

## A Comparative Report on Appraisal of Public Finance Management of Ghana and Malawi

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Submitted: 01 May 2020; Accepted: 11 May 2020; Published: 15 May 2020

### Abstract

To assist with assessment and improvement in Public Finance management (PFM), the 2016 Public Expenditure Financial Accountability (PEFA) was used to measure 2018 PFM performance of all countries. This report compares and assesses the 2018 PFM performance of Ghana and Malawi. A detailed assessment of performance in terms of the seven pillars of the PFM system was done which provided analysis and measurement of results in terms of the 31 performance indicators (PIs) of PFM performance. Assessing all the seven (7) pillars with their indicators and dimensions together, it was realized that on an ordinal scale, Malawi's PFM performance is higher than that of Ghana. Thus, Malawi is appraised with having a higher PFM performance than Ghana. It is therefore recommended that further investigation is done to identify the loopholes and leakages in the PFM of Ghana and duly sealed for the country's PFM to be more reliable.

**Keywords:** Public Expenditure Financial Accountability (PEFA), Public Finance Management (PFM), budget reliability, performance indicators

### Background

Governments of many economies in the world have embarked on extensive financial and administrative reforms in recent years owing to social, political, economic and technological pressures on these governments to become effective, efficient and accountable for the use of public resources [1]. Improvement in the quality of Public Financial management (PFM) has become an issue being given much attention around the globe. Many countries (both developing and developed countries) are making impressive achievements in strengthening public financial management and governance (Association of Chartered Certified Accountants [ACCA], [2]. Wensing, stated clearly that increased globalisation, scarcity of resources, and dissatisfaction of citizens with the current public finance management pressures governments to judiciously manage public funds [3].

According to the Organization for Economic Co-operation Development [OECD], efficiency, integrity, effectiveness and efficiency of a state in raising, managing and spending of its resources is a linchpin of the state's development of its economy [4]. Therefore, every economy that seeks growth and development must give attention to periodic assessment of the formal and informal rules and institutions that govern public financial management of that economy and work on improving and making robust the public financial management system. Public financial management encompasses all components of a country's budget

process both upstream and downstream. The upstream take account of strategic planning, medium-term expenditure framework, annual budgeting and the downstream take account of revenue management, procurement, internal control, accounting and financial reporting, monitoring and evaluation and audit [5]. To assist with assessment and improvement in Public Finance management, a framework called the Public Expenditure Financial Accountability (PEFA) was initiated in 2001 by seven international development partners: the European Commission, International Monetary Fund, World Bank, France, Norway, Switzerland, and United Kingdom. The Public Expenditure and Financial Accountability (PEFA) was developed to be a framework for thorough, consistent and evidence-based assessment and analysis of the status of public financial management at central and local government levels of governments.

The Public Expenditure Financial Accountability (PEFA) which was initiated in 2001 has undergone several reforms. It was reformed in 2005, also in 2011 and again in 2016. The current version of the PEFA in use now is 2016 framework and it focuses on the extent to which PFM systems are supportive of Government efforts to deliver the three main fiscal and budgetary outcomes which are: Aggregate Fiscal Discipline, Strategic Allocation of Resources, and Efficient Service Delivery. The 2016 PEFA also has seven pillars namely: budget reliability, transparency of public finances, management of assets and liabilities, policy-based fiscal strategy and budgeting, predictability and control in budget execution, accounting and reporting, and external scrutiny and audit. These pillars have thirty-one (31) indicators with each indicator having dimensions.

PEFA offers an objective, evidence-based assessment of countries' PFM performance in a succinct and standardized manner, to form a rationalized understanding of the overall fiduciary milieu of the PFM systems and to assist in ascertaining those parts of the PFM systems in need of further reform and development. This report seeks to compare the 2018 PFM performance of Ghana and Malawi. Ghana and Malawi in past times have had their agricultural sectors dominating their economies, that is, accounting for over 30 percent of Gross Domestic Product (GDP). However, for Ghana, mining has recently evolved as an important industrial sector of the economy and a large contributor to GDP and domestic revenue. The agricultural sector still dominates the economy of Malawi, contributing almost 30 percent of GDP. Malawi is a landlocked country of 18 million inhabitants with a per capita GDP of just US\$389.4 as at December 2018. Ghana on the other hand is not landlocked, rich in mineral resources and with a population exceeding 24 million with a per capita GDP of just US\$2,202 as at December 2018 [6]. Mining has become an imperative industrial sector of the Ghanaian economy and it offers enormous contribution to domestic revenue and GDP.

