured.
- o Honest errors (i.e., unintended human errors) should be kept to a minimum.
- o Falsification of control system data should be prevented.

Discussion

15m d. Cost-effective Controls

9:40-
9:55

Since control systems themselves involve costs, a fourth criterion of an effective control system is that the system of controls must be cost-effective in relation both (1) to the expenditure amounts involved and (2) to the results being achieved through the control system's operation.

It is common for government offices and business firms to complain vigorously about the costs involved in meeting the demands of higher organizational levels or central government agencies for information for regulatory and control purposes.

Query: What are some of the costs that are involved in expenditure control systems?

Answer: Responses should include such items as the following.

- o Costs of space, equipment and supplies: e.g., computers, cash registers, other calculating equipment, safes, files, paper, reproduction equipment, etc.
- o Costs of specialized personnel: e.g., accountants, inspectors, controllers, auditors, supervisors, etc.
- o Costs of time of operating personnel: e.g., time spent in preparation of reports; time spent providing data to and otherwise working with specialized expenditure management and control staff; etc.
- o Any others?

One thing that can lead to excessive control system costs is unrealistically high standards for inspection.

Query: Is it cost effective, for example, to subject every item processed and every service rendered to inspection before acceptance and/or payment -- and why?

Answer: The answer is that 100% inspection is seldom feasible. A major reason for this is what would often be the excessively high cost of inspecting every item.

Query: What proportion of transactions should be inspected?

Answer: The answer varies with the type of transaction. However, in many areas there are statistical techniques that can be utilized to determine the answer.

Many firms employing quality control inspectors do not require them to inspect on any 100% basis. Instead they require their inspectors to use Statistical Quality Control "SQC" principles and techniques in which control is based on inspection of either random -- or carefully structured -- samples of a carefully selected size. SQC uses probability theory to determine how many transactions out of a given total should be inspected to assure a given level of confidence in the results.

For example, assurance of the reliability of public opinion surveys could extend to a requirement that every member of the population to be surveyed be queried.

Query: There are about 160 million adults in the United States. What is your guess as to how many of these, chosen as a part of a carefully structured sample, would need to be interviewed for the survey results to reflect quite accurately the views of all 160 million?

Answer: The leader should note answers given. It is quite common for a participant to suggest 10% -- which would mean interviewing 16 million persons. Actually, the answer is that major survey organizations in the United States interview some 1200 to 1600 persons on national issues. They know, from sampling theory, that a sample of this size gives a 95% probability that the results will be within, say, 3% of the results that would be achieved by interviewing all 160 million adults.

Again, a recent New York Times poll in Europe set out to secure the views of the populations of Britain, France and West Germany. Interviews were conducted with only 1,951 people in Britain, 994 in France, and 2,007 in West Germany. Polling only this tiny fraction of the total populations of these countries gave a 95% probability that the published results would differ by no more than 3% in Britain and West Germany and 4% in France from what would have been obtained by interviewing every single adult in those three countries.

In most organizations, it would be out of the question to audit 100% of most transactions -- from petty cash disbursements to wage and salary payments to payments of invoices. Instead, an audit of a random sample of carefully determined size is usually considered adequate.

In any case, local authorities should be sure that the cost of the controls is reasonable, i.e., that they are cost-effective.

As Section E of Item #17 indicates:

- o 100% control is often excessively expensive.
- o Sampling often provides an acceptable measure of control at acceptable costs.

Discussion

10m e. Controls That Are Understood and Accepted

9:55-
10:05

A final criterion is that controls must be understood and accepted or they will not be adhered to and rendered effective.

Query: What will happen if the controls are not understood?

Answer: They will not -- can not -- be implemented.

Query: What will happen if the employees do not accept the control system?

Answer: They will find ways around it or will ignore it.

Query: Why is this the case?

Answer: Leader to list answers on flip chart. One important answer is that people resent controls. Moreover, control systems are often viewed as unreasonable and unfair. As noted, this results in the staff's finding ways to "beat the system".

Query: What are some examples of ways that local authority employees find to beat the system?

Answer: One answer follows.

- o One workshop participant gave the example of a treasurer who wanted a purchase to be made from a particular supplier who was a friend. The system called for getting three tenders. The treasurer colluded with the one supplier to get three tenders on different letterheads but from the same man.

Query: What are other examples?

Answer: Leader to note responses on flip chart.

Discussion

Query: What is required for controls to be genuinely accepted?

Answer: Controls can be imposed by authority. But for them to be truly accepted, people must clearly understand both (1) the value of the activity and (2) the purpose of the control system. If they can also be made to feel that they have (3) a stake in the success of the control system, so much the better. And if there can be some positive pay-off to them for adherence to the system, then it is likely to be really successful.

For example, provide to control staff who achieve an excellent record with regard to accuracy of data some rewards -- e.g., recognition, added responsibility, training opportunities, added pay, or the like.

To summarize, as Section F of Item #17 indicates, with regard to the acceptance of controls by the persons whose activities are controlled:

- o Systems that are not understood cannot be implemented.
- o Systems that are not accepted will not be implemented -- ways will be found to "beat the system".
- o Understanding the value of the activity is important.
- o Recognition by the employee of the importance of the control system is important.

The objective should be to get the employee to fully support the system and its values.

Discussion

5m E. STEPS IN THE MANAGEMENT AND CONTROL OF EXPENDITURE

10
10

The process for the management and control of expenditures can be broken down into a series of logically-related parts or steps. It is important to know and understand these steps. Following them carefully will greatly improve the results that will be achieved by financial managers of local authorities.

Query: What are these four steps?

Answer: The answer follows (leader to put on flip chart).

- o First step: Set standards or performance objectives.
- o Second step: Measure and record performance.
- o Third step: Analyze and communicate results.
- o Fourth step: Take corrective action.

Refer to Item #18: Steps in the Management and Control of Expenditures.

These above major points and the added subordinate points outlined in Item #18 constitute a road map of where we will be going in this workshop over the next several hours. (The leader should describe briefly, but not discuss in any detail, the contents of this item).

10m 1. First Step: Set Standards or Performance Objectives

10:
10:

The first step in managing and controlling expenditures is to establish standards of performance.

a. What is a Standard?

Query: What is a "standard"?*

Answer: Note responses. But in this workshop, we can adopt the following definition:

- o A standard is a pre-set measurement that can serve as a reference point for evaluating results.

* The dictionary says:

- o "Something set up by authority as a rule for the measurement of quantity, weight, extent, value, or quality", and
- o "Standard applies to any definite rule, principle or measure established by authority."

15m b. Plans as a Source of Standards

10:20-
10:35

Our overall plans will, of course, help to provide us with performance standards with regard to the making of expenditures.

Indeed, as a general rule, it is to be expected that all expenditures will be made for the purposes stated in the approved plan and in accordance with the approved budget.

Query: What are examples of types of standards relating to our overall plans that will help us in controlling expenditures?

Answer: Leader to note answers. Some possible answers are as follows.

- o Goals and their standards
- o Objectives and their standards
- o Expenditure figures in approved budgets
- o Policy guidelines
- o Procedures guidelines

Please note that in our earlier workshop on Planning and Budgeting, we emphasized the importance not merely of (1) defining a goal or objective as a simple end to be achieved but of also (2) stating the standards that, when accomplished, would tell us that we have done a good job. These planning standards, as they relate to expenditures, automatically become standards for measuring what kind of a job we are doing in managing and controlling expenditures.

Query: What are some examples of the use as standards of figures contained in plans and budgets?

Answer: Leader to put responses on flip chart and lead discussion.

Refer to Item #19: Plans as a Source of Standards - Concept and Examples.

Five examples of use of planning data as a source of standards are presented in Item #19 as follows:*

o Goals and Their Standards

Construction costs of the new slaughterhouse are not to exceed the figures in the approved project justification.

o Objectives and Their Standards

Capital costs per low-income housing unit are not to exceed Kshs. 100,000.

o Expenditure Figures in Approved Budgets

Salaries and wages for the Parks/Recreation Department in 1987/88 are to total approximately Kenya Pounds 125,000, the figure in the approved Estimates.

o Policy Guidelines

All cash collected from market operations is to be turned in to the cashier at the end of each day.

o Procedural Guidelines

Receipts for bus park vehicle charges are to be recorded in numbered receipts contained in numbered receipt books issued by the treasurer. One copy is to be retained by the bus park collector. Two copies are to be given to the vehicle driver. One of his two copies is to be turned in to the bus park exit employee on exit of the vehicle.

Discussion

15m MORNING BREAK

10:3
10:5

*The examples throughout these participant materials are just that, i.e., examples -- to illustrate teaching points. They are not being proposed as real standards to be adopted by local authorities. Do NOT allow a debate as to whether these are or are not good standards substantively to be adopted by local authorities.

10m c. Monetary, Physical, and Time Standards

10:50-
11:00

Three common categories of expenditure standards are (1) monetary, (2) physical, and (3) time. Note that even a simple purchase order will usually specify money to be paid out, quantity and quality of goods or services, and delivery times.

(1) Monetary Standard

Query: What is a "monetary standard"?

Answer: A monetary standard is expressed in shillings and refers to the amount of money that will be paid out. This is, often, the figure stated in the local authority's expenditure Estimates. But, as mentioned earlier, simple adherence to such a monetary standard is not enough by itself to assure good management and control of expenditures.

Query: What does strict adherence to our expenditure budget tell us about what we have gotten for our outlay?

Answer: Nothing. So we obviously need other standards.

(2) Physical Standard

Query: What is a "physical standard"?

Answer: A physical standard states the quantity and, usually, the quality, of the product or service for which shillings are expended. Nor are both monetary and physical standards enough.

Query: What if the proper expenditure amounts have been paid out for goods that meet physical specifications but that have been delivered months after they are needed?

Answer: Then, while our monetary and physical standards have been met, what we have purchased may be useless to us and our expenditures wasted. Thus, we also need time standards.

(3) Time Standard

Query: What is a "time standard"?

Answer: A time standard indicates when the goods and services are to be provided for which the shillings are to pay.

Query: What are examples of monetary, physical, and time standards?

Answer: Leader to put responses on flip chart and lead discussion.

Refer to Item #20: Monetary, Physical, and Time Standards - Concept and Examples.

Three examples of such standards are presented -- for different areas of local authority activity -- in Item #20, as follows (again, these are just hypothetical examples, not recommendations).

