Strategic Insights
Volume 16

EIU

# Overview of the Public Financial Management Bill 2024

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June 2024

"Sound public finances are the foundation of sustainable economic growth." — John Maynard Keynes

## Executive Summary

The Public Financial Management (PFM) Bill is designed to significantly improve the transparency, accountability, and efficiency of managing public finances in Sri Lanka. It establishes a comprehensive framework that includes clear procedures for budgeting, revenue collection, expenditure management, and fiscal reporting. By setting stringent standards and requirements, the bill ensures that all financial activities are conducted with discipline and effectiveness, promoting better macroeconomic management and fiscal policy.

One of the key features of the PFM Bill is the emphasis on aligning annual budgets with medium-term fiscal frameworks. This approach provides a more strategic outlook on fiscal planning, allowing for better anticipation and management of financial risks. The bill mandates regular audits, stringent internal controls, and detailed fiscal reports to facilitate public scrutiny and parliamentary oversight. These measures aim to strengthen budgetary management and ensure that fiscal policies are implemented effectively.

Additionally, the PFM Bill outlines the roles and responsibilities of various public entities and officers in financial management. It includes provisions for the management of public investment projects and public-private partnerships, ensuring these initiatives are aligned with national development policies. The bill also addresses the financial performance of state-owned enterprises, establishing guidelines for their governance and oversight. Overall, the PFM Bill reinforces fiscal discipline and sustainability, aiming to create a more accountable and transparent public financial management system in Sri Lanka.

## Introduction

The Public Financial Management Bill of Sri Lanka represents a comprehensive legislative effort to reform and strengthen the management, oversight, and control of public finances. This Bill aims to enhance fiscal policy, ensure better macroeconomic management, and establish clear institutional responsibilities for financial management. By addressing transparency, accountability, and budgetary management, this legislation seeks to facilitate public scrutiny of fiscal policies and performance, ultimately contributing to the economic stability and growth of the nation. The Bill also repeals outdated sections of previous financial acts, thereby modernizing the legislative framework to align with contemporary fiscal management practices.

At its core, the Public Financial Management Bill sets forth standards and procedures to ensure the effective and efficient use of public funds. It mandates rigorous fiscal responsibility, including the formulation of transparent budgets, the monitoring of financial performance, and the management of public assets and liabilities. This legal framework is designed to build public confidence in the government's financial management processes, promoting sustainable economic policies and prudent fiscal practices. By instituting these reforms, the Bill seeks to create a resilient financial system capable of supporting long-term economic development and stability.

## PART I – APPLICATION OF THE ACT

**Overview**

Part I outlines the scope and applicability of the Act, detailing which entities and individuals are subject to its provisions. This section ensures comprehensive coverage of public financial management across various levels of government and associated entities.

**Scope and Applicability**

The Act's provisions, aligned with Articles 148 to 152 of the Constitution, apply broadly to the management of public finances. This encompasses a range of entities and individuals within the public sector:

**1. Public Entities:**

- Budgetary entities
- Statutory Funds and Trusts allocated public finances
- State-Owned Enterprises (SOEs)
- Provincial Councils, Ministries, Departments, and Local Authorities under relevant laws

**2. Individuals:**

- Public officers and office holders

- Members of the tri-forces
- Members of the judicial service

## PART II – POWERS, DUTIES, AND FUNCTIONS OF THE MINISTER OF FINANCE AND OTHER AUTHORITIES

**Overview**

Part II delineates the roles, responsibilities, and authorities of the Minister of Finance, the Secretary to the Treasury, and other key officials. It establishes the framework for financial governance and accountability, ensuring effective management of public funds.

**Powers, Duties, and Functions of the Minister of Finance**

The Minister of Finance holds a pivotal role under this Act, responsible for developing and implementing policies that promote fiscal sustainability and effective management of fiscal risks. The Minister's key responsibilities include:

- **Policy Development**: Crafting policies to achieve fiscal sustainability and manage fiscal risks.
- **Compliance Oversight**: Ensuring adherence to fiscal responsibility requirements.
- **Budget Management**: Overseeing the preparation and implementation of the annual budget, including revenue collection, expenditure management, public debt, and liquidity.
- **Financial Operations Supervision**: Providing general oversight of government financial operations and financial supervision of SOEs.
- **Legislative Implementation**: Ensuring the implementation of the Act's provisions and other assigned powers and functions.

The Minister is accountable to Parliament for the effective application of the Act, ensuring transparency and accountability in public financial management.

**Powers, Duties, and Functions of the Secretary to the Treasury**

Appointed by the President, the Secretary to the Treasury plays a crucial supporting role to the Minister of Finance. The Secretary's responsibilities include:

- **Assistance in Policy and Budget Management**: Assisting the Minister in performing functions under the Act, including the preparation and execution of the annual budget.
- **Cash Flow and Financial Reporting**: Managing Treasury cash flow, overseeing official bank accounts, and ensuring compliance with statutory reporting requirements.
- **Investment and Enterprise Management**: Monitoring public investment projects and public-private partnerships, and formulating policies for SOE management.

- **Personnel and Policy Development**: Assisting in public sector cadre and remuneration management and developing directives for financial management, asset management, and internal audits.
- **International Agreements**: Entering agreements with foreign governments and international organizations, subject to Cabinet approval.