Following Ghana's offshore discovery of oil in 2007, further oil and gas exploration and production, the country's revenues has increased. Oil revenues and strong export performance of cocoa and gold accounted for GDP growth in 2011. Ghana's GDP per capita is currently one of the highest ratios in Africa. These positive developments in the GDP growth notwithstanding, the impact on household income and non-oil sectors of Ghana's economy remains modest. About 27% of Ghana's population were living on less than USD1.25 per day in 2011. Poverty reduction is still one of the key challenges and is addressed across most of nation's policies and plans. Malawi is a landlocked country of 18 million inhabitants with a per capita GNP of just US\$389.4 as at December 2018 [6]. Malawi has experienced erratic economic growth from 1995 to 2015 and this has been attributed to both external shocks, such as severe climate conditions and macroeconomic instability, which is often domestically generated and policy-induced. Although there have been improvements in non-income poverty indicators in the Malawian economy, poverty levels of the economy remained very high. This report as it captures the 2018 PFM performance of Ghana and Malawi will assist with

comparative analysis of Public Finance Management systems of these two countries. From the comparative analysis, it may become a basis of research into the effect of changes in sector contribution to GDP, discovery and exploration of oil in a country on the public finance management of the country.

### Objective of the Report

The primary objective of this report is to compare and analyse the PFM performance of Ghana and Malawi based on which recommendations would be made on key areas to give attention to in reforming the PFM system. The approaches to achieve this objective are explained in the next section.

### Methodology

This report used a descriptive research design to compare and analyse the PFM performance of Ghana and Malawi. The data analysed is secondary from the 2018 PEFA report published on its website ([www.pefa.org](http://www.pefa.org)).

Detailed assessment of performance in terms of the seven pillars of the PFM system was done which provided analysis and measurement of results in terms of the 31 Performance Indicators (PIs) of PFM performance.

### Findings and Discussions

This section of the report provides the findings of PFM performance of Ghana and Malawi retrieved by the 2018 PEFA report. These findings were further analysed using graphs and tables and results discussed. Seven (7) pillars namely: budget reliability, transparency of public finances, management of assets and liabilities, policy-based fiscal strategy and budgeting, predictability and control in budget execution, accounting and reporting, and external scrutiny and audit were identified with thirty-one (31) Indicators and ninety-four (94) dimensions. These served as the basis for the analysis.

Below are the findings and discussions according to each pillar.

#### Pillar 1: Budget reliability

This pillar ensures government budget is realistic and is implemented as intended. This is measured by comparing actual revenues and expenditures. Table 1 provide comparison of Ghana and Malawi.

**Table 1: Budget Reliability**

GHANA			MALAWI				
Indicators	Score	Dimensions	Score	Indicators	Score	Dimensions	Score
1. Aggregate expenditure outturn	D*	1. Aggregate expenditure outturn	D*	Aggregate expenditure outturn	A		A
2. Expenditure composition outturn	D+	2.1 Expenditure composition outturn by function	D*	Expenditure composition outturn	D+	2.1 Expenditure composition outturn by function	D
		2.2 Expenditure composition outturn by economic type	D*			2.2 Expenditure composition outturn by economic type	C
		2.1 Expenditure from contingency reserve	A			2.1 Expenditure from contingency reserve	A
3. Revenue outturn	D+	3.1 Aggregate revenue outturn	D	Revenue outturn	C+	3.1 Aggregate revenue outturn	A
		3.2 Revenue composition outturn	C			3.2 Revenue composition outturn	D