- o Monetary standard: Expenditures for maintenance of parks are not to exceed Kshs 100 per day.
- o Physical standard: Five-man road maintenance teams are to maintain approximately 500 linear meters of road surface per day.
- o Time standard: Invoices are to be paid (1) consistent with the terms where terms have been specified and (2) otherwise so as to average 35 days from receipt of goods and services.

Discussion

20m d. Standards Set as an Administrative Task

11:00-
11:20

Many of the more detailed standards that we will need will not emerge automatically as a result of our broad planning and budgeting. Indeed, added, more detailed standards will almost always need to be constructed as a deliberate effort of management, often in the form of regulations, policies, and procedures.

There is an endless number of possible standards for managing and controlling expenditures that ordinarily need to be developed on such an ad hoc basis.

Query: What are some examples of administratively-developed standards utilized in your local authorities for controlling expenditures?

Answer: Leader to note answers and lead discussion.

Refer to Item #21: Standards Set as an Administrative Task - Concept and Examples.

Five examples of such administratively-developed standards are presented in Item #21, as follows.

- o Overtime costs should not exceed 5% of the total wage payroll.
- o Average petrol usage of not less than five kilometers per liter should be achieved for the local authority's trucks.
- o Invoices for which payment terms are defined in advance should be paid in accordance with those terms -- but not materially in advance of them (e.g., bills due in 45 days should be paid only slightly in advance of 45 days).
- o At least 90% of invoices for which no payment terms have been defined should be paid between 25 and 30 days of provision of the goods and services or submission of invoices, whichever comes later.
- o In light of anticipated seasonality of cash flow, expenditures for road maintenance should be phased by quarter: 30% in January-March, 15% in April-June (long rains), 35% in July-September, and 20% in October-December (short rains).

While standards for the management and control of expenditures will usually relate directly or indirectly to plans and budgets, most will need to be specifically constructed along the lines of the above examples.

Discussion

20m e. Intrinsic Value, or Worth, of the Results of Expenditures as Standards

11:20-
11:40

We can also look on the primary task of expenditure management and control as that of assuring that what we get for our expenditures is worth the cost. This is the concept of the intrinsic value of the results achieved by the expenditure.

Query: What do we mean by the "intrinsic value" of an expenditure?

Answer: The intrinsic value is the actual worth of the expenditure to the wananchi of the area served by the local authority. The intrinsic value to the community of an expenditure, e.g. for paving a given road, should be equal to or exceed the intrinsic value to the wananchi of (1) simply keeping the shillings raised from them or (2) expending the shillings on some alternate purpose(s).

To use such a standard in managing and controlling expenditures involves the making of value judgments by experienced people. So be it. Making value judgments is the task of both politicians and administrators.

Query: What are some examples in your local authorities of intrinsic value or worth of results of expenditures as standards?

Answer: Leader to put responses on flip chart and lead discussion.

Refer to Item #22: Intrinsic Value or Worth of Expenditures as Standards - Concept and Examples.

Three examples of standards based on intrinsic worth are presented in Item #22, as follows.

- o The value to the wananchi of the results of expenditures on primary school education should be at least equal to the value to them of spending the same funds on other local authority programs.
- o Funds spent on paving secondary roads should not exceed the value to the wananchi of (i) the paving of such roads versus (ii) leaving the roads unimproved and utilizing the funds for other priority purposes.

- o Funds spent on constructing a stadium should produce benefits for the wananchi equal to or greater than what would result from a different use or uses of the same funds.

This concept of intrinsic value is an implicit standard relating to most or all expenditures. Indeed, the central consideration in all planning is the difficult but necessary determination among priorities in use of resources. Such determinations always depend upon judgments as to the intrinsic value or worth of one use of funds versus another use of the same resources.

Discussion

n f. Indicators/Ratios as Standards

11:40-
12:00

We must always attempt to assess the value of results achieved relative to the value of the resources utilized. However, as implied in the preceding discussion, in very many cases, no definitive measure exists of the appropriateness or value of an expenditure.

In an effort to shed as much light as possible on whether an expenditure is achieving the results intended, most organizations do the next best thing. This is to develop performance indicators, usually in the form of ratios.

(1) Ratios

These ratios often take the form of an evaluation of (1) the quantitative or financial results achieved related to or divided by (2) the resources utilized to achieve the results.

Query: What are some examples of such indicators or ratios used as standards in your local authorities?

Answer: Leader to put answers on flip chart.

Refer to Item #23: Indicators/Ratios as Standards - Concept and Examples.

Section B of Item #23 illustrates the basic mathematical technique used in calculating performance ratios and gives four examples as follows.

Results

Resources = Performance Indicator

Some examples follow.

<u>collections per collector per month</u> <u>market days per month</u>	= collections per collector per day
<u>... sheets of paper used per month</u> <u>... average employees per month</u>	= sheets of paper used per employee per month
<u>... sewerage system upkeep costs</u> <u>number of connected building units</u>	= costs per connected unit
<u>... overtime costs per week</u> <u>total wage costs per week</u>	= overtime costs as percent of total wages

15m (2) Return on Investment (ROI)

12:
12:

The business community often utilizes the concept of Return on Investment or ROI as a standard,

Query: What do we mean by "Return on Investment"?

Answer: This is the ratio of (1) the net return that owners receive on an investment to (2) the amount of that investment. It is also a measure that permits comparing the relative value of the use of the owners' funds among diverse purposes. Examples of alternative uses might be for (1) an advertising campaign versus (2) expanded production of a given product versus (3) manufacture of some new product not now included in the current product line.

The ROI concept is less often applicable to local authorities than to business firms and often does not provide a truly definitive guide to action. However, it can still be useful in limited ways.

Query: Where might ROI be useful in determining, or evaluating, expenditures by a local authority?

Answer: ROI can be useful for evaluating proposed capital investments:

- o where an expenditure -- or its size and scope -- are not dictated solely by public necessity, or
- o where a choice needs to be made between two or more possible patterns of expenditure to achieve a given objective.

An example might be whether to undertake an optional project like establishing a stone crushing plant or building or expanding a slaughterhouse. Here, calculation of ROI -- i.e., the net return to the local authority from the expenditure -- may well provide some useful guideline on whether the project represents a wise expenditure of public funds.

An example of return on investment as a standard is presented in Section B of Item #24, as follows.

- o The new slaughterhouse is expected to generate a return on investment (or ROI) of at least 15%. That is, on investment costs of Kshs 4,000,000, net income is to equal at least Kshs 600,000 or 15%.

Query: With interest rates of 10%, is a 30% ROI from an optional investment adequate?

Answer: Yes

Query: Is a 4% ROI also sufficient?

Answer: No --- at least not on the basis of ROI alone.

Query: Why is an ROI of 4% not adequate?

Answer: It would be far more desirable to leave the money in the bank and draw interest of 10% on the potential shilling outlay.

Thus, in choosing whether to expend funds for a stone crushing plant, a bus park, a slaughterhouse, or a market, calculation of ROIs for each can help in selecting that project with the greatest economic return for the local authority.

Moreover, after the planned ROI has been calculated (as an aid in determining whether to go ahead with the project), measurement of the actual ROI achieved as the project is implemented will help in managing ongoing expenditures so as to achieve the results intended.

Discussion

Two things should be noted about such ratios or indicators.

- o First, most such ratios do not really tell, by themselves, whether a good job has been done.

The ratio of overtime costs to total wage costs may be high (e.g., 15%) or low (e.g., 2%). Yet, we still will not know from that fact alone whether the overtime was actually required in order to get important work accomplished. Nor will we know whether the true needs, if any, should have been met by an expansion in the regular, full-time labour force.

So, a given result measured as a ratio of results to inputs doesn't tell us by itself whether the results were worth the expenditure. However, this information is better than nothing as we seek for standards for evaluating performance.

- o Second, an experienced administrator is likely to be able to develop a judgmental intuition that will tell him whether, for a given single time period, a given ratio is good or bad.

Do average daily revenue collections for market collector A of Kshs 1500 represent good or bad performance? This ratio is likely to mean nothing to a person whose experience has been in an unrelated area. However, an experienced market master is likely to know intuitively -- i.e., from his past experience -- whether this is good or bad performance.

Discussion

30m (3) Performance over Time and Peer Performance Comparisons

12:15-
12:45

Standing alone, most performance ratios tell us very little about whether our money has been well spent. However, we can do something to make such ratios more useful to us.

Query: What can we do to improve the utility of ratio analysis in light of the above criticisms?

Answer: We can develop comparative data for a broad span of events to which we can compare a ratio calculated for a given single event or result or time period.

Query: With what two types of data can we usefully compare a given ratio?

Answer: We can compare a given ratio (1) first, with data on our own performance over previous time periods and (2) second, with performance achieved by other local authorities or comparable similar organizations.

(a) Performance over Time

Query: What are some examples in your local authorities of comparison of a given performance ratio with similar data on your performance for previous time periods?

Answer: Leader to note responses and lead discussion.

Refer to Item #24: Performance over Time and Peer Performance Comparisons - Concept and Examples.

Two examples of comparisons to similar results achieved over time are presented in Section B-1 of Item #24, as follows.

- o Expenditure for repair and maintenance of sewers per connected housing unit averaging KShs 310 in 1987. This compares with expenditures averaging Kshs 200 in 1984, Kshs 215 in 1985, and Kshs 225 in 1986 (leader to put this series of ratios on a flip chart).

Would not this series of ratios suggest the existence of some problem or special circumstance in 1987 that has driven up average costs -- which issue should be investigated?

- o Market collections by collector A in the range of Kshs 1400-1600 daily for most days. This compares with collections typically dropping to Kshs 500-600 the last two or three days before his payday.

What might we look for here?

(b) Peer Performance Comparisons

The second comparison is to similar results achieved by peer groups, e.g., other persons or organizational units or types of expenditure.

Query: What are example of such possible comparisons of your local authority's performance with those of other similar organizations?

Answer: Leader to note responses and lead discussion.

Two examples of such comparisons are presented in Section B-2 of Item #24, as follows.

- o Market collections by collector A averaging Kshs 1400-1600 per day, no matter to what market area assigned. This compares with collections by collectors B, C, and D averaging Kshs 1900-2100 daily.
- o Expenditures for trash collection averaging Kshs 25 per week per household served. This compares with expenditures averaging Kshs 15 per week for two local authorities with almost identical trash collection requirements.

TUESDAY AFTERNOON (180 minutes, including a 15 minute break, are programmed out of 180 minutes.)

m Call group to order.

