International Consortium on Governmental Financial Management

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The Consortium’s international activities include (1) Encouraging collaboration and communication among professionals involved with government accounting, auditing, budgeting, information systems, cash management, debt administration, and financial management; (2) Contributing to the advancement of government financial management principles and standards, and through educational events, promoting best practices in government financial to improve management control and accountability to the public; (3) Disseminating, to its members and to the public, information concerning government financial management; (4) Promoting the development and application of professional standards to support government financial management activities;

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International Consortium on Governmental Financial Management

General Information

“Working globally with governments, organizations, and individuals, the International Consortium on Governmental Financial Management is dedicated to improving financial management so that governments may better serve their citizens.”

Our mission includes three key elements. First, it highlights that, within the international community, the Consortium is unique - it serves as an “umbrella” bringing together diverse governmental entities, organizations (including universities, firms, and other professional associations), and individuals. At the same time, it welcomes a broad array of financial management practitioners (accountants, auditors, comptrollers, information technology specialists, treasurers, and others) working in all levels of government (local/municipal, and national). Additionally, the mission statement emphasizes the organization’s commitment to improving government infrastructure so that the needs of the people are better met.

Our programs provide activities and products to advance governmental financial management principles and standards and promote their implementation and application. Internationally, the Consortium (1) sponsors meetings, conferences, and training that bring together financial managers from around the world to share information about and experiences in governmental financial management, and (2) promotes best practices and professional standards in governmental financial management and disseminates information about them to our members and the public.

The International Consortium on Governmental Financial Management provides three options for membership.

**Sustaining Members:** organizations promoting professional development, training, research or technical assistance in financial management; willing to assume responsibility for and to actively participate in the affairs of the Consortium. Each Sustaining Member has a seat on the ICGFM’s Board of Directors and receives 10 copies of all ICGFM publications to be distributed within their organization and, where applicable, discounted registration fees. (Dues: $1,000)

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Foreword

We hope that you will enjoy the first issue of our journal under the editorship of Andy Wynne. We have taken this opportunity to change the name to the International Journal on Governmental Financial Management which we believe better reflects the scope and readership of the journal. We have included a wide variety of articles in terms of their geographical coverage, the first languages of the authors and the public sector financial traditions which are covered. We welcome contributions and suggestions for future issues of this journal which will maintain this tradition.

The first article by PK Subramanian provides the results of implementing a World Bank diagnostic tool designed to assist the countries of South Asia in assessing how well their public sector accounting and auditing practices accord with the public sector accounting standards of the International Federation of Accountants, and the public sector auditing standards of International Organization of Supreme Audit Institutions. Despite the article arguing strongly for the adoption of international standards there, are significant differences between the level of compliance with these two main standards. The Supreme Audit Institutions of South Asia have already adopted the INTOSAI Auditing Standards whilst adoption of the public sector accounting standards remains to be achieved over the years to come. This may be due to the fact that the INTOSAI Standards were developed by the practitioners themselves and reflects existing good practice.

The second article by Nikola Vukicevic and Rich Bartholomew describes an initiative which is designed to facilitate the sharing of good practice between public sector financial management practitioners in East Europe and Central Asia Region. Peer consultations offer an important tool for these purposes, since it enables professionals to learn practical approaches to key tasks and challenges from those who have similar responsibilities in other countries. It engages in two common activities, peer learning and benchmarking.

Ayodeji Ogunyemi’s article considers quality initiatives and developments with the supreme audit institutions of Nigeria, Namibia, Lesotho and Mauritius. Ayodeji ends with the important question of whether successes in the development of the supreme audit institution act as a catalyst for wider gains in governance or is the pace of the growth of audit institutions limited by the pace of achievements in wider governance reform?

The debate over the adoption of commercial style accrual accounting by the public sector does not appear to have been held back by lack of experience as the Chair of the IPSAS Board recently admitted that only six countries have actually issued accrual based financial statements. Rakoto Harimino Oliorilanto’s research in Madagascar looked at the reasons why accrual accounting had not been adopted by local government in this French speaking country, despite being required in official regulation. In contrast Norvald Monsen argues for the adoption of cameral accounting, developed in the public sectors of Germanic countries rather than private sector style accrual accounting.

