

Chapter 30:

# Fiscal Accountability Guidelines



REDUCING POVERTY THROUGH GROWTH



## MCC Fiscal Accountability Guidelines

### Guidelines for establishing an MCA Accountable Entity and Fiscal Agent

Last updated: November, 2006

#### I. Overview

A Millennium Challenge Corporation (MCC) Compact and related documents will include sections on *fiscal accountability* that detail the agreement between MCC and the recipient government on issues of both financial management and procurement practices.

Two key entities generally involved in fiscal accountability will need to be outlined. First, the Compact must outline an *accountable entity* that will have authority to oversee the MCC Program and its components, allocate resources, oversee and implement a financial plan, approve expenditures and procurements, and be accountable for MCC Program results. Second, the Compact typically will require a *fiscal agent* for MCC funded activity that is responsible for certain aspects of fiscal accountability (e.g., funds control) and, in some cases, procurement management.

#### II. Accountable Entity

There are a wide variety of possible accountable entities ranging from internal government committees to a newly established governing body that has a mixture of government and non-government members charged with executing the responsibilities of a recipient country under the terms of the Compact. The operational role of the accountable entity will vary depending on the Compact requirements. Private sector, NGO, or other organizations could be selected as technical staff or project managers, responsible for implementation, but this does not absolve the Government of responsibility for its commitments under the Compact. However formed, the following are some of the issues that need to be decided by the country and MCC regarding the accountable entity before funds can be disbursed:

- Authorities and responsibilities of the accountable entity.
- Procedures for appointment of officers and key employees to, and removal from, the accountable entity.

- Financial disclosure requirements that will apply to officers and key employees of the accountable entity.
- Ethics and conflict of interest standards that will apply to officers and key employees of the accountable entity.
- Authority of officers and key employees and the decision making process of the accountable entity (e.g., meeting procedures, voting requirements, etc.).
- The compensation structure for officers and key employees of the accountable entity.
- An explanation of how the accountable entity will be staffed, including the procedures to choose and appoint the staff and determine their compensation.
- The budget of the accountable entity to cover personnel, goods, and services of the entity itself.

### **III. Fiscal Agent**

An MCC proposal submitted by an eligible country should outline the financial accountability mechanisms that the country believes would best serve the underlying elements of the overall proposal. However, different approaches will undoubtedly be used in establishing these mechanisms. Generally, a fiscal agent will be designated to perform certain aspects of fiscal accountability (e.g., funds control). In these cases, an existing government institution (e.g., the Ministry of Finance) may serve the function of the fiscal agent, or a third-party may be chosen to administer funds control and, in some cases, procurement for an MCC Program. This third-party could be an existing donor already operating in the recipient country with a financial management infrastructure and internationally acceptable procurement standards. The third-party could conceivably be a private-sector accounting or financial institution with the capacity to administer funds control and procurement, or could be a non-profit or NGO with appropriate capacities. In most cases, it may be appropriate to select the fiscal agent through a competitive selection process.

MCC is open to working with eligible countries in identifying the appropriate third-party to serve as the fiscal agent and the method for selecting the fiscal agent, establishing the written agreement that will govern the fiscal agent, establishing

performance standards for the fiscal agent, and negotiating the fees to be paid to the fiscal agent.

While MCC is open to a variety of options regarding the specific entity to serve as the fiscal agent, the Compact or related documents will include a number of requirements that the fiscal agent (or the financial manager of the accountable entity) must be able to meet or to support. These include:

- As a matter of transparency, financial information related to an MCC Program must be available publicly, for example including it on an MCC Program website as well as in other appropriate media outlets.
- Also as a matter of transparency, information on significant procurement actions must be made publicly available and posted on an MCC Program website and other venues.
- MCC sets a standard of prompt payment of invoices when its funds are used. It will be expected that the fiscal agent will meet a standard of payment within 30 days to all vendors of goods and services supporting an MCC Program. The fiscal agent must have a system in place to monitor the number of days required to settle obligations that will track performance against the standard.
- MCC will require that, wherever possible, MCC Program activities are reflected in budget documents of the recipient country. This is to assure that the budget comprehensively provides information on all resources being utilized to achieve public purposes. Reflecting the activity in budget documents does not necessarily mean that MCC resources are managed by existing public expenditure systems.
- Procurement guidelines and procedures must reflect international best practices with regard to transparency, competition, efficiency, and value.

#### **IV. Fiscal Accountability Elements**

While a recipient country is ultimately accountable for fiscal accountability requirements, the accountable entity must assure that the basic functions that make up fiscal accountability are in place. Typically, the accountable entity will include a financial manager responsible for the oversight of financial issues of an MCC program. The functions of funds control, accounting, cash management, and disbursement are

critical to fiscal accountability. These functions could reside inside the accountable entity if it has the expertise or may be outsourced to an external entity with this capacity that serves as an agent of the accountable entity. When evaluating a potential fiscal agent, the candidate must be able to perform the following functions of fiscal accountability.