**Delegation of Powers, Duties, and Functions of the Secretary to the Treasury**

The Secretary to the Treasury has the authority to delegate powers, duties, and functions to the Deputy Secretary or any officer of the Treasury not below the rank of Director-General. This delegation must be in writing and is subject to specified conditions. The Secretary retains the right to exercise any delegated power and revoke the delegation at any time, ensuring flexibility and efficiency in the execution of Treasury functions.

**Powers, Duties, and Functions of the Chief Accounting Officer and Revenue Management Committee**

The Chief Accounting Officer holds significant responsibilities under this Act, including the management of financial operations within their entity and ensuring compliance with the Act's provisions. The Revenue Management Committee, appointed by the Minister of Finance, plays a strategic role in developing revenue strategies consistent with the fiscal strategy statement and providing advice to revenue-generating public entities. The Committee includes key ex-officio members such as the Secretary to the Treasury, Deputy Secretary, and heads of major revenue departments, ensuring a coordinated approach to revenue management.

## PART III – FISCAL RESPONSIBILITY

**Overview**

Part III of the Public Financial Management Bill focuses on establishing a robust framework for fiscal responsibility. It outlines the government's obligations to manage fiscal policy in a manner that is accountable, efficient, fair, transparent, and sustainable. This part sets the foundation for achieving macroeconomic stability and fostering economic growth, ensuring intergenerational equity.

**Fiscal Responsibility Framework**

The government is tasked with managing its fiscal policy to ensure macroeconomic stability and economic growth, adhering to principles of accountability, efficiency, fairness, transparency, and sustainability. The objectives underlying responsible fiscal management include reducing public debt to sustainable levels, creating fiscal buffers, managing fiscal risks prudently, and enhancing transparency and accountability in fiscal management.

To achieve these objectives, the government must develop and adhere to a fiscal strategy statement and a medium-term fiscal framework. These documents serve as the cornerstones of the fiscal responsibility framework, guiding fiscal planning and policy development.

**Fiscal Strategy Statement and Medium-Term Fiscal Framework**

The fiscal strategy statement is an annual document prepared by the Minister of Finance and approved by the Cabinet of Ministers. It must be submitted to Parliament by June 30 each year and published on the official website of the Ministry of Finance. The statement provides a formal declaration of the government's fiscal strategy before the annual budget preparation, offering strategic guidance for the budget and establishing the basis for evaluating fiscal performance.

The fiscal strategy statement includes the government's fiscal targets and policies, a proposed timeframe for debt reduction, and an assessment of compliance with fiscal targets. It also identifies the main sources of fiscal risks and estimates their impact. The statement ensures that fiscal decisions are scrutinized effectively and that the government's fiscal performance is transparent and accountable.

The medium-term fiscal framework, incorporated into the fiscal strategy statement, covers the upcoming financial year and the four succeeding years. It includes a primary balance target, a primary expenditure ceiling, and fiscal aggregate projections, along with the economic assumptions used to prepare these projections. The framework serves as a medium-term fiscal anchor, addressing all aspects of fiscal planning and policy development. It ensures that the annual budget aligns with the government's debt reduction objectives and expenditure ceilings.

**Debt Reduction and Primary Balance Targets**

A key objective of the fiscal responsibility framework is to reduce and maintain public debt at sustainable levels. The Minister of Finance is responsible for preparing and publishing an annual debt sustainability analysis, which informs any necessary revisions to the fiscal strategy statement or the medium-term fiscal framework.

The primary balance target, expressed as a percentage of the forecast nominal GDP, serves as a fiscal anchor. It is updated annually to reflect observed fiscal outcomes and ensure consistency with the debt reduction objective. If the government fails to meet the primary balance target, the Minister of Finance must submit a report to Parliament explaining the reasons for non-compliance and outlining a fiscal plan to return to compliance.

**Primary Expenditure Ceiling**

The primary expenditure ceiling ensures that government spending does not exceed a specified percentage of the estimated nominal GDP. Specifically, the primary expenditure of the government must not exceed 13% of the estimated nominal GDP for the relevant financial year. This ceiling is binding for the annual budget and updated annually to reflect the latest GDP estimates. The expenditure ceiling may be reviewed and adjusted every five years to maintain alignment with the primary balance target and debt reduction objective.

In exceptional circumstances, such as natural disasters or significant threats to national security, the government may exceed the primary expenditure ceiling. In such cases, the Minister of Finance must seek Parliament's approval and provide a detailed explanation of the circumstances, a recovery plan, and an updated medium-term fiscal framework.

**Government Guarantees**

The Bill sets a limit on the aggregate stock of outstanding government guarantees to ensure prudent fiscal management. The aggregate stock of outstanding government guarantees at the end of each financial year must not exceed 7.5% of the average gross domestic product (GDP) of the relevant financial year and the preceding two financial years. This guarantee limit is reviewed every five years and updated to ensure consistency with the debt reduction objective specified in the fiscal strategy statement.

**Reporting and Transparency**

The government is committed to enhancing fiscal transparency and accountability through regular reporting. This includes a budget economic and fiscal position report, a mid-year fiscal position report, and a final budget position report. These reports provide comprehensive information on the government's fiscal performance, ensuring that Parliament and the public can evaluate fiscal strategies and outcomes effectively.