In recent years governments of Nigeria have taken some action against corrupt politicians and officials. This may have had some impact on reducing the importance of corruption, but it is still a live issue. The head of the main anti-corruption agency has recently been under pressure to leave for ‘further studies’ and so the new government’s commitment to this issue is in question. Kabiru Isa Dandago considers whether the constitutional fight against corruption has been enough? Femi Aborisade considers another aspect of public sector financial management in Nigeria which is of wider relevance, that of pension provision. The effectiveness of the reforms is questioned in terms of equity, transparency and poverty reduction.

The paper by Awal Hossain Mollah considers the wider issue of accountability of the bureaucracy in the state of another medium size country, Bangladesh. The recent civil unrest and change of government, backed by the military, show the challenges and limits of such accountability. These events and this paper are important reminders of the wider environment in which public sector financial management operates in many countries.

As always, we invite your comments on these papers and any prior editions (Public Fund Digest) as we debate the issues. You may find earlier editions on the ICGFM website at www.icgfm.org. Please contact me directly at andywynne@lineone.net if you would like to contribute an article, or discuss any issue which you believe we should consider in the Journal. Alternatively, feel free to contact us by telephone, facsimile, or email (icgfm@icgfm.org).

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Public Sector Accounting and Auditing
Diagnostic Tools for Comparing
Country Standards to International Standards

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Abstract

The assessment framework was developed in 2006 by the World Bank as a diagnostic tool to assist countries in assessing how well their public sector accounting and auditing practices accord with the public sector accounting and auditing standards of the International Federation of Accountants and the International Organization of Supreme Audit Institutions. The framework uses a set of self-assessment questionnaires focusing on identifying the gaps in the local standards implemented in each country. It was specifically developed for the countries of South Asia (Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka).

The assessment is at a detailed level to support greater implementation of international standards. A set of six questionnaires was used in the survey conducted for this study to collect comparative information on country practices:

1 The public sector accounting environment — collecting basic information about financial laws and standards-setting arrangements, educational requirements for accountants compared with International Education Standards (IES), ethical requirements compared with the IFAC Code of Ethics for Professional Accountants.

2 Public sector accounting practices for the general budget sector if using the cash basis of accounting — compared with the requirements of the Cash Basis International Public Sector Accounting Standards ().

3 Public sector accounting practices for the general budget sector if using the accrual basis of accounting — compared with the requirements that govern accrual reporting for the public sector.

4 Public sector auditing environment — compared with the provisions of the INTOSAI Code of Ethics and the general standards in the INTOSAI Auditing Standards.

5 Public sector auditing practices — compared to the requirements of the INTOSAI field standards and reporting standards, and, as relevant, the IFAC International Standards on Auditing (ISA).

6 Accounting and auditing practices for state-owned enterprises — compared with the requirements of the IFAC International Financial Reporting Standards (IFRS) and the International Standards on Auditing.

The diagnostic questionnaires are available from The World Bank South Asia Region Financial Management Unit, 1818 H Street, NW, Washington DC 20433, USA through PK Subramanian (psubramanian4@worldbank.org).
Introduction

Convergence of international financial reporting and auditing standards has received enormous attention over the last decade and particularly over the past few years. The world has indeed become a much smaller place. There is no doubt that globalization of the accounting and auditing profession has been enabled by technology, which allows us to reach millions of people around the world in a matter of seconds. Therefore, users of financial information will benefit from a common set of accounting and auditing standards characterized by consistency, coherence and ease of implementation and understanding. In the long-term, global accounting may transition to a single conceptual framework, however some standard setters believe that a distinct approach should be retained for the public sector.

Countries are encouraged to adopt and use IPSAS, if the government has no public sector reporting framework that produces consistently relevant and reliable financial information. The World Bank has directly supported the development of IPSAS by actively engaging in the technical agenda and by providing funding to the IPSAS Board. It should be noted that the IPSAS are intended to apply to general purpose financial reports and that they apply under two distinct bases of accounting: Cash Accounting and Accrual Accounting.

Within this context, the countries of South Asia (Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka) have been actively involved with projects to improve the capacities of their national accounting and auditing institutions with the objective of improving public financial management within their respective countries. The accounting and auditing framework and practices had been influenced by their colonial rulers in the last century and, where this has not been significantly reformed already, it needs updating to reflect the international practices of the twenty-first century.