2:00-

E. STEPS IN THE MANAGEMENT AND CONTROL OF EXPENDITURES, cont.

2:05

1. First step: Set Standards or Performance Objectives.
contd.

g. Workshop Exercise - Setting Performance Standards

Now, let's try our hands at setting standards for the management and control of expenditures.

Refer to Item #25: Workshop Exercise - Setting Performance Standards.

n Form into groups and complete Item #25 putting results on flip charts. The leader should stress that these standards are to be for ongoing programs in the operating or recurrent budget. They are NOT to be for capital construction projects.

2:05-

3:05

m Groups are to report on results using flip charts for that purpose.

3:05-

3:35

Discussion

m AFTERNOON BREAK

3:35-

3:50

2. Second Step: Measure and Record Performance

The second step in managing and controlling expenditures is the actual measurement of performance. To accomplish this involves four sub-steps.

- o First, we must determine the precise nature of what we are to measure.
- o Second, we must determine how we are to take the measurement.
- o Third, we must actually make the measurement.
- o Fourth, we must record the measurement in a useful way.

Let's briefly discuss each of these sub-steps in turn.

15m

a. Decide What Is To Be Measured

If our performance standards have been properly defined, the question of what we are to measure may already have been resolved. But we must be sure that we have been precise on this score.

Query: If we intend to measure the costs to the local authority of building a new market, what costs might we include?

Answer: Everyone will come up with the first answer below, but be sure the question of inclusion of the last three items is also discussed.

- o Costs involved in the construction contracts let with outside firms
- o Pre-construction planning costs by the local authority
- o Costs of any labour provided by the local authority's own labour force
- o The value of expenditures or services-in-kind provided by harambee contributions

3:5
4:0

Query: If we are calculating the costs of labour contributed to a program or project by the local authority, what costs might we include?

Answer: Answers might include the following (discuss each category).

- o The immediate out-of-pocket costs of direct labour
- o Costs of benefits including uniforms and transportation of workers to the site
- o Costs of allocated overhead to the project of council, clerk, treasurer, and others

Refer to Item #26: Decisions on What Is To Be Measured -- Concept and Examples.

Two examples of decisions that we might reach are presented in Item #26, as follows.

- o In order to measure true costs of building a new market and to be able to calculate true return on investment, costs included might comprise not only (1) contract costs but also (2) costs of labour and other resources contributed by the local authority and (3) loan servicing costs.
- o Contributed costs by the local authority might include (1) estimated planning costs, (2) direct labour costs, (3) other personnel support, (4) supplies and equipment, and (5) allocated overhead.

Query: What are other examples?

Answer: Leader to put responses on flip chart

Note that the answer to the question of what is to be measured depends on the purpose of the measurement.

Discussion

20m b. Determine How Measurements Are To Be Taken

4:0
4:2

The next question is how we are to take our measurements.

Query: What decisions do we need to make in measuring temperatures officially recorded by our local authority for transmission to the national weather service?

Answer: Such decisions as the following.

- o Centigrade or fahrenheit?
- o In the shade or in the sun?
- o Always at a given hour and minute or at any time during the day?
- o With the thermometer in a structure protected both from direct rays of the sun and from indirect reflection of such rays or out in the open?

Query: What decisions do we need to take in determining a count of employees at work in a given day in order to determine average costs per working employee?

Answer: We need to decide on what numbers to use for our employee count. For example, is it to be a count taken:

- o as of the very beginning of the work day, say 8:00 a.m.?
- o or at 9:00 a.m. so as to include late arrivals?
- o or is it to be the maximum count of those who appear sometime during the day plus those excused by their superiors for legitimate reasons?
- o or something else?

Note that the answer to the question of how the measurements are to be taken also depends on the purpose of the measurements.

As noted earlier, manufacturing firms must decide whether to inspect (1) every item produced or (2) just a sampling of them. The mathematical science involved in determining what size sample of a given production run will provide a given level of probability of satisfactory quality for the entire run is, as noted earlier, called Probability Theory. The particular statistical techniques applicable here are those developed in Statistical Quality Control (SQC).

Applying this sampling notion to management and control of expenditures by local authorities:

- o What number or percentage of vehicles that have entered a bus park should an inspector check to assure (by examining a copy of their receipts) that drivers are paying the proper entrance fee?
- o What percentage of expenditure transactions should be verified by the local authority's internal auditor? Would it be the same percentage for the auditor from the Office of the Controller and Auditor General?
- o What proportion of the documentation for petty cash expenditure reimbursements should be checked by a member of the treasurer's staff before replenishment of a given department's petty cash fund?

Refer to Item #27: Decisions on How Measurements Are To Be Taken -- Concept and Examples.

Five hypothetical examples of possible decisions on how to take given measurements are presented in Item #27, as follows.

- o Temperatures to be reported to the national weather service are to be taken in centigrade by a thermometer placed five feet above the ground in a grassy park area and sheltered with 3/4" lumber from both direct and indirect rays of the sun.
- o In calculating average costs per working employee for a given day, labour costs are to be divided by the number of employees reported as at work by noon of that day.

- o Inspectors are to verify, through three unannounced inspections per day, that entrance receipts are held by all vehicles in the bus park at these times
- o The internal auditor is to review 10% of all payment transactions by comparing budget authority, delivery receipts, invoices, and disbursement checks.
- o Replenishment of petty cash funds is to depend on examination of every disbursement transaction document.

Query: What are other examples used in your local authorities?

Answer: Leader to put responses on flip chart.

Part of this question of how a measurement is to be taken relates to when it is to be taken. Some measurements can only be taken on a real-time basis, i.e., while the event is occurring. Others can be undertaken long after the event has been completed.

Query: What are examples of measurements that can only be taken during the event?

Answer: Leader to note responses. Two possible answers are as follows.

- o The temperature of any object
- o The number of vehicles in a bus park that have not paid entrance fees

Query: What are examples of measurements that can be taken after the event?

Answer: Leader to note responses. Two possible answers are as follows.

- o The ratio of expenditures for upkeep of the sewerage system to the number of connected building units
- o The quantity of supplies utilized for a given project or program

15m c. Make the Measurements

4:25-

4:40

Knowing, precisely, (1) what is to be measured and (2) how we are to take the measurements, we can now proceed actually to measure performance.

Query: In what three categories can we classify ways to measure performance?

Answer: Leader to note responses. One such set of three categories is the following.

- o General observation
- o Individual inspections, tests, samples, etc
- o Automatic methods (e.g., computer reports; tabulators on copy machines that record numbers of copies)

Query: What are examples in your local authorities of each of these three methods of measuring performance?

Answer: Leader to note responses.

Refer to Item #28: Making the Measurements -- Concept and Examples.

Examples of each of these three methods are presented in Item #28, as follows.

- o General observation: The physical maintenance of the council headquarters buildings is noted by the clerk on a daily basis.
- o Individual inspections, tests, samples: The chlorine level of the water is measured daily by the department's chemist.
- o Automatic methods: The dry-copy reproduction machine operates only by individual plastic cards issued to each department so as to record and charge to each department the number of copies produced on its behalf.

20m d. Record the Measurements

4:40-
5:00

It is important, finally, to record the measurements in a clear and useful way. This requires designing systems and forms that will accomplish this purpose. Certainly, leaving the results buried in ledger books is not enough.

Query: What are some examples of the recording of measurements?

Answer: Leader to put responses on flip chart.

Refer to Item #29: Recording the Measurements - Concept and Examples.

Four added examples are provided in Item #29, as follows:

- o April: Average age of invoices at time of payment was 35 days.
- o May 10, 3:00 p.m.: Drivers of 3 matatus in the bus park could not produce entrance receipts.
- o Market Collector A:

	<u>Kshs</u>
June 9	415
June 10	837 (market day)
June 11	320
June 12	340
June 13	875 (market day)
June 14	425

- o Cash book balances at end of day:

	<u>Kshs</u>
June 9	18,737
June 10	9,005
June 11	137
June 12	6,743
June 13	9,202

MAKE EVENING READING ASSIGNMENT: Item #s 30 through 35.

WEDNESDAY MORNING (285 minutes, including a 15 minute break, are programmed out of 285 minutes.)

a Call group to order.

F. STEPS IN THE MANAGEMENT AND CONTROL OF EXPENDITURE, contd.

8:00-
8:05

3. Third Step: Analyze and Communicate Results

Once we have measured and recorded our performance, we can move on to the third step in managing and controlling expenditures. This is analyzing and communicating the results.

Query: What are the four main sub-steps involved in analyzing and communicating the results?

Answer: The four sub-steps are as follows.

- o First, compare performance with standards and determine the variances.
- o Second, determine the reasons for the variances.
- o Third, determine the significance of the variances.
- o Fourth, communicate the findings to those who need to know how we are progressing and who are able to take any needed corrective action.

Along the way, we must determine the timing of our analytical approaches and the timing of the reporting. Let's discuss each of these sub-steps in a little more detail.

m a. Compare Performance with Standards and Determine Variances

8:05-
8:30

First, we must compare results with standards and determine the variances. Note that we should be comparing not just actual expenditures with budget. We should also be comparing quality and quantity with specifications. And we should be comparing timing of results with the timing called for in our specifications or plans.

Query: What are some examples of comparisons of measurements with standards that you actually make in your local authorities?

Answer: Leader to list answers on flip chart.

Refer to Item #30: Analysis of Results of Performance Measurements -- Concept and Examples.

Four examples of this are presented in Section B-1 of Item #30. For each of the four actual measurements noted in the previous Item #29, we have stated our standards in the first column of Item #30.

Determination of Variances

	<u>Standards</u>	<u>Actuals</u>	<u>Variances</u>
(i)	Average age of paid invoices is 28 days	April: 35 days	7 days or 25% over standard
(ii)	All vehicles in park have paid entrance fees	May 10, 3 p.m.: 3 matatus have not paid	3 matatus
(iii)	Collectors averaging some Kshs 350-400 on ordinary days and Kshs 825-875 on market days	June 9-14: collectors averaging Kshs 375 on ordinary days and Kshs 856 on market days	Substantially met standards
(iv)	End-of-day bank (cash book) balance never to fall below Kshs 5,000	June 9 18,737 June 10 9,005 June 11 137 June 12 6,743 June 13 9,202	Met standard except on June 11 when balance dropped to Kshs 137

10m b. Determine the Reasons for the Variances

8:30-
8:40

Second, we must determine the reasons for the variances. This is done for the above four measurements in Section B-2 of Item #30, as follows:

Reasons for Variances

- (i) Payment of invoices were delayed in April because two accountants were on vacation.
- (ii) 3 matatus without entrance receipts appears to involve collusion on the part of the bus park collector and matatu drivers.
- (iii) No variance in market collections.
- (iv) End-of-day balance on June 11 dropped to Kshs 137 because hief accountant failed to monitor status of bank (cash book) balances that day.