Retrieved from 2018 PEFA report

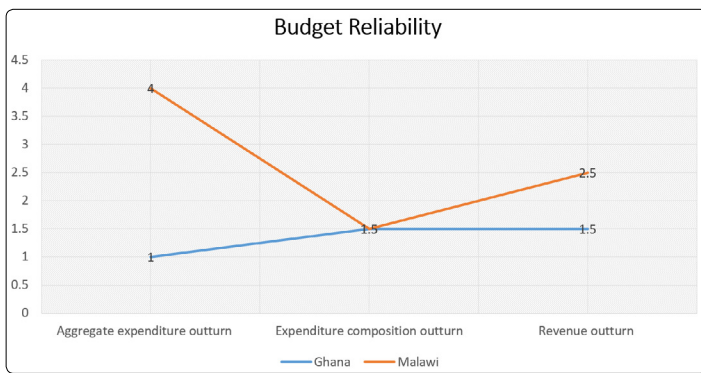


Figure 1: Budget reliability.

From the table 1 and figure 1 above, it is realized that on an ordinal scale, Malawi has a higher budget reliability than Ghana.

### Pillar 2: Transparency of Public Finance

This pillar ensure information on PFM is comprehensive, consistent, and accessible to users. This is achieved through comprehensive budget classification, transparency of all government revenue and expenditure including intergovernmental transfers, published information on service delivery performance and ready access to fiscal and budget documentation. Table 2 provides the comparison between Ghana and Malawi.

Table 2: Transparency of Public Finance

GHANA				MALAWI			
Indicators	Score	Dimensions	Score	Indicators	Score	Dimensions	Score
4. Budget Classification	C	4.1 Budget Classification	C	Budget Classification	A	Budget Classification	A
5. Budget documentation	C	5.1 Budget documentation	D	Budget documentation	B	Budget documentation	B
6. Central government operation outside financial report	D	6.1 Expenditure outside financial report	D	Central government operation outside financial report	D	1.1 Expenditure outside financial report	NR
		6.2 Revenue outside financial report	D			1.2 Revenue outside financial report	NR
		6.3 Financial reports of extra budget	D			1.3 Financial reports of extra budget	D
6 Transfer to sub-national	D+	6.1 System for allocating transfer	C	Transfer to sub-national	C	1.1 System for allocating transfer	C
		6.2 Timelines of information on transfer	D			7.2 Timelines of information on transfer	C
7 Performance information for service delivery	B+	7.1 performance plan for service delivery	A	Performance information for service delivery	C	8.1 Performance plan for service delivery	B
		7.2 performance achieved for service delivery	A			8.2 performance achieved for service delivery	B
		7.3 Resources received by service delivery unit	C			8.3 Resources received by service delivery unit	D
		7.4 Performance evaluation for service delivery	B			8.4 Performance evaluation for service delivery	D
9. Public access to fiscal information	A	9.1 Public access to fiscal information	A	Public access to fiscal information	D	Public access to fiscal information	D

Retrieved from 2018 PEFA report

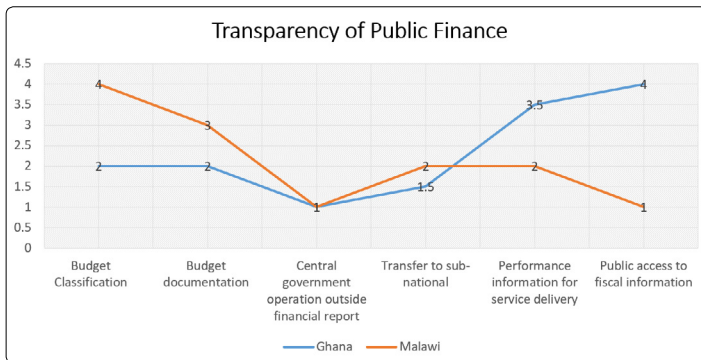


Figure 2: Transparency of Public Finance

From the table 2 and figure 2 above, it is realized that on an ordinal scale, Ghana has a higher Transparency of Public Finance than Malawi