The budget economic and fiscal position report, tabled in Parliament during the second reading of the Appropriation Bill, includes estimates of GDP, consumer prices, employment, the balance of payments, revenue, expenditure, government borrowing, and fiscal risks. It provides a detailed basis for understanding the government's fiscal position and the assumptions underlying fiscal estimates.

The mid-year fiscal position report, published by October each year, offers a six-month review of revenue, expenditure, cash flows, and borrowings, identifying any shortfalls or excesses and explaining their causes. This report allows for mid-year adjustments and ensures ongoing scrutiny of fiscal performance.

The final budget position report, part of the Ministry of Finance's annual report, presents the actual fiscal outcomes for the financial year, comparing them with the estimates. It highlights any deviations from the primary expenditure limit and provides explanations for any excesses or shortfalls. This report is crucial for ensuring accountability and transparency in the management of public finances.

Part III of the Public Financial Management Bill establishes a comprehensive framework for fiscal responsibility in Sri Lanka. By setting clear objectives, defining fiscal targets, and ensuring regular reporting and transparency, this part aims to foster prudent fiscal management, reduce public debt, and promote sustainable economic growth. The rigorous fiscal responsibility framework outlined in this part is essential for building public confidence in the government's financial management practices and ensuring long-term economic stability.

## PART IV – PREPARATION AND APPROVAL OF ANNUAL BUDGET

**Overview**

Part IV of the Public Financial Management Bill details the procedures and requirements for the preparation, presentation, and approval of the annual budget. This section ensures that the budget process is systematic, transparent, and aligned with the fiscal strategy and medium-term fiscal framework. It sets forth the responsibilities of various entities and officials in the budgetary process to ensure effective fiscal planning and resource allocation.

**Budget Preparation Process**

The preparation of the annual budget is a collaborative and structured process that involves multiple stages and entities. The budgetary process begins with the issuance of the budget call circular by the Secretary to the Treasury by June 30 of the financial year preceding the budget year. This circular provides detailed policy guidance, expenditure ceilings, and instructions for public entities on preparing their budget estimates.

All budgetary entities are required to submit their budget estimates by July 31, ensuring adherence to the guidelines set forth in the budget call circular. The estimates must align with the primary expenditure ceiling specified in the medium-term fiscal framework and include the public investment programme approved by the Minister of Finance.

**Budget Document and Accompanying Reports**

The annual budget document consists of the estimates of revenue and expenditure, presented in the form of appropriations by Head of Expenditure. It is accompanied by several key reports and statements that provide a comprehensive overview of the government's fiscal policy and financial plans:

1. **Budget Speech**: A summary of the annual budget and the overall thrust of the government's fiscal policy.
2. **Public-Friendly Budget Version**: An easy-to-understand summary of the main features of the annual budget for public dissemination.
3. **Fiscal Strategy Statement and Economic and Fiscal Position Report**: Detailed documents outlining the fiscal strategy and the government's economic and fiscal position.
4. **Medium-Term Debt Management Strategy and Annual Borrowing Plan**: Strategies and plans for managing public debt and borrowing.
5. **Public Investment Projects**: A list of ongoing and newly approved public investment projects, including public-private partnerships.

6. **Outstanding Loans and Guarantees**: Information on outstanding loans, guarantees, and other contingent liabilities.
7. **Public Service Employment Summary**: A summary of public service employment across budgetary entities.
8. **Tax Expenditures**: A statement of tax expenditures, including the total cost of existing and new tax expenditures.

These documents ensure transparency and provide stakeholders with a clear understanding of the government's fiscal intentions and plans.

**Responsibilities in Budget Preparation**

The Minister of Finance and the Secretary to the Treasury play pivotal roles in the budget preparation process. The Minister of Finance is responsible for overseeing the implementation of the annual budget process, preparing the Appropriation Bill, and ensuring that the budget aligns with the medium-term fiscal framework. The Minister must obtain the Cabinet of Ministers' approval for the annual budget document before submitting it to Parliament.

The Secretary to the Treasury is responsible for issuing the budget call circular and ensuring that budget estimates are prepared and submitted in accordance with the guidelines. The Secretary also oversees the coordination and consolidation of budgetary estimates from various public entities.

**Approval and Presentation of the Annual Budget**

The Appropriation Bill and draft annual budget estimates must be consistent with the fiscal strategy statement and the medium-term fiscal framework. The Minister of Finance is required to submit the Appropriation Bill to Parliament by October 15 and the annual budget document by November 15 of the preceding financial year.

If the Appropriation Bill is not approved by December 31, the Minister of Finance must submit a vote on account to Parliament, allocating funds for ongoing projects and essential public services for up to four months. This ensures the continuity of government operations while the budget is finalized.

The annual budget document and accompanying reports are published on the official website of the Ministry of Finance on the same day they are submitted to Parliament, promoting transparency and public access to fiscal information.

Part IV of the Public Financial Management Bill establishes a clear and structured process for the preparation and approval of the annual budget in Sri Lanka. By outlining the roles and responsibilities of various entities and ensuring adherence to the fiscal strategy and medium-term fiscal framework, this part promotes systematic and transparent budgetary practices. The comprehensive documentation and public dissemination of the budget and accompanying reports enhance accountability and provide stakeholders with a clear understanding of the government's fiscal plans and policies.