15m c. Determine the Significance of the Variances

8:
8:

Third, we must determine the significance of the variances for us (i.e., for successful implementation of our plans and achievement of our objectives). This is done for the above four measurements in Section B-3 of Item #30, as follows:

Significance of Variances

- (i) Delay in April in payment of invoices is not significant in view of reasons; expect performance to improve in May.
- (ii) Likely collusion in collecting bus park fees is sufficiently serious as to require considering terminating bus park fee collector.
- (iii) No variance in market collections
- (iv) Possible future overdrafts if situation not corrected.

Discussion

Along the way, we must determine the timing of the analytical approaches. We can divide the analytical approaches into two categories based on considerations of timing.

Query: What are these two categories of analytical approaches based on consideration of timing?

Answer: The answers being sought here are as follows:

- o Analysis of results versus standards occurring during the event -- or real-time methods
- o Analysis of results versus standards made after the event - or post-facto or after-the-event methods

Query: What are some examples of real-time measurements relating to management and control of expenditures in your local authorities?

Answer: Leader to put responses on flip chart.

Refer to Item #31: Determining the Timing of the Analytical Approaches -- Concept and Examples.

Section B-1 of Item #31 presents four examples of real-time methods, as follows:

- o Real-time methods:
 - Inspection of goods as they are being delivered
 - Inspection of segments of road laid each day
 - Continuous recording of bank balances (cash book balances) each time checks are written and deposits are made
 - Evaluation of size and adequacy of petty cash balances each time that a withdrawal is proposed

Query: What are examples of post-facto or after-the-event analytical methods?

Answer: Leader to write responses on flip chart.

Section B-2 of Item #31 presents two examples of post-facto analytical methods, as follows.

- o Payment vouchers processed per accounting employee per week
- o End-of-month audits of expenditure transactions to determine conformance with policies, procedures, and accounting standards and practices.

Discussion

10m d. Communicate Findings to Those Able To Take Corrective Action

8:55
9:05

Fourth, we must communicate our findings to those who need to know how we are progressing and who are able to take any needed corrective actions.

Here, too, we must concern ourselves with the timeliness of the reporting. Too frequently, the findings from excellent analysis are reported so late as to have little impact on the taking of corrective actions.

Query: What are some examples of measurements and analysis reported too late to have much impact on performance?

Answer: Leader to note responses on flip chart.

Refer to Item #32: Determining the Timing of Reporting -- Concept and Examples.

Item #32 presents two examples of problems that exist in this area, as follows.

- o Audits and recommendations for action by the Office of the Controller and Auditor General too late to have much effect on long-term results -- and, of course, none on results for the period being audited.
- o Reports on actual expenditures for a financial year versus the Estimates approved more than a year earlier provided to the Ministry of Local Government -- and to the local council and its finance committee -- not only (1) long after the year has ended but also (2) many months after the completion of the Estimates for the next year.

In order to assure that expenditures are constrained within the estimates, evaluation reports on expenditures to date must be provided to financial controllers and line managers on a very current basis. And, of course, the closer to real-time reporting, the better.

4. Fourth Step: Take Corrective Actions

The fourth step in the process of managing and controlling expenditures is to take corrective actions. Without this step, the preceding steps are of no purpose.

25m

a. Short-Term versus Long-Term Corrective Actions

9:05-
9:30

It is useful to categorize -- again on the basis of timing -- corrective actions into two broad categories.

Query: What are these two time-differentiated broad categories of corrective actions?

Answer: They are as follows.

- o First, short-term actions, taken immediately, to correct performance
- o Second, long-term actions, taken over longer periods of time, also to correct performance

Perhaps an even more meaningful way of distinguishing between these two categories is in regard to what is corrected.

- o In short-term actions, steps are taken to affect behaviour and results within the context of current plans and systems.
- o In long-term actions, steps are taken to affect behaviour and results by more fundamental changes to plans, systems, and resources.

Query: What are examples of short-term and long-term corrective actions that you take in your local authorities? (It is not necessary for participants to confine their examples to the area of expenditure management and control).

Answer: Note responses on flip chart.

Refer to Item #33: Short-term versus Long-term Corrective Actions -- Concept and Examples.

Four examples of short-term corrective actions are presented in Section B-1 of Item #33, as follows:

- o In U.S. space satellite flights of a few years ago when many heat-deflecting tiles peeled off the satellites' exteriors:
 - reformulate the adhesive that fastened the tiles to the satellites' surfaces.*
- o When examination of goods being delivered shows a failure to meet specifications:
 - reject the delivery on the spot.
- o When the volume of mosquito--destroying chemicals purchased and delivered is found to be insufficient to have the desired impact on malaria protection:
 - postpone the field work in applying these products to swamps and ponds until sufficient supplies can be secured.
- o When figures in expenditure registers are found not to total and cross--check properly:
 - re-add and re-balance all relevant ledger accounts.

Four examples of long-term corrective actions are provided in Section B-2 of Exhibit 33, as follows:

- o As a result of the January 1986 U.S. space shuttle disaster at Cape Canaveral when the booster section and shuttle exploded and all seven crew members were killed:*
 - postpone future shuttle flights for a year or so,
 - replace key National Aeronautics and Space Administration (NASA) personnel,
 - place increased emphasis on flight safety in the decision--making processes of NASA,

*Real-world example

- redesign the booster section seals, developing also a backup system for them, and
- re-evaluate the safety of all components deemed critical to the shuttles' success.
- o When products procured fail to achieve the results intended:
 - postpone further procurement and use until the specifications can be redrawn
- o When the mosquito-destroying chemicals are found to have unacceptable ecological impacts:
 - postpone further use until reasearch chemists can develop improved products.
- o When available financial reports are found not to measure performance in a directly relevant way:
 - restudy and redesign the accounting and management information systems to meet better the needs of the treasurer, clerk and council.

You are taking a short-term corrective action when you can directly act to improve immediate results

You are taking a long-term corrective action:

- o when performance cannot be improved until you can modify:
 - the resources applied, or
 - the way the work is performed, or
 - the budget, or the objectives, or perhaps even the goals themselves, or
- o when, for any other reason, the action taken will not result in an improvement for an extended time period.

Query: Are we more likely to take needed short-term or long-term actions?

Answer: We find it much easier to take immediate steps to correct performance where this is feasible. Taking long-term corrective actions is much more work and represents an effort that we are likely to put off indefinitely.

There is also a moral here. Let's not wait to take a needed long-term corrective action until we are struck by disaster -- such as the Cape Canaveral space shuttle explosion. Let's strengthen our resolve to do the hard thinking required to modify our resources, systems, and plans when that is really required in order to get our management of expenditures back under excellent control.

15m b. Real-time vs Post-facto Corrective Actions

9:30-
9:45

Another consideration, which relates mainly to short-term corrective actions, is whether corrective actions are taken (1) concurrent with or (2) after the event.

Some systems for managing and controlling expenditures will result in concurrent or real-time corrective actions. And some systems will result in delayed -- or post-facto -- corrective actions.

Query: What are examples of real time and of post-facto corrective actions in your local authorities?

Answer: Leader to write responses on flip chart.

Refer to Item # 34: Real-time versus Post-facto Corrective Actions -- Concept and Examples.

One example of a real-time corrective action is given in Section B-1 of Item #34, as follows:

- o In depositing funds into and writing cheques against a bank account, the visible decline in cash book balances triggers, in real-time, either a cessation of cheque-writing activity or the deposit of added funds to the account.

And Section B-2 of Item 34 gives two examples of delayed --- or post-facto --- corrective actions as follows:

- o An apparently unwarranted decline in market receipts from collector A results in assignment of a new collector (after, or post facto to, the decline).
- o An audit report demonstrating excessively loose adherence to valid control procedures results in corrective action via increased management attention to the area (after, or post-facto to, the event of loose control)

To summarize; short-term corrective actions may be either:

- o real-time actions that correct performance as it is occurring, or
- o post-facto actions that correct performance after the measurement is taken and the analysis is completed.

All long-term corrective actions are, by definition, post-facto actions.

Discussion

30m c. Corrective Actions Regarding People versus
Corrective Actions Regarding Objective Factors

9:45-
10:15

Another consideration to note is that corrective actions will sometimes be taken in regard to people and sometimes in regard to plans or systems or transactions or equipment.

- o People may be (1) trained, or (2) motivated through leadership, or (3) rewarded, or (4) punished or terminated, all as means to better management and control of expenditures.
- o Things also may be affected by our corrective actions when we, e.g., change our plans, or strengthen our control systems, or get in better computing equipment, or change our organization pattern, or modify our delegations of responsibility, authority, and accountability.

(1) Problems in Expenditure Management Frequently Due to Non-people Factors

Query: Are our problems in managing and controlling expenditures most often ones that most basically relate:

- o mainly to people, or
- o mainly to plans, systems, equipment, organization, and other such inanimate factors?

What is the evidence for your answers?

Answer: Note answers given by participants. However, the leader should place emphasis on the following point.

- o The inexperienced observer is likely to blame most poor performance in management and control of expenditures on people. However, most such problems really have their origins in plans or organization or training or systems or other such objective factors. If nothing else is done, such problems are likely not to go away with the assignment of new people but, instead, to repeat themselves.

Query: What are examples of problems that relate more to objective factors than to people in your local authorities?

Answers: Leader to list responses on flip chart.

Refer to Item #35: Corrective Actions Regarding People versus Objective Factors - Concept and Examples.

Four examples of problems more the result of objective factors than people are given in Section B of Item #35, as follows.

- o Suppose funds are misappropriated by a market collector in a remote area who is expected to retain his collections for several days at a time. Accepting our limited ability to modify human nature, is the basic problem, in practical and pragmatic terms, the dishonesty of the incumbent employee or inadequacies in the financial control system?
- o Suppose accounts must be maintained on loose, unlined sheets of readily-torn paper of various sizes and types, and computations must be performed by mental and written addition, subtraction, multiplication, and division. In this case, are inaccuracies in results the fault (1) of the accountant or (2) instead, at least to some extent, of the inadequate physical resources provided to him?
- o Suppose our organization structure in practice imposes on a manager two or more bosses (e.g., treasurer, department head, and councillor) who make conflicting demands. In this case, may performance shortcomings be the result of unsound organizational arrangements?
- o What about performance deficiencies of the trained mechanical engineer who is asked to supervise and perform technical work in a field well outside of what might properly be expected to be within his competence?