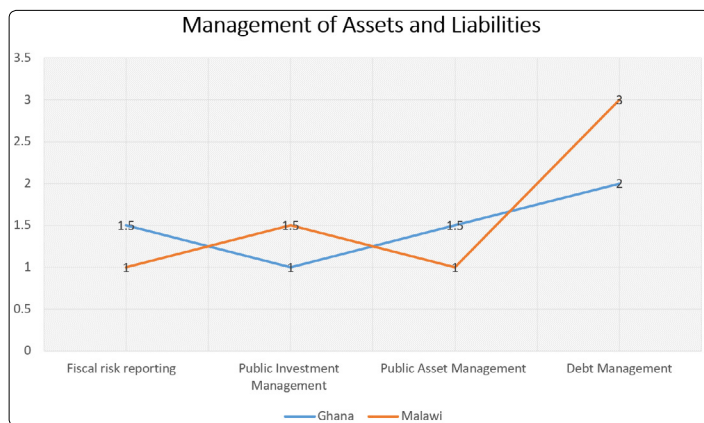
### Pillar 3: Management of Assets and Liabilities

Effective management of assets and liabilities ensures that public investments provide value for money, assets are recorded and managed, fiscal risks are identified, and debts and guarantees are prudently planned, approved, and monitored. Without value for money PFM is just another financial theory with no substance. Table 3 provides the comparison of Management of Assets and Liabilities between Ghana and Malawi.

**Table 3: Management of Assets and Liabilities**

GHANA				MALAWI			
Indicators	Score	Dimensions	Score	Indicators	Score	Dimensions	Score
10. Fiscal risk reporting	D+	10.1 Monitoring of public corporations 10.2 Monitoring of subnational gov't 10.3 contingent liabilities and other fiscal risks	D B D	Fiscal risk reporting	D	10.1 Monitoring of public corporations 10.2 Monitoring of subnational gov't 10.3 contingent liabilities and other fiscal risks	D D D
11. Public Investment Management	D	11.1 Economic analysis of investment proposals 11.2 Investment project selection 11.3 investment project costing 11.4 investment project monitority	D D D D	Public Investment Management	D+	11.1 Economic analysis of investment proposals 11.2 Investment project selection 11.3 investment project costing 11.4 investment project monitority	C C D C
12. Public Asset Management	D+	12.1 Financial asset monitority 12.2 Nonfinancial asset monitority 12.3 Transparency of asset disposal	C D C	Public Asset Management	D	12.1 Financial asset monitority 12.2 Nonfinancial asset monitority 12.3 Transparency of asset disposal	D D D
13. Debt Management	C+	13.1 Recording and reporting of debt guarantees 13.2 Approval of debt and guarantees 13.3 Debt management strategy	C D B	Debt Management	B	13.1 Recording and reporting of debt guarantees 13.2 Approval of debt and guarantees 13.3 Debt management strategy	B A D

Retrieved from 2018 PEFA report



**Figure 3: Management of Assets and Liability**

From the table 3 and figure 3 above, it is realized that on an ordinal scale, Malawi has a higher Management of Assets and Liability than Ghana.

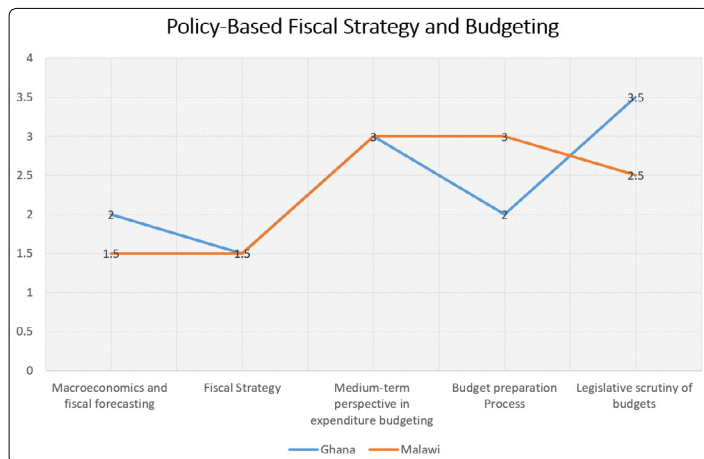
**Pillar 4: Policy-Based Fiscal Strategy and Budgeting**

The fiscal strategy and the budget are prepared with due regard to government fiscal policies, strategic plans, and adequate macroeconomic and fiscal projections. Everyone can prepare a budget but budget that leads to growth and development should be policy oriented. Table 4 provides a PEFA comparison of Ghana and Malawi.