The development of the Public Financial Management (public financial management)\(^1\) Performance Measurement Framework by the Public Expenditure and Financial Accountability Program\(^2\) has opened the way for a more diagnostic tool to be developed that is referenced to the public sector accounting and auditing standards of the International Federation of Accountants (IFAC) and the International Organization of Supreme Audit Institutions (INTOSAI). This new diagnostic tool is a valuable addition to the detail supporting the public financial management indicators in a similar way to the separate procurement guidelines.\(^3\) The diagnostic tools adopt the methods used in the Report on Observance of Standards and Codes (ROSC) for Accounting and Auditing, modified for the public sector.

The specific objectives of the diagnostic assessments are:

(a) to provide each country and other interested stakeholders with a common well-based knowledge as to where the countries stand against the international benchmarks;

(b) to assess the prevailing variances; and

(c) to chart paths for improved compliance with the international standards.

Substantial work has been undertaken on assessing the state of play of public sector accounting and auditing standards in the South Asian countries.

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\(^1\) Public financial management includes all phases of the budget cycle, including the preparation of the budget, expenditure and revenue management, internal control and audit, procurement, monitoring and reporting arrangements, and external audit.

\(^2\) The Program is a partnership among the World Bank, the European Commission, the UK’s Department for International Development, the Swiss State Secretariat for Economic Affairs, the French Ministry of Foreign Affairs, the Royal Norwegian Ministry of Foreign Affairs, the International Monetary Fund and the Strategic Partnership with Africa.

\(^3\) The OECD-DAC Baseline Indicators for Procurement Performance is an internationally developed tool designed to assess the soundness of a country’s procurement system.
Standards Are Important For Poverty Alleviation

Standards support effective public financial management. Good public financial management is crucial in ensuring that budget allocations are efficiently directed to government priorities especially those related to poverty reduction. A well-functioning public financial management system usually needs an elaborate framework of technological and human resource deployments. The international standards for accounting and auditing provide the sound basis for this technology and HR framework. They cover such things as ethical behaviors, education and training standards, as well as, accounting and auditing methods and rules. Around the world, a standardized approach is being developed through the development of, training in, and adoption of, international accounting and auditing standards. Practices in accounting and auditing are under frequent refinement and the standard setting boards are continually adopting new standards to support these refinements.

Standards support results frameworks. Many countries are directing substantial parts of their annual budget to poverty related areas and sometimes special reporting frameworks have been necessary to meet reporting requirements, usually because in-country systems do not meet international standards. The special reporting arrangements have been put in place by donors because financial reporting has often been insufficient to provide enough information about the use of funds directed to poverty reduction efforts (although the IPSASB is currently finalizing its accounting requirements in this area\(^4\)). The government and donors have a special interest in the impact of government spending in reducing poverty and reliable financial reporting helps to provide better information. But these special ring fenced arrangements are less reliable than standards-based systems operating in-country, and are generally non-sustainable. Hence, there is a need for a reliable public financial management system within each country, supported by acceptable standards to govern a suitable measurement and reporting framework that provides the results information that donors and governments want.

Reporting requirements need a reliable accounting system. Governments and donors providing financial support for government programs need to report back to citizens in host and donor countries about how funds have been utilized. For them to be able to provide credible reports on fund utilization, the reporting systems on which the reports are based need to be reliable. Use of international accounting standards can significantly increase the credibility of these reports.

Further standards can be developed of direct relevance to developing countries. The issue is sometimes raised by developing countries that the international standards are too difficult to implement or are not appropriate for their environments. To the extent that existing standards do not meet the needs of developing countries the public financial management authorities in those countries can be assisted to play a larger role in the IFAC and INTOSAI committee systems so that the standard setting bodies provide standards of more direct relevance to developing countries. Both bodies have been doing a lot more in the public sector and have been re-orienting their corporate planning processes to involve their developing country members more extensively and directly.

Standards Can Support Transparency And Governance Improvement

Timely and reliable accounts need IT systems and these depend on applying international standards. Many countries find it difficult to produce reliable accounts in a timely fashion. With the use of IT systems based on international accounting standards governments should be able to produce their accounts within six months of year-end. The use of international standards enhances the credibility of these accounts. Computer software accounting packages are available to support the IT systems that will do this. Accounts for each ministry and each regional level of government can also be supplied within the period by the same integrated system. Transparency and governance can not be adequate without the use of globally accepted and understood standards implemented via automated systems.

Reliable internal controls should be based on standards. Evasion of controls and misuse of government moneys is a constant theme of audit reports in many countries. It is easy to adopt a set of internal controls but their management needs constant and reliable enforcement. Cultures of impunity occur within some government administrations and public money is often not well monitored. Use of international standards and appropriate internal controls practices make such evasions more difficult.