# PART V – ADJUSTMENTS TO THE ANNUAL BUDGET DURING THE YEAR

**Overview**

Part V of the Public Financial Management Bill provides a framework for making necessary adjustments to the annual budget during the financial year. This section outlines the conditions under which budget adjustments can be made and the procedures for ensuring these adjustments are transparent and accountable.

**Virement Procedure**

The virement procedure allows for the transfer of allocations within a Head of Expenditure in the annual Appropriation Act, subject to specific restrictions. Transfers of unexpended budget allocations are not permitted from one Head of Expenditure to another or from capital expenditure to recurrent expenditure. Additional restrictions on the virement procedure may be prescribed to ensure proper financial management and control.

Any transfers made under the virement procedure must be reported to Parliament within six months. This reporting ensures that all adjustments are transparent and accountable, providing oversight of budgetary changes during the financial year.

**Annual Budget Reserve**

The Appropriation Act may include an appropriation for contingencies, known as the annual budget reserve. The amount allocated to the annual budget reserve must not exceed 2% of the proposed estimate of primary expenditure. Funds from the annual budget reserve can be allocated to cover urgent, unforeseen, and unavoidable requirements where existing allocations are insufficient. Any allocation from the annual budget reserve must be reported to Parliament within two months, ensuring transparency and accountability.

**Supplementary Estimates**

In certain conditions, such as unforeseen and unavoidable circumstances or significant economic shocks, a supplementary estimate proposal may be submitted to Parliament for approval. This proposal must include an overview of recent macroeconomic and fiscal developments, updated revenue and expenditure forecasts, explanations of changes to appropriations, and sources of additional financing. The Cabinet of Ministers must approve the supplementary estimate proposal before it is submitted to Parliament.

**Excess Expenditure**

If budget allocations are expended in excess of the amount appropriated by the Appropriation Act, from the Contingencies Fund, or supplementary estimates, such expenditure is considered unauthorized excess expenditure. The relevant budgetary entity must present a statement on excess expenditure to Parliament within 90 days after the closure of the financial year. Unauthorized excess expenditure may result in disciplinary action against the responsible officers, ensuring accountability for budget management.

## PART VI – BUDGET EXECUTION

### Overview

Part VI of the Public Financial Management Bill outlines the procedures and responsibilities for executing the approved budget. This section ensures that public funds are spent efficiently, transparently, and in accordance with the law.

### Warrants and Expenditure Control

A financial commitment or liability, including contingent liability, cannot be incurred without a warrant authorizing expenditure issued by the Minister of Finance under Article 150 of the Constitution. The Chief Accounting Officer or Accounting Officer must ensure that expenditures conform to the authority contained in the warrant. Warrants authorizing expenditure expire at the end of the financial year to which they relate.

The expenditure control system involves several steps, including prior authorization, approval, commitment, certification, and payment by the relevant public entity. The competent authority for these functions is any officer delegated by the Accounting Officer. Approvals for commitments are subject to the availability of sufficient unencumbered appropriation in the annual budget line against which the commitments are made.

### Expiry of Annual Budget and Lapsed Payment

The authority to spend money appropriated under the annual budget ceases at the end of the financial year. Claims not settled before December 31 of the financial year in which they arose must be settled against the corresponding expenditure code in the following financial year. Procedures for such settlements are prescribed to ensure proper financial management and accountability.

### Multi-Year Expenditure Commitments

The Minister of Finance must ensure that multi-year expenditure commitments proposed in the annual budget are consistent with the medium-term fiscal framework. The Chief Accounting Officer must obtain Cabinet of Ministers' approval before entering into multi-year expenditure commitments. These commitments include public investment projects, related recurrent costs, obligations under public-private partnerships, and other investments.

**Procurement**

Public entities must procure goods, services, works, consultancy services, and information systems in compliance with procurement procedures specified in written laws and guidelines issued by the National Procurement Commission. Public entities must prepare and provide annual procurement plans to the Secretary to the Treasury or the respective Chief Accounting Officer, ensuring that procurement activities are planned and managed efficiently.

**Internal Audit**

The internal auditor must exercise functions independently and without conflict of interest. The internal auditor's findings must be reported to the Chief Accounting Officer or governing body of the public entity and forwarded to the Department of Audit Management. The Secretary to the Treasury issues directives to strengthen internal controls, internal audits, and audit management committees of public entities.

Parts V and VI of the Public Financial Management Bill establish clear procedures for adjusting the annual budget and executing the approved budget in Sri Lanka. By outlining the conditions and procedures for budget adjustments, these sections ensure that financial management remains flexible yet accountable. The execution of the budget is governed by strict controls, procurement guidelines, and internal audits, promoting transparency, efficiency, and accountability in the use of public funds. These provisions are crucial for maintaining fiscal discipline and achieving the objectives of the Public Financial Management framework.

## PART VII – FINANCIAL MANAGEMENT

**Overview**

Part VII of the Public Financial Management Bill provides the framework for the efficient management of public finances through structured financial management practices. This section outlines the roles and responsibilities of various committees and officials, ensuring that public funds are managed effectively and transparently.