**Table 4: Policy-Based Fiscal Strategy and Budgeting**

GHANA				MALAWI			
Indicators	Score	Dimensions	Score	Indicators	Score	Dimensions	Score
14. Macroeconomics and fiscal forecasting	C	14.1 Macroeconomic forecasts	C	Macroeconomics and fiscal forecasting	D+	14.1 Macroeconomic forecasts	D
		14.2 Fiscal forecast	C			14.2 Fiscal forecast	C
		14.3 Macro-fiscal sensitivity analysis	C			14.3 Macro-fiscal sensitivity analysis	D
15. Fiscal Strategy	D+	15.1 Fiscal impact of policy proposals	D	Fiscal Strategy	D+	15.1 Fiscal impact of policy proposals	D
		15.2 Fiscal strategy adoption	C			15.2 Fiscal strategy adoption	D
		15.3 Reporting on fiscal outcomes	N/A			15.3 Reporting on fiscal outcomes	C
16. Medium-term perspective in expenditure budgeting	B	16.1 Medium-term expenditure estimates	A	Medium-term perspective in expenditure budgeting	B	16.1 Medium-term expenditure estimates	B
		16.2 Medium-term expenditure ceilings	C			16.2 Medium-term expenditure ceilings	A
		16.3 Alignment of strategic plans and medium-term budgeting	A			16.3 Alignment of strategic plans and medium-term budgeting	A
		16.4 consistency of budgets previous year's estimates	D			16.4 consistency of budgets previous year's estimates	D
17. Budget preparation Process	C	17.1 budget calendar	C	Budget preparation Process	B	17.1 budget calendar	C
		17.2 Guidance on budget preparation	C			17.2 Guidance on budget preparation	A
		17.3 Budget submission to the legislature	C			17.3 Budget submission to the legislature	C
18. legislative scrutiny of budgets	B+	18.1 Scope of budget scrutiny	B	legislative scrutiny of budgets	C+	18.1 Scope of budget scrutiny	C
		18.2 legislative procedures for budget scrutiny	A			18.2 legislative procedures for budget scrutiny	B
		18.3 Timing of budget approval	A			18.3 Timing of budget approval	A
		18.4 Rules for budget adjustment by the executive	B			18.4 Rules for budget adjustment by the executive	B

Retrieved from 2018 PEFA report



**Figure 4: Policy-Based Fiscal Strategy and Budgeting**

From the table 4 and figure 4 above, it is realized that on an ordinal scale, Ghana has a higher Policy-Based Fiscal Strategy and Budgeting than Malawi.

**Pillar 5: Predictability and Control in Budget Execution**

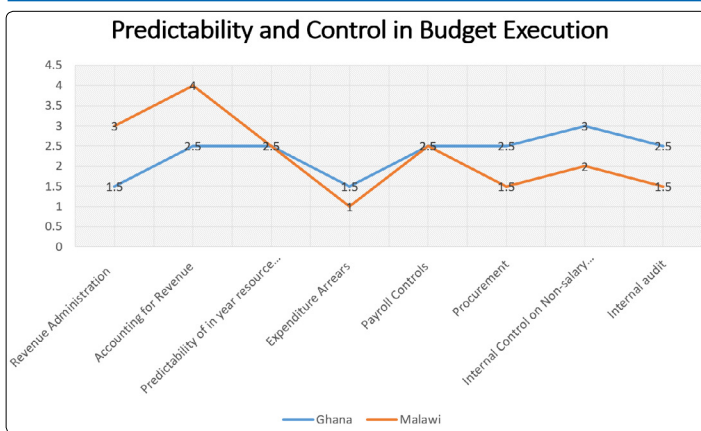
The budget is implemented within a system of effective standards, processes, and internal controls, ensuring that resources are obtained and used as intended. The effective standards and controlled processes make it possible for policy makers and financial experts to predict future government expenditure and revenue. Table 5 provides the PEFA comparison of the above pillar using Ghana and Malawi.