Discussion

Query: What message or moral or conclusion might we reach from this above discussion?

Answer: It is that we should always look, as we attempt to determine what corrective actions should be taken, not just:

- o at the easy solution of disciplining or terminating the employee, but often, more importantly,
- o at the more objective factors that underlie and contribute to performance and that may be mostly or entirely responsible for the unsatisfactory results realized.

In your effort to improve the management and control of expenditures, look carefully at the objective factors -- as well as at the person in the position itself.

Discussion

(2) Corrective Actions Applicable to People Where Necessary

We must, of course, consider what corrective actions should be taken in regard to staff who are ultimately judged to be -- avoidably -- responsible for inadequate performance in managing and controlling expenditures.

Let's however, postpone discussion of this topic until somewhat later in our program.

5. Workshop Exercise - Measure and Record Performance, Analyze and Communicate Results, and Take Corrective Actions

Refer to Item # 36: Workshop Exercise - Measure and Record Performance, Analyze and Communicate Results, and Take Corrective Actions.

15m	Groups should be asked to begin the workshop exercise Item #36, recording results on flip charts.	10:15- 10:30
15m	MORNING BREAK	10:30- 10:45
45m	Groups to complete exercise.	10:45- 11:30
30m	After completion of the exercise, a spokesman for each group should be asked to report on his group's results.	11:30- 12:00
	Discussion	

10m F. EXPENDITURE CONTROLS AND CORRECTIVE ACTIONS
BY EXPENDITURE AREA

12
12

We have now finished looking at the four steps involved in managing and controlling expenditures, as follows.

- o Setting standards
- o Determining how to measure and record performance and then actually recording and reporting performance measurements
- o Evaluating performance against pre-set standards
- o Taking short-term and long-term corrective actions

Workshops such as this require an appropriate balance between theory and practice.

- o These four steps represent the theory, even though we used concrete examples throughout our discussion of them.
- o Now, for the next few hours, we will be looking, area by area, at the actual practice of management and control of expenditures in your local authorities.

Query: What were the three principal classifications of expenditures that we arrived at during the first few hours of this workshop?

Answer: The answer is as follows:

- o by type-of-expenditure or line-item,
- o by department and major program, and
- o by operating and capital.

Refer again to Item #8: Ways of Categorizing Management and Control of Expenditures.

Item #8 categorized expenditure management and controls among these above three major areas. It also added a further category of analysis, namely, expenditure management and controls applicable to organizational levels. We will be discussing controls by these three major areas and in regard to organizational levels for the next little while.

1. Expenditure Management and Controls Applicable to Type-of-Expenditure or Line-item Categories and to Departments and Major Programs

First, let's look at the types of management approaches and controls applicable:

- o to different type-of-expenditure or line-item categories, and
- o to different departments or major programs.

The best way to do this would seem to be to ask you to form into groups and come up with reports based on your own experiences.

Refer to Item #37: Workshop Exercise - Management Approaches and Controls Applicable to Expenditures Classified by Type-of-Expenditure or Line-item Categories and by Departments and Major Programs.

35m Ask the participants to form into groups and complete Item #37. 12:10-12:45

The leader should assign areas to each group. He should avoid giving same group quite similar areas, such as #s 2, 3, and 4.

- o For type-of-expenditure or line-item categories, he should assign areas as follows:

	<u>If Four Groups</u>	<u>If Three Groups</u>
Group 1 :	#s 1, 2 and 7	#s 1, 2 and 7
Group 2 :	#s 1, 3 and 5	#s 3, 5 and 8
Group 3 :	#s 3, 5 and 7	#s 1, 4 and 6
Group 4 :	#s 4, 6 and 7	

- o For departments and major programs, he should assign areas as follows:

	<u>If Four Groups</u>	<u>If Three Groups</u>
Group 1 :	#s 1, 3 and 10	#s 1, 3 and 6
Group 2 :	#s 2, 4 and 7	#s 2, 4 and 7
Group 3 :	#s 5, 8 and 11	#s 5, 8 and 9
Group 4 :	#s 6, 9 and 12	

Groups should be asked to begin the workshop exercise Item #37, recording results on flip charts. (If time is short, the leader could ask the groups to begin by filling out the first column in which performance standards are to be listed, going on to the next three columns only as time permits.)

75m LUNCHEON BREAK

12:
2:

WEDNESDAY AFTERNOON (180 minutes, including a 15 minute break, are programmed out of 180 minutes.)

m Call group to order. 2:00-
2:05

F. EXPENDITURE CONTROLS AND CORRECTIVE ACTIONS BY EXPENDITURE AREA, contd.

1. Expenditure Management and Controls Applicable to Type-Of-Expenditure or Line-Item Categories and to Departments and Major Programs, contd.,

n Continue workshop exercise. 2:05-
3:00
n After completion of the exercise, a spokesman for each group should be asked to report his group's results. 3:00-
3:45

Discussion

m AFTERNOON BREAK 3:45-
4:00

15m 2. Expenditure Management and Controls Applicable to Operating versus Capital Expenditures*

4:0
4:1

Without undertaking another group exercise at this point, let's consider what unique characteristics might relate to management and control approaches utilized for operating expenditures versus those used for capital expenditures.

Query: What unique characteristics might attach to management and control approaches (1) for operating expenditures versus (2) for capital expenditures?

Answer: The leader should try for a free-ranging discussion that, however, elicits important insights. Among the key concepts to bring forward are the four listed in Sections a, b, c, and d below.

a. Short-term versus Lasting Results

Operating expenditures meet current needs and tend to leave only minimal lasting results. Thus, operating expenditures for refuse collection simply meet a current service need.

Capital expenditures, on the other hand, can always in theory -- and frequently in practice -- be judged in terms of a long-term payoff over time from the investment. Thus, expenditures for a public slaughterhouse will always result in a positive (or negative) yield to the local authority.

For example, an investment of Kshs 4 million for a slaughterhouse yielding an annual return after expenses of Kshs. 600,000 can be calculated to yield a return on investment or ROI of 15%.

Of course, other values will be involved in evaluating these expenditures for such a slaughterhouse. Some such values may be positive, such in health and sanitation, stimulation of the livestock industry and meat exports to other towns, etc.,. Conceivably, some such values may also be negative, such as the utilization of scarce public land that will thus no longer be available for other potential uses, etc.

*Note. Skip this section if time is really short.

b. Short-term versus Long-term Corrective Actions

Operating expenditures tend to call for short-term and real-time corrective actions.

Capital expenditures often also call for short-term and real-time actions. On the other hand, capital projects are more likely to require long-term corrective actions regarding resources, schedules, program steps, and even objectives and goals.

c. Own Resources versus Contracted Activity

Operating expenditures mostly relate to direct use of a council's own staff.

Capital expenditures, on the other hand, often require setting standards, devising measurement approaches, making evaluations, and taking corrective actions with regard to the activities of outside contractors.

d. Taking Corrective Actions vis-a-vis Internal Resources versus Contractors

Operating expenditures, similarly, involve corrective actions in regard to council staff, e.g., training, rewards, punishments, and terminations.

Capital expenditures, on the other hand, often involve as corrective actions the monitoring and adjusting of relationships with outside contractors.

Discussion

3. Expenditure Management and Controls Applicable to Organizational Levels

5m

Let us now look at the question of management and control of expenditures as it relates to the several levels of organization.

4:1

4:2

Suppose we consider, as examples, a malaria eradication program and a bus park. It seems obvious that there will be great variations in the kinds of concerns regarding expenditure management on the part of the program or project manager, the department head, the treasurer, the clerk, the council, the Ministry of Local Government, and the Controller and Auditor General. Each organizational level involved will have differing performance standards, systems of measurement of performance, analytical approaches, a proposed corrective actions.

Query: What, for example, are corrective actions that might be taken with respect to a malaria eradication program (1) by the manager of the program and (2) at the other organizational extreme, by the Office of the Controller and Auditor General?

Answer: Such answers as the following (whatever responses are given are certain to illustrate that corrective actions by the local program manager and the Controller and Auditor General will be different

- o The program manager might take such corrective actions as (1) delaying the malaria eradication program until sufficient resources are on hand, (2) firing an ineffective employee -- on a current, real-time basis.
- o The Office of the Controller and Auditor General might point out to the Council the need for (1) improved systems, (2) more timely accomplishment of program objectives, or (3) the existence of misappropriations of funds - on a post facto basis (many months or even years after the event

Refer to Item #38: Workshop Exercise - Management Approaches and Control of Expenditures Applicable to Various Levels of Organization.

40m

Groups should be asked to complete the workshop exercise Item #38, recording results on flip charts.

4:20

5:00

MAKE EVENING READING ASSIGNMENT: Item #s 39 through 57.

THURSDAY MORNING (285 minutes, including a 15 minutes break, are programmed out of 285 minutes.)

m Call group to order. 8:00-

I. EXPENDITURE CONTROLS AND CORRECTIVE ACTIONS BY EXPENDITURE AREA, contd. 8:05

3. Expenditure Management and Controls Applicable to Organizational Levels, contd.

m The spokesman for each group should be asked to report 8:05-
his group's results from the previously completed 8:50
workshop exercise.

Discussion

5m G. SUMMARY OF MECHANISMS FOR MANAGEMENT AND CONTROL OF EXPENDITURES

8:50
8:59

We have looked at the four major steps involved in management and control of expenditures.

We have also looked at management and controls by the three major classifications of expenditures as well as by organizational level.

Now let's look in some detail at control mechanisms categorized by the basic types of mechanisms that we can utilize.

The logical structure that we propose to use is to look at mechanisms relating to the following six broad categories:

- o first, mechanisms related to the budget,
- o second, fund availabilities,
- o third, guidelines,
- o fourth, procedural controls over disbursements,
- o fifth, prompt reporting and analysis, and
- o sixth, motivations and imposition of penalties.

Refer to Item #39: Major Categories of Mechanisms for Management and Control of Expenditures.

These categories and subheadings under each are outlined in Item #39. This item is a road map for the next several hours' discussion. (Do not discuss the contents of Item #39 in any detail since each topic on it will be discussed thoroughly later.)

1. Budget Mechanisms

Several budget-related mechanisms exist for management and control of expenditures.