**Treasury Cash Flow Management and Treasury Single Account**

The Bill establishes a Committee on Cash Flow Management chaired by the Secretary to the Treasury. This committee consists of Deputy Secretaries, Heads of Departments in the Treasury, and Heads of major revenue departments such as Customs, Inland Revenue, and Excise. The committee’s primary role is to ensure the smooth management of the government’s cash flow, facilitating efficient financial operations.

The Treasury single account (TSA) system is an integrated system of bank accounts that consolidates all government cash, including funds received by public entities. The TSA enables consolidated management of public funds, ensuring efficient allocation and utilization of resources. The Secretary to the Treasury authorizes the opening, maintenance, and closure of official bank accounts to manage the government's cash and liquidity requirements.

**Use of Information and Communication Technology**

Effective financial management in the modern era requires the use of robust information and communication technology (ICT) systems. The Bill mandates the development and maintenance of effective computerized systems for carrying out the functions of the General Treasury and other public entities. These systems must ensure the performance, security, safety, and accuracy of financial management and information systems. Regular reviews and evaluations of these systems are required to maintain their integrity and efficiency.

**Foreign and Domestic Grants**

The Secretary to the Treasury, with Cabinet approval, is authorized to sign agreements with foreign governments, international organizations, and other donors for grants. These grants, whether foreign or domestic, must be credited to the Consolidated Fund and incorporated into the annual budget of the public entity responsible for executing the grant. The Bill specifies the procedures and requirements for receiving and managing these grants, ensuring transparency and accountability.

**Asset Management**

The management of non-financial assets, including their identification, classification, valuation, utilization, and disposal, is governed by the Bill. Proceeds from the sale of any movable or immovable property or any exclusive privilege must be credited to the Consolidated Fund. Clear guidelines are provided for the disposal of assets to ensure that these processes are conducted in an efficient and accountable manner.

## PART VIII – STATUTORY FUNDS

**Overview**

Part VIII of the Public Financial Management Bill focuses on the management and oversight of statutory funds. This section outlines the responsibilities of the Secretary to the Treasury in supervising these funds and ensuring they operate in compliance with the law.

**Supervision and Monitoring**

The Secretary to the Treasury is responsible for supervising, examining, and monitoring all statutory funds. This includes issuing directives on the management and operation of these funds. The Secretary must submit an annual performance report on statutory funds to the Cabinet of Ministers, ensuring ongoing oversight and accountability.

**Compliance and Reporting**

Statutory funds are required to comply with directives issued by the Secretary to the Treasury. This includes preparing and submitting draft annual budget estimates endorsed by the Chief Accounting Officer and the relevant Minister. Statutory funds must also prepare budget proposals in line with the budget call circular issued by the Secretary to the Treasury. Regular performance reports must be submitted to the Secretary, ensuring transparency and accountability in the management of these funds.

**Dissolution of Non-Statutory Funds**

Any non-statutory fund must cease operations from the date the Act comes into effect and be dissolved within one year. The funds lying to the credit of such funds must be remitted to the Consolidated Fund after discharging liabilities. In exceptional cases, the Minister of Finance, in consultation with the Secretary to the Treasury, may determine that a non-statutory fund should continue to operate, in which case it must be converted to a statutory fund.

## PART IX – PUBLIC INVESTMENT MANAGEMENT

**Overview**

Part IX of the Public Financial Management Bill establishes principles and procedures for managing public investment projects, including public-private partnerships. This section ensures that public investments are selected, implemented, and monitored efficiently, aligning with national development goals and fiscal responsibility.

**General Principles and Public Investment Committee**

Public investment management must adhere to the objectives specified in the Bill, the fiscal responsibility framework, and Sri Lanka’s national development policy. The Bill establishes a Public Investment Committee, chaired by the Secretary to the Treasury, and comprising heads of various departments within the General Treasury responsible for national planning, public finance, fiscal policy, national budget, public debt management, external resources, treasury operations, public enterprises, management services, and project monitoring.

The Public Investment Committee is responsible for selecting public investment projects based on published criteria, making recommendations on financing modes, and supervising the implementation of the Bill's provisions related to public investment projects.

### Public Investment Programme

A comprehensive public investment programme, consisting of all ongoing and prospective public investment projects, must be prepared annually by the Department responsible for national planning. This programme must be approved by the Minister of Finance and published on the official website of the Ministry. Each budgetary entity intending to implement a new public investment project must submit a detailed project proposal by May 15 each year.

The Department of National Planning reviews project documents, including pre-feasibility and feasibility study reports, and accepts or rejects projects based on their consistency with national development plans and the fiscal strategy statement.

### Project Selection and Budgeting

Budgetary entities may propose public investment projects for inclusion in the annual budget if these projects are part of the public investment programme. The Public Investment Committee reviews these projects and prepares a list of prioritized projects for approval by the Minister of Finance and inclusion in the draft annual budget. The Committee also recommends appropriate funding sources for projects, ensuring they fit within the available fiscal space.

Public investment projects developed in response to emergencies or natural disasters may be considered outside the public investment programme, subject to specific criteria and procedures. Such projects must be approved by the Cabinet of Ministers.