### **Funds control and documentation**

- *Ability to generate projected budget requirements*—MCC will likely require that quarterly budget requirements of an MCC Program are projected both on an obligation and cash requirement basis. The accountable entity must certify budget requirements and provide periodic program budgets to MCC.
- *Existence of commitment control*— Budget expenditures must be controlled on a commitment or obligation basis. These commitments are then liquidated when cash is disbursed in satisfaction of the obligation. The fiscal agent must have an accounting system that can accomplish this.
- *Ability to control by budget item*—Commitments must be controlled at different levels of budget classification (i.e. at the economic classification level, project level, etc.)
- *Procedures for authorizing obligation and verifying receipt of goods and services*—Procedures must be in place that assure that disbursements are executed in accordance with the overall agreement in the Compact or related documents. Additionally, procedures must assure that designated officials have performed the functions of authorization to obligate, verification of receipt of goods or services, and authorization of disbursements.
- *Creation of a clear record of basis for transactions and individuals authorizing them*—Records must be maintained that provide clear support of a transaction.
- *Basis for periodic disbursements from MCC*—A clear basis of support for periodic (i.e., quarterly) disbursements from MCC must be maintained. Disbursements may be tied to performance, reimbursements, or projected cash requirements.

### Separation of duties and internal controls

- *The frequency of reconciliation of cash against accounting records* — Procedures must outline the frequency and individuals involved in reconciliation of cash balances with accounting records.
- *Incorporating the principle of separation of duties and internal controls* — Procedures must incorporate this principle as it relates to the management of financial and procurement transactions.

### Consistent accounting methodologies and systems

- *Single classification system* — An accounting classification system that is consistent throughout all activities under an MCC Program must be in place. The accounting classification system must be capable of being cross-walked to the classification system utilized by the national budget system of recipient country so that information on the MCC program can be reflected in national budget documents.
- *Defined accounting standards* — An acceptable basis of accounting standards (e.g. generally accepted accounting principles prevailing in the United States, international standards, etc.) must be utilized.

### Ability to generate timely and meaningful reports

- *Ability to generate real-time data* — An indication must be made as to whether financial data can be generated on a real-time basis and, if not, what time period is required to provide current data.
- *Number of days required to close an accounting period* — Procedures must be in place that provide the capability of adhering to a standard on the time required to close an accounting period.
- *Can ad hoc reports be generated easily* — Capacity must exist to generate financial reports on an ad hoc basis. Any limitations on this capacity must be noted. The MCC will provide a format and procedure for providing financial reports.

The practice of making all financial information publicly available in a timely and meaningful fashion

- *Practice of external reporting*—As noted above, MCC believes that as a matter of transparency, any financial data provided to MCC should also be available publicly. The ability to perform this function must be demonstrated.

#### **Cash management practices**

- *System to project cash flows* — as noted in the Funds Control section above, a high functioning financial system should be able to project both expected budget commitments or obligations as well as cash requirements.
- *Segregation of MCC funding* — In most cases, MCC funds should not be co-mingled with other funds and MCC will require that funds provided in support of an MCC Program be segregated from other financial resources.

#### **Timely payment to vendors**

- *A payment system must be in place that will result in vendors being paid within 30 days*—MCC sets a standard of prompt payment of invoices when its funds are used. It will be expected that payment made within 30 days to all vendors of goods and services supporting an MCC Program.
- *A monitoring system to track the number of days required to pay vendors* — as noted above, a system must be in place to monitor the number of days required to settle obligations.

#### **Procurement and contracting practices**

- *Standards or guidelines utilized in the procurement mechanism* — the recipient country will need to identify the procurement rules that will govern procurement actions. Specifically, the proposal needs to identify the elements of the guidelines that address:
  - Written ethical standards
  - Acquisition planning
  - Competition
  - Selection process



- Contract administration
- *Incorporation by Reference.* If a set of international standards are to be used, these can be incorporated by reference in the procurement standards or guidelines.
- *Making all procurement actions available publicly* — under the principle of transparency, MCC prefers that all significant procurement actions, including solicitations and final selections, be posted on the country's MCC website.

### **Audit plan proposed**

- *Frequency of audits* — MCC will require, at a minimum, an annual audit be conducted of financial and procurement transactions. The financial manager / fiscal agent must coordinate and cooperate with the financial auditor(s).
- *Selection of auditors* — the selection of auditors must be approved by MCC and the Inspector General of MCC.
- *Access to financial records by the MCC Inspector General* — There must be no legal or policy impediments to allowing MCC or its designees, including the MCC Inspector General, to have access to all records of an MCC Program maintained by either the accountable entity or any external fiscal agent.

### **V. National Budget of Recipient Countries**

- *Baseline* — MCC will be requesting the most recent report available of **actual** comprehensive budget expenditures of the recipient country. Eligible countries should be prepared to provide this and be able to explain in what form and the most recent period available.
- *Annual report of budget expenditures* — during the life of an MCC Compact, MCC will require an annual report of comprehensive budget expenditures. The report will require information on the adopted budget, any amendments or revisions, and the budget as actually executed to determine if MCC funds are having an impact on the allocation of domestic revenues or other donor activities. If there are any limitations in being able to comply with this request, this should be noted and how these limitations could be overcome.

- *Additionality* – as a general principle, MCC funds are expected to be in addition to other domestic resources or donor funds. If during the life of the Compact, there is a reduction in the national budget in an area of MCC activities, MCC will request an explanation for the reduction.