15m

a. Approvals in Advance of Expenditure that Funds Are Included in the Council's Budget

8:55-
9:10

Let's first discuss requirements for securing approvals --- before an expenditure can be made --- that certify that the proposed expenditure is included in the council's budget.

(1) Expenditures Included in the Budget

Financial managers often control expenditures by requiring that proposals to incur specific expenditures be independently reviewed and approved (usually by a higher organizational level) as being for purposes and within amounts provided in the Council's budget. (Do NOT allow the discussion to get sidetracked on the question of when, and whether or not, the Council's Estimates have been approved by the MLG)

Query: What specific approaches of this type are utilized by participants' local authorities?

Answer: Leader to record on flip chart, categorize, and lead discussion of responses.

Refer to Item #40: Budget Mechanisms for Control of Expenditures - Concept, Factors, and Examples.

Item #40 describes the concept of the budget as a control mechanism.

Section B-1 of Item #40 also gives the following two added examples of approvals that funds are included in the budget before expenditures may be made

- o Purchase orders may include a line requiring approval by the treasurer certifying that the item is provided for in the council's budget.
- o Proposals to hire staff may require written certification by the treasurer that both the position and adequate funds are provided for in the council's budget.

(2) Expenditures Not Included in the Budget

Sometimes, of course, needs arise not envisioned at the time the budget estimates were put together.

Query: What provisions do your local authorities make for proposals for expenditures not originally encompassed in the approved Estimates?

Answer: Leader to record responses on flip chart, categorize them, and lead discussion of them.

15m b. Periodic Allocations of Budgeted Funds for Expenditure

9:10--
9:25

Financial managers can control expenditures by controlling -- or restricting -- allocations of funds budgeted for expenditures.

Query: How can financial managers use allocations of budgeted funds to control expenditures?

Answer: Instead of treating inclusion in the Estimates or budget as an automatic license to spend freely, treasurers may, from time to time, notify spending departments of more limited allocations of funds that may be expended. Such allocations will comprise only a part of the total funds authorized in the budget. And managers of spending departments may also establish schedules by month or quarter of annually budgeted totals.

Discussion

Query: What are some of the factors that might determine the size and frequency of such allocations?

Answer: Leader to list on flip chart the factors suggested by the participants.

Some of these considerations are shown in Section B-2 of Item #40, as follows:

- o Availability of revenue (cash flow)
- o Realistic need of department or project for funds for a reasonable period ahead -- such as for the next month or quarter -- e.g., seasonal or cyclical pattern of expenditure requirements
- o Documentation that funds previously allocated have been fully and properly expended

Discussion

These systems of periodic allocation of funds may be extended to the publication by the treasurer's office of quarter-by-quarter or month-by-month expenditure schedules for departments/programs.

For example, at a workshop in 1986, the treasurer of the Nairobi City Commission reported that he regularly undertook an analysis of fund availabilities and spending needs and issued a monthly schedule of allowed expenditures to all department heads.

Query: What, if any, specific allocation approaches are utilized by participants' local authorities?

Answer: The leader should write responses on a flip chart.

Discussion

Examples of this approach are given in Section B-3 of Item #40 as follows:

- o Publication of monthly expenditure schedules by:
 - major department and/or
 - major program
- o Monthly expenditure schedules geared to:
 - seasonal spending patterns and/or
 - cash flow projections of revenue that will be available to pay for expenditures
- o Expenditures held below annualized levels for most of the year until assurance exists regarding the actual level of annual revenue and, therefore, the real availability of funds for expenditure

2. Fund Availabilities

Let's next discuss ways in which fund availabilities can be utilized as a useful constraint on and control over expenditures.

The basic concept here is that the available balance of funds serves as a very real limitation on the expenditure of funds and sometimes can be utilized as a very specific control mechanism.

15m

a. Cash Flow Projections as a Control Mechanism

9:25-
9:40

Regardless of the provision made in approved Estimates for expenditures, we can't spend money we don't have. Therefore, assuring the availability of cash needed to pay for expenditures is of prime importance.

Query: What approaches and mechanisms exist in your local authorities for determining cash availabilities short-term and long-term?

Answer: Leader to note responses and lead a discussion of them. However, a spectrum of mechanisms exist, including the following.

- o Intuition -- i.e., the experience and judgment of the treasurer and his staff
- o Information from the daily balances in the cash book and from the cash, savings, and investment accounts
- o Cash flow projections

Query: What is a cash flow projection? What does it include? How far out in time is it to be made for? How often should it be revised?

Answer: Leader to note responses. However, a good answer is that a cash flow projection is a projection of future cash receipts and cash expenditures that, taken together with a beginning cash balance, will give projections of cash balances throughout the given period.

The data points included in projections of receipts, expenditures, and balances are usually the ends of months.

Note projections may show satisfactory month-end balances and results may correspond closely to these projections. Yet, it still is possible for expenditures to exceed income at points within a monthly period so as to result in a temporary shortage of cash on certain days.

Meanwhile, expenditures can be confined within the boundaries set by the cash flow estimates to the extent that the treasurer constrains expenditures by such approaches as (1) periodic fund allocations to departments, (2) requiring, and keeping a running total of, outstanding individual advance approvals of all expenditures, (3) etc.

Refer to Item #41: Example of an Initial Cash Flow Projection.

Item #41 illustrates what might be the initial formulation of a typical cash flow projection.

The cash flow projection shown in Item #43 begins with a balance of Kenya Pounds 50,000 and ends with a balance of Pounds 70,000.

Query: Is this an acceptable projection for management and control purposes?

Answer: Leader to note responses. However, the proper answer is "No". While the beginning and ending balances for the 12-month period are satisfactory -- Pounds 50,000 and 70,000, respectively -- for each of six months the end-of-month balances are projected as in deficit by amounts varying from Pounds 13,000 to 132,000. Notice how very possible it is for an excellent overall annual balance of income and expenditure still to contain substantial shortfalls during the course of the year!

Query: Faced with the initial cash flow projection represented by Item #43, what must this treasurer now do?

Answer: Someone may answer that he should arrange for an overdraft at the bank or delay paying the Council's bills. But a better answer is that he must both (1) rephase planned expenditures and impose expenditure controls and (2) take all possible steps to accelerate receipt of revenue. This is so as to ensure that the cash availabilities of the council are not exceeded at any point during the year.

Discussion

Refer to Item #42: Availability of Funds as a Mechanism for Control of Expenditures -- Concept, Definition, and Factors.

Section B of Item #42 provides a definition of a cash flow projection and also points out the following:

- o A cash flow projection, because it will project (in most cases) merely estimates of income and expenditures, will usually be wrong in the event, requiring careful monitoring of actual income, expenditures, and balances on a daily basis.
- o Cash flow projections ought to be prepared on a monthly basis for at least a year ahead and updated each month --- and, under all circumstances, updated at least quarterly.

Discussion

Query: To what extent do participants develop cash flow projections?

Answer: Leader to note responses. Some will say that the annual estimates package submitted to the MLG requires cash flow projections for the year ahead.

Query: How many of your local authorities actually submit such cash flow projections to the MLG?

Answer: Leader to note reponses . But the fact is -- whatever the participants may say -- that some local authorities do not bother with the MLG requirement.

Query: How many of your local authorities update a set of cash flow projections during the year? How often?

Answer: The leader is likely to find (by probing) that few, if any, of the participants' local authorities update cash flow projections during the year. indeed, it is likely that no local authority present actually makes use of cash flow projections to manage its income and expenditures. This is likely to be the case even though this is potentially one of the most useful and powerful tools available for managing and controlling expenditures.

15m b. Petty Cash funds as an Example of an Expenditure Resource Established at a Fixed Size 9:40-9:55

Some mechanisms exist that automatically constrain expenditures within given availabilities. An example is the petty cash fund.

Query: How does the petty cash fund serve as an expenditure control mechanism?

Answer: The approved size of the fund constitutes an absolute limitation on how much can be spent from it until replenishment occurs.

Query: How does a petty cash fund work?

Answer: Leader to put answers on flip chart.

Refer to Item #43: Petty Cash Funds as an Example of an Expenditure Resource Established at a Fixed Size - Definition and Factors.

The process that we have been discussing is illustrated in Section B of Item #43, as follows.

- o funds are allocated by the treasurer for petty cash funds. These funds have usually been established pursuant to (1) recommendations by the concerned department heads and (2) approval by the treasurer and the finance committee.
- o Funds are disbursed to department personnel for approved purposes (transportation, minor expenditures for supplies -- what else?)
- o Persons receiving funds are required to submit documentary evidence of past expenditures from the fund.
- o Replenishment of funds by the treasurer is made contingent on a review of satisfactory documentation of all disbursements from the fund.

Thus the expenditures are controlled by the following.

- o Number of funds established in the local authority
- o Amount of funds authorized for each petty cash account
- o Requirement for documentation of all past disbursements from the funds as the basis for replenishment
- o Ability of the treasurer to withhold full replenishment of a given fund if overall cash availabilities are becoming tight

Discussion

30m

Refer to Item #44: - Section of the Financial Regulations on Imprest and Petty Cash Accounts and Advances.

9:55-
10:25

Item #44 provides the section of the new Financial Regulations on imprest funds and petty cash accounts. Local authorities were asked to adopt these regulations as of January 1, 1987. This is included here as background information because of its relevance to our topic of managing and controlling expenditures.

The leader should ask if participants have any comments regarding this section of these new regulations.

Discussion

15m MORNING BREAK

10:25-
10:40

30m 3. Guidelines

10:4
11:1

A third control mechanism is the publication of guidelines regarding the making of expenditures. Here we are talking (1) not of bylaws, regulations, and procedures (all of which are very relevant to the subject of management and control of expenditures and which will be discussed at a later point) but (2) of more general guidelines as to satisfactory expenditure performance.

a. Local Government or Industry Norms

A first type of general guideline might be relating expenditures to a norm (i.e., the typical or average experience) for a group of local authorities or private firms.*

Query: What examples can participants suggest of the use in their local authorities of norms for other local government bodies or for industry as guidelines for expenditures?

Answer: Leader to note responses and lead discussion of them.

b. Percentage of Sales or Income

A second type of general guideline might be relating expenditures to a given percentage of sales or income.

Query: What, if any, examples can participants suggest of use in their local authorities of percentages of sales or income as guidelines for expenditures?

Answer: Leader to note responses and lead discussion.