### Public-Private Partnership Projects

Public-private partnership (PPP) projects are subject to the same procedures as other public investment projects. The Minister of Finance may include a PPP project in the annual budget if it meets prescribed economic, social, and environmental criteria. Government guarantees for PPP projects must not exceed the ceilings set in the medium-term fiscal framework. The Ministry of Finance must ensure that contingent liabilities associated with PPP projects are included in the fiscal strategy statement and that reports on the execution and financial impact of PPP projects are submitted to Parliament.

### Project Monitoring and Evaluation

Budgetary entities must ensure that all public investment projects are delivered on time, within budgetary allocations, and according to guidelines issued by the Secretary to the Treasury. Chief Accounting Officers are responsible for monitoring project implementation and submitting annual action plans and monthly progress reports. A committee appointed by the Cabinet of Ministers oversees strategic decisions related to project implementation, ensuring efficient and effective execution of public investments.

Substantial changes to project contracts or agreements that affect sustainability and affordability must be approved in advance by the Minister of Finance, with clear criteria for determining substantive changes.

Parts VII, VIII, and IX of the Public Financial Management Bill provide a comprehensive framework for financial management, statutory fund oversight, and public investment management in Sri Lanka. By outlining clear procedures and responsibilities, these sections ensure the efficient, transparent, and accountable management of public funds and investments. The provisions in these parts are essential for maintaining fiscal discipline, promoting sustainable development, and building public confidence in the government's financial management practices.

## PART X – GOVERNMENT BORROWINGS AND GUARANTEES

**Overview**

Part X of the Public Financial Management Bill outlines the policies and procedures for managing government borrowings and guarantees. This section establishes the framework for ensuring that public debt is managed prudently, transparently, and sustainably. It sets limits and conditions for government guarantees, providing a clear structure for borrowing activities to maintain fiscal stability and prevent excessive debt accumulation.

**Policy Framework for Public Debt Management**

The management of public debt and government guarantees is guided by the principles outlined in the fiscal responsibility framework in Part III of the Bill. The policy framework aims to ensure that government borrowing is conducted in a manner that promotes fiscal sustainability, manages risks effectively, and supports macroeconomic stability.

The Minister of Finance is responsible for developing and implementing strategies for managing public debt, including the preparation of a medium-term debt management strategy and an annual borrowing plan. These documents must align with the fiscal strategy statement and medium-term fiscal framework, ensuring that borrowing activities support the government's broader fiscal objectives.

**Limits on Government Guarantees**

To prevent excessive risk exposure, the Bill sets a limit on the aggregate stock of outstanding government guarantees. This limit is set at 7.5% of the average gross domestic product (GDP) of the relevant financial year and the two preceding financial years. The guarantee limit is reviewed every five years to ensure it remains consistent with the debt reduction objectives outlined in the fiscal strategy statement.

In the event of a breach of the guarantee limit, the Minister of Finance must submit a report to Parliament explaining the reasons for the breach and outlining actions to ensure future compliance. This requirement ensures accountability and transparency in the management of government guarantees.

# PART XI – ACCOUNTING AND REPORTING

### Overview

Part XI of the Public Financial Management Bill establishes comprehensive requirements for the accounting and reporting of public finances. This section aims to enhance transparency, accountability, and accuracy in financial reporting, ensuring that the public and stakeholders have a clear understanding of the government's financial position and performance.

### Financial Reporting Standards

The Bill mandates that the financial statements of the government be prepared in accordance with standards developed based on international public sector accounting standards (IPSAS). These standards promote transparency in the disclosure of financial information and support the effective management of public revenue, expenditure, assets, and liabilities.

Budgetary entities are required to prepare and submit annual financial statements to the Auditor-General in the manner and frequency specified by relevant laws. These financial statements must follow a unified chart of accounts unless exempted by the Secretary to the Treasury with the concurrence of the Minister of Finance.

### Annual Performance Reports

Public entities covered under the Bill must publish annual performance reports within 180 days of the end of the financial year. For budgetary entities, these reports must include accounts and other financial statements that fulfill the requirements specified by relevant laws and regulations. This requirement ensures that public entities are held accountable for their financial performance and management.

### Instructions, Directives, and Procedures

The Secretary to the Treasury is responsible for issuing, publishing, and periodically reviewing instructions, directives, processes, procedures, and systems for accounting and reporting. This ensures that financial management practices remain up-to-date and in line with best practices.

### Regular Reporting to the Secretary to the Treasury

The Secretary to the Treasury has the authority to require public entities to furnish regular reports or ad-hoc information on financial management matters. This includes any information necessary for preparing the government's financial statements and exercising the Secretary's functions. Heads of public entities must provide the requested information within the specified timeframe and format, ensuring ongoing transparency and accountability.

### Budget Economic and Fiscal Position Report

The Minister of Finance must table a budget economic and fiscal position report in Parliament on the day fixed for the second reading of the Appropriation Bill each year. This report includes estimates related to GDP, consumer prices, employment, the balance of payments, revenue, expenditure, government borrowing, and fiscal risks. It provides a detailed basis for understanding the government's fiscal position and the assumptions underlying fiscal estimates.

### Mid-Year Fiscal Position Report

The mid-year fiscal position report, published by October each year, provides a six-month review of revenue, expenditure, cash flows, and borrowings. It identifies any shortfalls or excesses and explains their causes, allowing for mid-year adjustments and ongoing scrutiny of fiscal performance.