**Table 5: Predictability and Control in Budget Execution**

GHANA				MALAWI			
Indicators	Score	Dimensions	Score	Indicators	Score	Dimensions	Score
19. Revenue Administration	D+	19.1 Rights and obligations for revenue measures 19.2 Revenue risk management 19.3 Revenue audit and investigation 19.4 Revenue arrears monitoring	A D D D	Revenue Administration	B	19.1 Rights and obligations for revenue measures 19.2 Revenue risk management 19.3 Revenue audit and investigation 19.4 Revenue arrears monitoring	A B C C
20. Accounting for Revenue	C+	20.1 information on revenue collections 20.2 Transfer of revenue collections 20.3 Revenue account reconciliation	A B C	Accounting for Revenue	A	20.1 information on revenue collections 20.2 Transfer of revenue collections 20.3 Revenue account reconciliation	A A A
21. Predictability of in year resource allocation	C+	21.1 consolidation of cash balances 21.2 cash forecasting and monitoring 21.3 information on commitment ceiling 21.4 significance of in-year budget adjustment	C C B B	Predictability of in year resource allocation	C+	21.1 consolidation of cash balances 21.2 cash forecasting and monitoring 21.3 information on commitment ceiling 21.4 significance of in-year budget adjustment	D A C B
22. Expenditure Arrears	D+	22.1 stock of expenditure arrears 22.2 Expenditure arrears monitoring	D B	Expenditure Arrears	D	22.1 stock of expenditure arrears 22.2 Expenditure arrears monitoring	NR D
23. Payroll Controls	C+	23.1 integration of payroll and personal records 23.2 management of payroll changes 23.3 internal control of payroll 23.4 payroll audit	C C B B	Payroll Controls	C+	23.1 integration of payroll and personal records 23.2 management of payroll changes 23.3 internal control of payroll 23.4 payroll audit	C A C B
24. Procurement	C+	24.1 Procurement monitoring 24.2 Procurement methods 24.3 Public access to procurement information 24.4 Procurement complaints management	D B B B	Procurement	D+	24.1 Procurement monitoring 24.2 Procurement methods 24.3 Public access to procurement information 24.4 Procurement complaints management	D NR D B
25. Internal Control on Non-salary expenditure	B	25.1 Segregation of duties 25.2 Effectiveness of expenditure commitment control 25.3 Compliance with payment controls	A C B	Internal Control on Non-salary expenditure	C	25.1 Segregation of duties 25.2 Effectiveness of expenditure commitment control 25.3 Compliance with payment controls	B C D
26. Internal audit	C+	26.1 Coverage of internal audit 26.2 Nature of audits and standards applied 26.3 Implementation of internal audits and reporting 26.4 Response to internal audits	C C C B	Internal audit	D+	26.1 Coverage of internal audit 26.2 Nature of audits and standards applied 26.3 Implementation of internal audits and reporting 26.4 Response to internal audits	D C C D

Retrieved from 2018 PEFA report



**Figure 5:** Predictability and Control in Budget Execution

From the table 5 and figure 5 above, it is realized that on an ordinal scale, Ghana has a higher Predictability and Control in Budget Execution than Malawi.

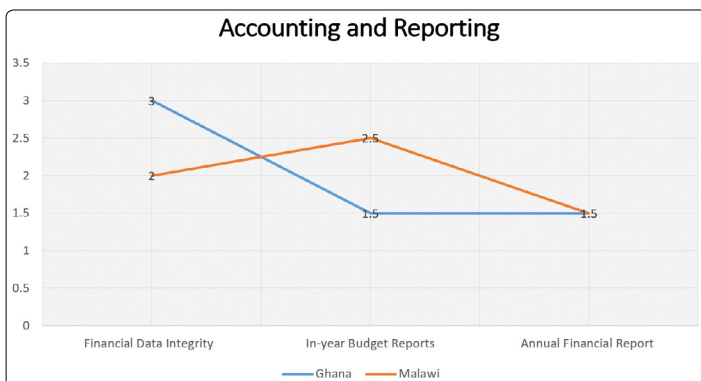
### Pillar 6: Accounting and Reporting

This pillar ensure that accurate and reliable financial records are maintained, and information is produced and disseminated at appropriate times to meet decision-making, management, and reporting needs. Table 6 provides comparison of Ghana and Malawi using the PEFA 2018 report.