* At the conclusion of the discussion of sub-sections a through e of this Section 3, the leader should review the examples given in Item #45. However, prior to leading this discussion, the leader himself should have carefully reviewed the examples so as to be fully equipped to solicit meaningful examples from participants.

c. Extent of Savings

A third type of general guideline might be to base at least part of the level of expenditures on savings realized. This is a standard that is, at least in part, an incentive for improved performance in holding down operating expenditures.

Query: What examples do participants have to suggest of the allocation of part of savings realized as an incentive for managing expenditures? Would introducing this approach be a good idea?

Answer: Leader to note responses and lead discussion of them.

d. Percentage of Added Net Income

A fourth type of general guideline is one that authorizes expenditures in an amount equal to part or all of added net revenue earned above budgeted net revenue. This is similar to standards relating expenditures to savings that we have just discussed. This also is a standard that provides a reward that can serve as an incentive for improved overall performance.

Query: What examples do participants have to suggest of use of a percentage of added net income as a guideline and incentive for managing expenditures? Would introducing this approach be a good idea?

Answer: Leader to note responses and lead discussion of them.

e. Analytically Established Pre-set Standards

A fifth type of general guideline might be a pre-set standard established on the basis of specific analysis of relevant data. This is an approach that is, of course, widely used in all organizations.

Query: What examples do participants have of the use in their local authorities of analytically pre-set standards, based on specific analysis, as guidelines to manage and control expenditures?

Answer: Leader to note responses and lead discussion of them.

Refer to Item #45: Guidelines as Mechanisms for Control of Expenditures - Concepts, Factors, and Examples.

Item #45 sets out examples of some of the possible guidelines that we have been discussing.

The leader should carefully review with participants the examples contained in Item #45.*

* The discussion leader should note that participants are likely not to have had any real experience with the first four of these five categories of general guidelines. But this workshop is intended to add something to the know-how of the participants. Getting them to think constructively about the potential offered by the types of guidelines suggested is, therefore, a workshop objective that the workshop leader should seek to achieve in the above discussion.

4. Procedural Controls

A fourth area of control mechanisms relates to procedures established in bylaws, regulations, and published procedures relating to disbursements. We will discuss nine categories of these.

Refer to Item #46: Procedural Controls over Disbursements as Mechanisms for Management and Control of Expenditures - Concept and Mechanisms.

Item #46 lists nine procedural controls as mechanisms for managing and controlling expenditures. We will discuss each of these in turn.

10m

a. Restrictions on Who May Authorize/Make Expenditures including Procurement and the Like

11:10-
11:20

A first obvious procedural control mechanism is to establish procedural limits on who may and who may not authorize and make expenditures.

Query: What are examples of such restrictions employed in your local authorities?*

Answer: Leader to list responses on flip chart.

Discussion

Refer to Item #47: Restrictions on Who May Authorize/Make Expenditures including Procurement and the Like as a Mechanism for Control of Expenditures - Concept and Examples.

Two hypothetical examples (not necessarily applicable to your councils) are given in Item #47, as follows:

- o Only the treasurer may authorize disbursements for the weekly payroll.
- o Council members may neither authorize individual expenditures nor sign cheques.

Discussion

*Leader to note again the admonition in the footnote on page 5 of this Trainers' document -- especially in regard to this Section 4 a - g.

10m b. Authority Levels by Type of Expenditure and Level of Approving Officer 11
11

A second type of procedural mechanism is the publication of a list of approval and/or expenditure shilling levels by type of expenditure and/or level of approving officer.

Query: What are examples of such prescribed authority levels in your local authorities?

Answer: Leader to list answers on flip chart.

Discussion

Refer to Item #48: Authority Levels by Type of Expenditure and Level of Approving Officer as a Mechanism for Control of Expenditures - Concept and Examples.

Three examples are provided in Section B-2 of Item #48, as follows:

- o The actual making of expenditures (included in the approved budget) may be approved:
 - up to Kshs 500 by section heads,
 - up to Kshs 2,000 by department heads,
 - up to Kshs 10,000 by the treasurer, and
 - above Kshs 10,000 by the finance committee on the treasurer's recommendations.
- o Expenditures may be approved for overtime by department managers:
 - up to Kshs 150 daily for the market, and
 - up to Kshs 100 daily for the slaughterhouse.
- o Department heads may order works or goods of a value not exceeding Kenya Pounds 100.

Discussion

30m

Refer to Item #49: Sections of the Financial Regulations Relating to Monetary Authority Limitations.

11:30-
12:00

Item #49 excerpts from the new Financial Regulations just about every reference to monetary limitations contained in it. It is included here as background information because of its relevance to this discussion of monetary authority levels by type of expenditure and level of approving officer.

The leader should ask if participants have any comments about what these new Financial Regulations prescribe regarding the size of the monetary limitations and what officer is given the authority to authorize expenditures and related actions.

Discussion.

10m c. Requirements for Approval in Advance and for Documentation of Need for Expenditures

Third and fourth types of procedural mechanisms are (1) a requirement for advance approval by a higher or independent officer and (2) a requirement for documentation of the need.

Query: What are examples of requirements in your local authorities for advance approval of an expenditure by a higher or independent officer?

Answer: Leader to list answers on flip chart.

Query: What are examples in your local authorities of requirements for advance documentation of need for an expenditure?

Answer: Leader to list answers on flip chart

Refer to Item #50: Requirements for Approval in Advance and for Documentation of Need for Expenditures as Mechanisms for Control of Expenditures - Concept and Examples.

Four hypothetical examples of these requirements are provided in Item #50, as follows:

- o Needs for expenditures for upkeep of facilities must be described in writing by the market manager, and expenditures for them approved in advance by the treasurer.
- o Requests for transportation and travel by subordinate employees must be justified in writing and approved in advance by the department head.
- o Requests for approval of expenditures for travel must be accompanied by a description of (1) the purposes of the travel, (2) the advantages expected to accrue to the local authority, (3) the itinerary, (4) the time schedule, and (5) the estimated costs.
- o Requests for approval of allocations of council resources -- e.g., money, staff, supplies, and/or major equipment -- for major repair of roads must be accompanied by written identification of the road segments, description of existing conditions, etc.

20m. d. Comparative Quotations and Competitive Binding

12:10-
12:30

Fifth and sixth types of procedural mechanisms relate to comparative quotations and competitive bidding

The first of these two procedural mechanisms is a requirement that approval be given for certain types of expenditures of funds only after some given minimum number of price and delivery quotations has been secured. It may also be required that such proposed purchases be publicly advertised.

Query: What are examples in your local authorities of requirements for securing comparative quotations?

Answers: Leader to list responses on flip chart.

The second of these is a requirement for a formal process of competitive bidding.

Query: What are examples of areas where such a requirement is imposed in your local authorities? What shilling levels are involved?

Answer: Leader to list answers on flip chart.

Refer to Item #51: Comparative Quotations and Competitive Bidding as Mechanisms for Control of Expenditures - Concepts and Examples.

Hypothetical examples of each of these approaches are presented in Item #51, as follows:

Comparative Quotation

- o Bulk purchases of office supplies require securing at least three quotations of which at least one must be invited from a local supplier (if any exists).

Competitive Bidding

- o Procurement of vehicles must be undertaken on the basis of Requests For Bids based on invitations -- accompanied by provision of written specifications -- to at least three suppliers of different makes.

15m e. Physical Verification

12:30
12:41

A seventh procedural control mechanism is the requirement that the provision to the local authority of goods and services be physically verified by a responsible local authority officer.

Query: What are examples of this requirement used in your local authorities?

Answer: Leader to list responses on flip chart.

Refer to Item #52: Physical Verification of Receipt of Goods and Services as a Mechanism for Control of Expenditures - Concept and Examples.

Two hypothetical examples of this are provided in Item #52, as follows:

- o Regardless of who has ordered and received supplies and equipment intended for maintenance of capital items or for capital development, the town engineer must physically inspect, and certify to the suitability of, any such capital item provided to the local authority.
- o Prior to payment for any office supplies and equipment, the stores officer must physically inspect the item for full conformance with all specifications and to ensure that damage has not occurred.

Discussion

75m LUNCHEON BREAK

12:42
2:00

THURSDAY AFTERNOON: (180 minutes, including a 15 minute break, are programmed out of 180 minutes)

5m Call group to order.

2:00-
2:05

G. SUMMARY OF MECHANISMS FOR MANAGEMENT AND CONTROL OF EXPENDITURES, contd.

4. Procedural Controls, contd.

10m

f. Reconciliation of Documents

2:05-
2:15

An eighth procedural control mechanism is a requirement for document reconciliation.

Query: What are examples of this requirement in your local authorities?

Answer: Leader to list responses on flip chart.

Refer to Item #53: Reconciliation of Documents as a Mechanism for Control of Expenditures - Concept and Examples.

An example of this is provided in Item #53 as follows:

- o Prior to payment of any invoice, the accounts payable staff must secure and compare copies of:
 - the original budget provision,
 - the purchase order,
 - the delivery receipt, and
 - the inspection certificate of the town engineer or stores officer or department head,
- o to ensure proper funding approval, conformance to specifications, and condition of delivered item.

Discussion

5m 9. Post-Expenditure Audit

2:15
2:20

A ninth procedural control mechanism is the post-expenditure audit. Such audits may be (1) of the physical receipt of goods on completion of projects or (2) of the transaction documents.

Query: What are examples used in your local authorities of audits of physical receipt of goods on completion of projects?

Answer: Leader to list responses on flip chart.

Query: What are examples in your local authorities of audits of transactions documents?

Answer: Leader to list responses on flip chart.

Refer to Item #54: Post-expenditure Audit as a Mechanism for Control of Expenditures - Concept and Examples.

Two hypothetical examples of audits of physical receipt of goods on completion of projects are provided in Section B of Item #54, as follows:

- o The internal auditor may check physically for the whereabouts of the twelve new chairs reported as procured during the preceding quarter.
- o The MLG inspector may verify the satisfactory erection of the 32 housing units included in the estate project reported by the council as completed the previous year.

Two hypothetical examples of audits of transaction documents are provided in Section C of Item #54, as follows:

- o The internal auditor may audit (1) cancelled checks against schedules of payments authorized by, or reported after the fact to, the finance committee, (2) payments of invoices against invoiced amounts and against pre-purchase expenditure approvals, (3) etc.
- o Staff of the Office of the Controller and Auditor General may audit payments to the Local Government Loan Authority against amounts due the LGLA under the terms of the loan agreements.

15m 5. Prompt Reporting and Analysis

2:20-
2:35

We have completed our discussion of the nine types of conventional procedural controls used to manage expenditures. Now let's turn to a fifth major category of expenditure controls. This is that provided by prompt reporting and analysis. Such reporting can apply both to monetary standards and transactions and to physical results of expenditures such as the receipt of goods.