\(^4\)Section 1.10 has been added to the Cash Basis IPSAS to cover accounting for development assistance
Accounts need to be supported by adequate reliable audits. International standards applied by audit staff trained in accordance with IFAC Education Standards can achieve this. In-country educational institutions and accountancy profession need to be supported to implement these educational standards and to apply professional ethics.

Standards assist proper accountability of public officials. Many countries apply most of their auditing effort to try and identify irregular transactions and several audit jurisdictions have a large number of audit findings pending action. Modern audit standards are much more effective in gaining implementation of audit findings and preventing recurrence of irregularities because application of the standards improves the quality and relevance of the audit findings. Audits are more strongly directed at the causes of irregularities so that corrective actions may be effected. This form of auditing is supported by the international standards.

Standards support the legislature’s role in budget management and government accountability. Annual accounts based on the IPSAS require the reporting of agreed budgets and actual levels of receipts and payments. This provides legislatures and civil societies with meaningful comparisons of their governments’ operations with their agreed annual budgets.

Countries And Users Benefit From Adopting International Standards

Common problems are alleviated by common solutions. Historically, the developed countries had their own accounting and auditing standard setting processes. With the development of international standards these bodies often spent much of their time making adjustments to these international standards. Although each country feels that it has special needs, it may be more convenient to use the common international standards, provided these standards have been set with appropriate consultation – and current processes achieve this by widely distributed exposure drafts. IFAC is monitoring countries that have adopted IPSAS and as at March 2006 its list noted nearly fifty countries are moving towards the adoption IPSAS. Also the developing countries’ public sector needs have been given more attention. But much more is being done. For example the INTOSAI Professional Standards Committee has established a network of expert groups staffed from developing and developed countries to examine each of the International Standards on Auditing and write a public sector guide for each standard. The diversity among countries is being considered much more strongly by this process of standard setting.

Global economic interactions are unavoidable. There is virtually no financial system anymore which is isolated from the rest of the world. The international financial system expects international standards to be used even in government reporting; it is too difficult for international actors to interpret and rely on varying national standards. Lenders also expect greater levels of conformity with internationally established norms. The international standard setters (IFAC and INTOSAI) have extended their activities in recent years to match this demand. These bodies are recognizing the need to service these global economic interactions more effectively by involving their members much more widely in the standards setting processes. For example INTOSAI and IFAC have developed their committee frameworks to provide greater levels of international representation.

Engagement of the developing country community assists standards development. Developing countries have legitimate concerns that international standards must adequately reflect their views and needs. They need a larger say in the formation of these international standards, so that the international standards have both developed and developing country acceptability. The INTOSAI and IFAC committee systems have great interest in having developing country involvement and regional groups provide some of this interaction. Efforts to increase the volume and quality of the involvement continue to be needed and funding and nomination processes need to be refined. The donor community needs to be more involved in supporting these requirements.

IFAC and INTOSAI standards are independently developed, well-researched and practical. These well resourced expert bodies devote substantial expertise in developing standards that are relevant to their members. The public sectors of many developing countries are increasingly well represented on their public sector standard setting committees and working groups. The standards are increasingly designed with the needs of the developing countries in mind. For example, the IPSAS Cash Basis standard provides a standard that could readily be used by most countries with

http://www.ifac.org/PublicSector/Dowloads/IPSAS_Adoption_Governments.pdf
only minor changes to their accounts, except for the requirement to produce fully consolidated financial statements for all entities controlled by, for example, central government.

**The international standards provide the basis for quality assurance over the accounting and auditing systems.** For example, the International Standards on Auditing include standards on quality control over external and internal audits and these can give donors the assurance that they need to be able to rely on the country systems. Other users (e.g., citizens, financial institutions and development partners) want to place reliance on the country’s own systems for providing timely and reliable information. Following international standards provides the foundation for this reliance.

**The Results In South Asia So Far**

Reports on the accounting and auditing gap assessment were prepared for each South Asia country and discussed at country workshops to agree on the steps to be taken by national authorities to address the gaps. The individual country reports are to be used to prepare a regional synthesis of the common gaps and to develop proposals for a regional strategy to move forward to address those gaps.