**Table 6:** Accounting and Reporting

GHANA				MALAWI			
Indicators	Score	Dimensions	Score	Indicators	Score	Dimensions	Score
27. Financial Data Integrity	B	27.1 Bank Account reconciliation	C	Financial Data Integrity	C	27.1 Bank Account reconciliation	D
		27.2 Suspense Account	A			27.2 Suspense Account	D
		27.3 Advance Account	C			27.3 Advance Account	A
		27.4 Financial data integrity	A			27.4 Financial data integrity	C
28. In-year Budget Reports	C+	28.1 Coverage and comparability of reports	D	In-year Budget Reports	C+	28.1 Coverage and comparability of reports	B
		28.2 Timing of in-year budget reports	A			28.2 Timing of in-year budget reports	B
		28.3 Accuracy of in-year budget reports	C			28.3 Accuracy of in-year budget reports	C
29. Annual Financial Report	D+	29.1 Completeness of annual financial reports	D	Annual Financial Report	D+	29.1 Completeness of annual financial reports	C
		29.2 Submission of reports for external audit	A			29.2 Submission of reports for external audit	B
		29.3 Accounting Standards	C			29.3 Accounting Standards	D

Retrieved from 2018 PEFA report



**Figure 6:** Accounting and Reporting

From the table 6 and figure 6 above, it is realized that on an ordinal scale, Ghana has same Accounting and Reporting as Malawi.

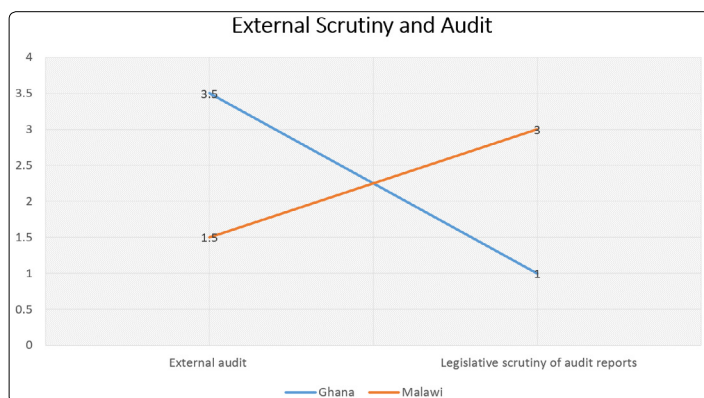
### Pillar 7: External Scrutiny and Audit

Public finances are independently reviewed and there is external follow-up on the implementation of recommendations for improvement by the executive. Below is the comparison of the above pillar between Ghana and Malawi.

**Table 7: External Scrutiny and Audit**

GHANA				MALAWI			
Indicators	Score	Dimensions	Score	Indicators	Score	Dimensions	Score
30. External audit	B+	30.1 Audit coverage and standards	B	External audit	D+	30.1 Audit coverage and standards	C
		30.2 submission of audit reports to the legislature	B			30.2 submission of audit reports to the legislature	D
		30.3 External audit follow up	B			30.3 External audit follow up	C
		30.4 supreme audit institution independence	A			30.4 supreme audit institution independence	D
31. Legislative scrutiny of audit reports	D	31.1 Timing of audit report scrutiny	D	Legislative scrutiny of audit reports	B	31.1 Timing of audit report scrutiny	C
		31.2 Hearings on audit findings	D			31.2 Hearings on audit findings	B
		31.3 Recommendation on audit by the legislature	D			31.3 Recommendation on audit by the legislature	B
		31.4 transparency of legislative scrutiny of audit reports	D			31.4 transparency of legislative scrutiny of audit reports	B