### Final Budget Position Report

The final budget position report, part of the Ministry of Finance's annual report, presents the actual fiscal outcomes for the financial year compared to the estimates. It highlights any deviations from the primary expenditure limit and provides explanations for any excesses or shortfalls. This report is crucial for ensuring accountability and transparency in the management of public finances.

Parts X and XI of the Public Financial Management Bill establish rigorous frameworks for managing government borrowings and guarantees, and for ensuring comprehensive and transparent accounting and reporting of public finances. By setting clear policies and limits for borrowing activities and mandates for high standards in financial reporting, these sections aim to maintain fiscal discipline, promote sustainable debt management, and enhance public confidence in the government's financial practices. These provisions are essential for fostering an environment of transparency, accountability, and effective financial management in Sri Lanka.

## PART XII – STATE OWNED ENTERPRISES

### Overview

Part XII of the Public Financial Management Bill focuses on the governance, management, and oversight of State-Owned Enterprises (SOEs). This section establishes clear guidelines to ensure that SOEs operate efficiently, transparently, and in alignment with national economic objectives. It aims to improve the performance and accountability of SOEs, enhancing their contribution to the economy.

### Governance and Reporting Requirements

The Bill mandates that SOEs adhere to robust governance standards, including the establishment of boards of directors with clearly defined responsibilities. These boards are tasked with ensuring that the SOEs operate within the framework of government policies and are accountable for their financial and operational performance.

SOEs must prepare and submit annual financial statements and performance reports to the Minister of Finance and other relevant authorities. These reports must be prepared in accordance with international financial reporting standards (IFRS) and include comprehensive details on revenue, expenditure, assets, and liabilities. The annual reports should also outline the SOEs' strategic objectives and performance against key performance indicators (KPIs).

### Performance Monitoring and Evaluation

The Secretary to the Treasury is responsible for monitoring and evaluating the performance of SOEs. This includes regular reviews of financial statements, performance reports, and compliance with government policies. The Secretary to the Treasury has the authority to issue directives to SOEs to ensure they meet their financial and operational targets.

An annual consolidated report on the performance of SOEs must be submitted to Parliament by the Secretary to the Treasury. This report provides a comprehensive overview of the financial health and operational efficiency of all SOEs, facilitating parliamentary oversight and public accountability.

## PART XIII – PROVINCIAL COUNCILS AND LOCAL AUTHORITIES

### Overview

Part XIII outlines the financial management framework for Provincial Councils and Local Authorities. This section ensures that sub-national governments adhere to principles of fiscal responsibility, transparency, and accountability, aligning their financial practices with national standards.

### Budget Preparation and Approval

Provincial Councils and Local Authorities are required to prepare annual budgets in accordance with guidelines issued by the Secretary to the Treasury. These budgets must be approved by the respective councils and submitted to the Minister of Finance for review. The budgets should reflect realistic revenue forecasts, prudent expenditure plans, and alignment with the medium-term fiscal framework.

**Financial Reporting and Accountability**

Provincial Councils and Local Authorities must maintain accurate financial records and prepare annual financial statements. These statements must be audited by the Auditor-General and submitted to the Secretary to the Treasury. Regular financial and performance reports must be provided to ensure ongoing oversight and accountability.

**Capacity Building and Support**

The Bill mandates capacity-building initiatives to enhance the financial management skills of officials in Provincial Councils and Local Authorities. The Secretary to the Treasury is responsible for developing and implementing training programs and providing technical assistance to improve financial governance at the sub-national level.

## PART XIV – CADRE MANAGEMENT

**Overview**

Part XIV addresses the management of the public service cadre, including recruitment, remuneration, and capacity building. This section aims to ensure that public service staffing is efficient, transparent, and aligned with the needs of the government.

**Cadre Establishment and Management**

The Secretary to the Treasury, in consultation with relevant authorities, is responsible for establishing and managing the public service cadre. This includes determining the number and classification of positions required to meet the operational needs of the government.

**Recruitment and Remuneration**

Recruitment and remuneration policies must be transparent and based on merit. The Secretary to the Treasury is tasked with developing guidelines for the recruitment process, ensuring that it is competitive and fair. Remuneration policies must align with the fiscal strategy and budgetary allocations, ensuring that public service salaries are sustainable and equitable.

**Capacity Building and Professional Development**

The Bill emphasizes the importance of capacity building and professional development for public service employees. The Secretary to the Treasury must develop and implement training programs to enhance the skills and competencies of public servants, ensuring that they can effectively fulfill their roles and responsibilities.

## PART XV – OFFENCES AND PENALTIES

**Overview**

Part XV establishes the legal framework for addressing offences and penalties related to the mismanagement of public finances. This section ensures that individuals and entities are held accountable for violations of the Act, promoting integrity and compliance.

**Offences**

The Bill defines a range of offences, including but not limited to:

- Misappropriation of public funds
- Failure to comply with financial reporting requirements
- Unauthorized expenditure or borrowing
- Providing false or misleading information

These offences apply to public officials, employees of SOEs, and any other individuals or entities involved in the management of public finances.

**Penalties**

Penalties for offences under the Act are designed to deter misconduct and ensure accountability. The penalties include fines, imprisonment, and disqualification from holding public office. The severity of the penalties reflects the gravity of the offence and the potential harm to public finances.