Query: What are examples in your local authorities of reports on performance against monetary standards? How effective are they?

Answer: Leader to note responses and lead discussion.

Query: What are examples in your local authorities of reports on physical results versus standards?

Answer: Leader to note responses and lead discussion.

a. Reporting on Monetary Expenditures versus Standards

Refer to Item #55: Prompt Reporting and Analysis as a Mechanism for Control of Expenditures - Concept and factors

As Section B-1 of Item #55 indicates, such reporting on performance against monetary standards can involve:

- o In the case of budgets (1) prompt reporting on expenditures against the approved budget, (2) analysis of actual results versus budget, and (3) reporting on variances to those in a position to take corrective action.

b. Reporting on Physical Results versus Standards

As Section B-2 of Item #55 indicates, such reporting on performance in terms of physical results can involve:

- o In the case of procurement of goods, prompt reporting (1) on deficiencies in the quality or quantity of goods supplied versus specifications and (2) on variances versus price or delivery terms.

6. Motivations and Imposition of Penalties

The sixth and final major category of control mechanisms is the set of motivations that can cause people to work more effectively, a subject briefly touched on earlier in this workshop. Note that we are thinking of major things that may make us wish to do a better job on behalf of the local authority. (We'd like to distinguish here between things that cause us to wish to perform better and those that equip us through training to do so.)

15m a. Positive Motivations

Query: What are the primary positive motivations for officers and staff to make expenditures properly?

Answer: The leader should list responses on a flip chart.

After getting a list on the flip chart, ask which of these really motivate to better performance and then ask which are the five most important such positive motivators.

Discussion

Refer to Item #56: Positive Motivations and the Imposition of Penalties as Mechanisms for the Management and Control of Expenditures - Concept, Factors, and Examples.

Item #56 illustrates some of these concepts and ideas that we have been discussing.

2:3
2:5

Item #56 provides a brief list of positive motivators for your review, as follows:

- o Personal traits
 - Sense of professionalism -- duty -- honor
 - Sense of good will and good cheer toward others, and wishing the best for them -- including your organization and the members of the team of which you are a part
 - Sense of honesty
- o Satisfaction gained from work well done
- o Leadership stimulation of employees by example
- o Support by leadership to staff
- o Recognition
- o Desire for reward (advancement, higher pay, housing)
- o Discussion of performance
- o Transfer -- or even promotion -- to a more suitable position

Discussion

In this array of positive motivations, we can hope that good performance in managing and controlling expenditures will result, in the main, from the personal qualities of the staff and the leadership given them. We can also attempt to add the carrot, i.e., the positive material rewards.

20m b. Negative Motivations

2:5
3:1

But it would be looking at the world through rose-coloured glasses to overlook the need for including --- among our approaches and mechanisms intended to assure excellent management and control of expenditures --- a series of penalties for application when needed.

It is widely known that incompetence, malingering, and corruption do exist in many places in many local authorities. It would seem obvious that when positive motivations have failed, improper behaviour in the utilization of funds should be punished.

Query: What are some of the negative motivations and penalties that we can and do apply in our local authorities in attempting to assure sound management and control of expenditures?

Answer: The leader should list responses on the flip chart.

Item #56 presents a list of such penalties for your review, as follows:

- o Reprimands --- oral and written
- o Warnings -- oral and written
- o Reimbursement of funds misused
- o Leave without pay
- o Deduction of pay of staff
- o Demotion
- o Termination
- o Court processes including fines and/or imprisonment

Discussion (of the extent to which these positive and negative approaches are utilized in participants' local authorities)

Please note that while these approaches are classified here by the terms "positive" and "negative", it would be expected that all of those utilized would have a positive impact on the management and control of expenditures.

20m c. Factors Detering Effective Use of Penalties

3:10-
3:30

Query: What are the factors that sometimes prevent prompt and effective punishments?

Answer: The leader should note and categorize the answers given.

Item #56 gives a list of such deterrents, as follows:

- o Political influence (including nepotism) protecting malefactors
- o Corruption
- o Difficulty in proving inadequate performance or guilt
- o Sympathy based on previous service or family situation or the like
- o Complacency and inertia, i.e., too ready acceptance by superiors and others of the imperfections of the "system" and the people who are part of its operation

It is likely that the most significant deterrent is the last one listed. In many instances, it is we who are primarily responsible for the shortcomings of our local authorities in achieving financial health by maximizing revenue and managing and controlling our expenditures more effectively. Too often, we:

- o accept the "system" the way it is, without challenge;
- o fail to think out, recommend, and struggle for adoption of improvements; and
- o avoid "rocking" the boat", when shaking people up is exactly what is required.

To be able to look back with pride at a career of public service, we must be innovators and risk takers. Only by doing so can we help to achieve the improvements in financial management that are so critically needed throughout our local authorities.

15m AFTERNOON BREAK.

3:30-
3:45

7. Workshop Exercise - Sections of Financial Regulations Relating to Procurement of Goods and Services and to Expenditures

Refer to Item #57: Workshop Exercise - Sections of the Financial Regulations Relating to Procurement of Goods and Services and to Expenditures.

75m Form participants into groups to review the two sections of the draft Financial Regulations contained in Item #57, one dealing with procurement and the other with expenditures. Ask them to develop comments (1) on applicability of these sections to their local authorities and (2) on ways that they might be strengthened. (Participants will have reviewed a few subsections of this material in earlier workshop exercises.)*

3:4
5:0

* Note that if time does not permit doing this work as a group exercise, it is perfectly feasible to assign Item #57 as specific "compulsory" reading for the evening and simply discuss Item #57 -- topic by topic -- during the first hour of the following morning.

FRIDAY MORNING: (285 minutes, including a 15 minute break, are programmed out of 285 minutes.)

5m Call group to order.

8:00-
8:05

E. SUMMARY OF MECHANISMS FOR MANAGEMENT AND CONTROL OF EXPENDITURES

7. Workshop Exercise - Sections of Financial Regulations Relating to Procurement of Goods and Services and to Expenditures, contd.

50m

If Item #57 has been reviewed by participant groups the previous afternoon, spokesmen for the groups should now report on their groups' results.

8:05-
8:55

If, instead, Item #57 has been assigned as an individual specific "compulsory" reading assignment for the previous evening, then the leader should lead a topic-by-topic discussion of the item from the floor.

Discussion

H. DEVELOPMENT OF "BACK-HOME" PROGRAMS TO IMPROVE EXPENDITURE MANAGEMENT AND CONTROL

Now we shall develop programs of the actions we intend to take "back home" to strengthen the management and control of expenditures in each of our local authorities. We shall do this in light of the concepts and approaches that we have been discussing these last few days.

95m

1. Development of "Back-Home" Programs

8:
10:

This exercise is the culminating event of this workshop, and stress should be placed on its importance and the essentiality of undertaking it with due deliberation and care.

a. "Back-Home" Programs of Local Authority Teams

The three-member teams from each local authority (typically the chairman of the finance committee of the council, the clerk, and the treasurer) should now develop back-home programs to strengthen the management and control of expenditures. These should be programs that they will plan to discuss and seek to implement on their return to their communities.

Refer to Item #58: Workshop Exercise - Back-home Programs To Improve the Management and Control of Expenditures in Participants' Local Authorities.

Participants should be asked to form into teams composed of those from each local authority. These teams should be asked to complete workshop exercise Item #58.

b. "Back-Home" Program of the Team of Central And Provincial Government Officials

Central and provincial government representatives should also develop a program of action. This program should include those things that the central and provincial governments can do to assist local authorities to strengthen the management and control of their expenditures.

Refer to Item #59: Workshop Exercise - Steps That Might Be Taken By Central And Provincial Government Officials To Assist Local Authorities in Better Managing And Controlling Their Expenditures.

The central and provincial government participants should be asked to form into a team. This team should consider actions that should be discussed, adopted, and implemented involving changes in national and provincial laws, regulations, guidance, and other supports given to and/or affecting local authorities and favourably influencing management and control of expenditures by them .

15m MORNING BREAK

10:30-
10:45

55m Continue with above "back-home" exercise.

10:45-
11:40

2. Reports By Local Authority And Central and Provincial
Government Teams On "Back-Home" Programs

65m

a. Reports by Local Authority Teams

11
12

The local authority teams are to report on the "back-home" programs they have developed.*

- o Presentations (about 10 - 15 minutes each)
- o Discussion/critique by other participants and especially by central and provincial government representatives (about 3-5 minutes each)

75m LUNCHEON BREAK

12
2

* The leader must note the essentiality of keeping careful control of the timing of these presentations. Often it is desirable to allow more time for the first couple of presentations (partly because of some overlaps on the part of later presentations). But in order to complete 10-12 or so presentations by the end of the afternoon, the leader must very carefully monitor, against the clock, the overall progress of these reports.

FRIDAY AFTERNOON (160 minutes, including 15 minute break, are programmed out of 180 minutes.)

- 1m Call group to order. 2:00-
2:05
- H. DEVELOPMENT OF "BACK-HOME" PROGRAMS TO IMPROVE EXPENDITURE
MANAGEMENT AND CONTROL, contd.
2. Reports by Local Authority and Central and Provincial
Government Teams on "Back Home" Programs, contd.
- 1m a. Reports by Local Authority Teams, contd. 2:05-
3:30
Continue with reports.
- 1m AFTERNOON BREAK 3:30-
3:45
- 1m b. Report by the Central and Provincial Government
Team 3:45-
4.30
- The central government team is to report on the
"back-home" program it has developed.
- o Presentation (about 25 minutes)
 - o Discussion/critique by participants (about 20
minutes)

30m I. WORKSHOP EVALUATION

4:30
5:00

An evaluation form is to be completed by participants.

Refer to Item #60: Evaluation of Workshop.

Ask participants to complete Item #60.

Forms are to be collected for later tabulation and analysis.

Note that if time does not permit setting aside time for this activity as part of the program, the leader should ask participants to complete the evaluation form during the course of the afternoon program.

In either case, participants should be asked to hand in the forms to a GTI staff member before leaving the room at the end of the afternoon session.

FRIDAY EVENING

Om J. CLOSING CEREMONIES

7:00-
9:00

1. Closing Dinner

A closing dinner is to be held for participants and guests.

2. Certificates Of Participation

Item #61: Certificate of Participation is to be presented to each participant at the conclusion of the closing dinner.