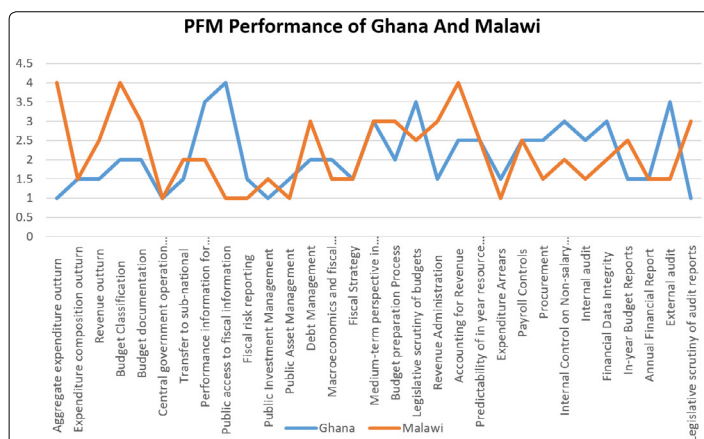
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**Figure 7: External Scrutiny and Audit**

From the table 7 and figure 7 above, it is realized that on an ordinal scale, Ghana has same External Scrutiny and Audit as Malawi.

Assessing all the seven (7) pillars with their indicators and dimensions together, figure 8 below gives a pictorial view of the performance of public finance management of Ghana and Malawi.



**Figure 8: PFM Performance of Ghana and Malawi**

From figure 8 above, it is realized that on an ordinal scale, Malawi’s PFM Performance is higher than that of Ghana.

**Economic Implications of poor PFM performance.**

The Department for International Development and some other donors since 1990 have given unparalleled attention to the reform of PFM systems in developing and transition economies. PEFA provides the tool for economies to be able to see whether any progress in the planning and budget processes, financial reporting and accounting, in internal controls and in external audit scrutiny. A poor overall PFM performance reported on the seven (7) pillars, various indicators and dimensions calls for attention on the implications on the economy in question.

Countries with accountable, transparent and strong PFM systems tend to be more effective in their delivery of public services. They also regulate markets more efficiently and fairly. Equitability in public service delivery is the hallmark of such countries. Closely associated with poverty reduction and economic growth is effective and equitable public service delivery. Therefore, poor PFM performance of a country like Ghana implicates worsening of poverty and slowdown of economic growth.

Also, the ability of a state to tax fairly and efficiently and also engage in responsible expenditure determines the innovation, trust, tax evasion and tax avoidance that will be realized in the state. Poor PFM performance will obviously be realized by the residents of a country without having to do any analysis from the PEFA report. Indisputably, a country with poor PFM report will raise tax revenue less than its potential because there will be lack of trust in the PFM which will likely result in tax evasion, tax avoidance and decelerate innovation. This hampers the development of the country.

Finally, a transition economy with a high performing PFM will easily benefit from donors. On the other hand, donors are very reluctant to assist poor countries with low Performing PFM, since funds received by such countries from donors might not serve its intended purpose.



Receiving donor support is less burdensome than issuing foreign currency bonds engaging in internal and external borrowing with high interest rates for developmental projects. Most countries who rarely receive donor support because of their low performance in PFM almost always experience a vicious cycle of poverty as they depend on issuing foreign currency bonds, borrowing from International Financial Institutions including the IMF, World Bank, etc., because the payment of the loan with interest and also strings attached to such loans slows down the structural transformation and development of the economy of those countries in the long run.

Sequel to these, every government must have keen interest in ensuring its public administration system is very strong to engender strong PFM system.

### Conclusion

From the analysis, assessing all the seven (7) pillars with their indicators and dimensions, Malawi is appraised with having a higher PFM performance than Ghana. Could it be that the revenue generated from oil exploration in Ghana makes the PFM system of Ghana porous?

The authors recommend that further investigation is done to identify the loopholes and leakages in the PFM of Ghana and duly sealed for the country's PFM to be more reliable [7].

### Recommendation

A suggestion for further research is to investigate if changes in sector contribution to Ghana's GDP, discovery and exploration of oil in the country have had an adverse effect on the public finance management system of the country.

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