**Enforcement and Prosecution**

The Secretary to the Treasury, in collaboration with the Attorney-General, is responsible for enforcing the provisions of this Part. This includes investigating suspected offences and initiating legal proceedings against individuals or entities found to be in violation of the Act. The enforcement process ensures that violations are addressed promptly and effectively, maintaining the integrity of public financial management.

Parts XII to XV of the Public Financial Management Bill provide a comprehensive framework for the governance of State-Owned Enterprises, financial management of Provincial Councils and Local Authorities, cadre management, and the enforcement of offences and penalties. These sections ensure that public finances are managed efficiently, transparently, and accountably across all levels of government. By setting clear guidelines and responsibilities, these provisions promote good governance, enhance fiscal discipline, and build public confidence in the government's financial management practices.

## PART XVI – MISCELLANEOUS PROVISIONS

**Overview**

Part XVI of the Public Financial Management Bill includes various provisions that ensure the smooth implementation and operation of the Act. These miscellaneous provisions address specific administrative and procedural aspects that support the overall objectives of the Bill, promoting effective financial management, accountability, and transparency.

**Administrative Regulations and Directives**

The Minister of Finance, in consultation with the Secretary to the Treasury, is empowered to make regulations necessary for the effective implementation of the Act. These regulations cover a broad range of areas, including but not limited to, financial management procedures, reporting requirements, procurement processes, and internal controls. The regulations are intended to provide detailed guidance to public entities on complying with the Act's provisions.

The Secretary to the Treasury is also authorized to issue directives and circulars to public entities, ensuring uniformity and consistency in financial management practices across the public sector. These directives may address emerging issues, provide clarification on existing regulations, or introduce new procedures to enhance efficiency and compliance.

**Conflict of Interest and Ethical Conduct**

To promote integrity and prevent conflicts of interest in public financial management, the Bill includes provisions that require public officials to disclose any potential conflicts of interest. Public officials must adhere to high standards of ethical conduct, ensuring that their actions do not undermine public confidence in the government's financial management practices.

**Review and Amendment of the Act**

The Bill includes mechanisms for its periodic review and amendment to ensure that it remains relevant and effective in addressing the evolving needs of public financial management. The Minister of Finance, in consultation with relevant stakeholders, is responsible for initiating reviews and proposing amendments to the Act. This process ensures that the legal framework remains robust and capable of supporting sound financial management practices.

## PART XVII – REPEALS

### Overview

Part XVII of the Public Financial Management Bill addresses the repeal of existing legislation that is outdated or inconsistent with the new framework established by the Act. This section ensures that there is no overlap or conflict between the new provisions and previous laws, facilitating a smooth transition to the updated financial management system.

### Repealed Legislation

The Bill specifies the repeal of specific sections of previous Acts that are no longer applicable or have been replaced by the new provisions. The repealed legislation includes:

- **Financial Administration Act, No. 38 of 1971**: Sections 2, 3, 4, 5, 7, 8, 9, 10, 11, 12, 16, 17, 18, 19, 20, 21, 22, 23, and 25, which are inconsistent with the new financial management framework.
- **Audit Act, No. 19 of 2017**: Sections 5, 6, 7, and 8, to align with the new reporting and auditing standards established by the Public Financial Management Bill.
- **State Lands (Recovery of Possession) Act, No. 7 of 1979**: Provisions related to financial management and asset disposal, to be replaced by the asset management provisions in the new Bill.
- **Fiscal Management (Responsibility) Act, No. 3 of 2003**: The entire Act is repealed, as its provisions are integrated into the comprehensive fiscal responsibility framework of the new Bill.

By repealing outdated or conflicting legislation, the Bill aims to create a cohesive and streamlined legal framework for public financial management.

### Transitional Provisions

To ensure a smooth transition to the new financial management system, the Bill includes transitional provisions that address the continuity of financial operations and the transfer of responsibilities. These provisions ensure that existing financial commitments, agreements, and processes remain valid and are integrated into the new framework without disruption.

The Secretary to the Treasury is responsible for overseeing the implementation of the transitional provisions, ensuring that all public entities comply with the new requirements and that any issues arising during the transition are promptly addressed.

## Conclusion

The Public Financial Management Bill of Sri Lanka establishes a comprehensive framework for the management, oversight, and control of public finances. By setting clear guidelines for fiscal responsibility, budget preparation and execution, public investment management, and the governance of State-Owned Enterprises and statutory funds, the Bill aims to enhance transparency, accountability, and efficiency in the use of public resources. The detailed provisions for financial reporting, internal audits, and performance monitoring ensure that all levels of government and associated entities adhere to high standards of financial management, thereby supporting systematic fiscal oversight.

The Bill also includes frameworks for government borrowings and guarantees, cadre management, and the financial administration of Provincial Councils and Local Authorities, which are designed to maintain fiscal discipline and promote sound governance. The inclusion of mechanisms for addressing conflicts of interest, ethical conduct, and the periodic review and amendment of the Act ensures that the legal framework remains responsive to changing needs. By repealing outdated legislation and introducing transitional provisions, the Bill aims to create a cohesive legal framework for public financial management in Sri Lanka, facilitating an orderly transition to updated financial practices.

Link to the Bill: http://documents.gov.lk/files/bill/2024/5/501-2024_E.pdf

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