**For the accounting gap assessment, the major findings include the following:**

a. All the South Asia countries, except Sri Lanka, will adopt the Cash Standard within the next few years. Sri Lanka is transforming to the accrual basis of accounting in accordance with the IPSAS.

b. All the countries in the region have expressed a desire to move in the direction of accrual accounting in the long run.

c. Each country is to establish an accounting standards committee to issue guidelines on how the IPSAS are to be implemented within their country.

d. The IFAC Educational Standards will be adopted as the criteria for staffing the accounting departments in the future.

**For the auditing gap assessment, the major findings were:**

a. The Supreme Audit Institutions will modify their audit methodology to be consistent with the international standards.

b. The Supreme Audit Institutions will adopt the IFAC Educational Standards as the criteria to be followed for staffing of each auditor general’s office in the future.

c. The Supreme Audit Institutions have already adopted the INTOSAI Auditing Standards and are willing to adopt the more detailed IFAC auditing standards but did not yet have laws that enabled them to fully meet the independence standards set by INTOSAI.

d. Programs for change and self-improvement needed stronger staff expertise to meet the increasing demands for certification of annual government financial statements at national, departmental and provincial levels.

e. Most Supreme Audit Institutions had little current capacity for handling environmental and forensic audit.

f. There was a general problem of obtaining adequate implementation of recommendations included in audit reports and the systems of enquiry by the parliamentary Public Accounts Committee enquiry generally require strengthening. The ASOSAI seminar on “Managing Audit Results” in February 2007 examined the issues of ensuring effective communication of the results of audits to stakeholders and ensuring that audit findings are followed up.

g. In some countries public reporting of audits needed to be much more timely and comprehensive.
Bank-supported institutional strengthening programs prepared by South Asia Governments are continuing, and to date have:

a. Used available model laws to develop suitable national audit laws
b. Provided capacity building through integrated accounting and audit system improvement programs
c. Proposed more rigorous staff appointment, training and advancement arrangements including adherence to Educational Standards for auditors
d. Provided manuals and training for broader pertinent themes of audit
e. Initiated support to PACs in examining audit reports.

The Comparison Criteria That Were Used

I. Public Sector Accounting

A. Assessment of the National Public Sector Accounting Environment

Timely, relevant, and reliable financial information is required to support all fiscal and budget management, decision-making and reporting processes.

1. The Accounting Law
   1. For reliability, the requirements for public sector accounting and reporting should be specified by law, cover all government-controlled entities, specify the methods by which accounting and auditing standards are to be set for the public sector, specify the reporting requirements, and lay down time-tables for the publication of audited annual accounts.
   2. Compliance with for non-commercial bodies and International Financial Reporting Standards for commercial bodies is needed for consistent transparency.

2. Education and Training of Public Sector Accountants
   3. For reliability, the curriculum requirements for the accounting qualifications of public sector accountants should accord with internationally recognized standards of accounting training as established in the International Educational Standards for Professional Accountants.
   4. For reliability, public sector accountants should be provided with continuing professional training requirements that accord with internationally recognized standards of accounting training.

3. Code of Ethics for Public Sector Accountants

   The INTOSAI Code covers integrity; independence, objectivity, and impartiality; professional secrecy; and competence. The IFAC Code covers integrity, objectivity, independence, confidentiality, technical and professional standards, competence and due care, and ethical behavior.
   5. For reliability, public sector accountants should be required to adhere to the principles laid down in a code of ethics that are at least in accord with the internationally recognized standards for professional accountants. This may be based on IFAC or INTOSAI codes.

4. Public Sector Accountant Arrangements

   6. For timeliness, relevance, and reliability, there should be a professionally qualified director of finance responsible for maintaining systems of internal financial controls which adequately manage risks, and preparing regular financial accounts for each government entity.
The director of finance should also be responsible for the following:

- maintaining and managing the chart of accounts,
- ensuring the most appropriate technological support for financial management practices,
- managing training and education for public financial management needs,
- reporting on key performance indicators, and
- assisting program managers to develop an effective financial approach to the delivery of expected outcomes.

**B. Assessment of National Public Sector Accounting Standards**

Financial reporting must be adequate to meet the accountability demands of stakeholders.


7. National accounting standards should conform to international standards to provide consistency.

The responsibility for establishing the national accounting standards for the public sector should be well-defined to provide reliability.


8. The Government should adopt a national accounting and reporting framework based on recognized international standards to provide authority.

If the Cash Basis IPSAS has been adopted as a national standard, reporting should comply with the standard to ensure consistency.

9. If the accrual basis is to be adopted, disclosures made with respect to the general government sector should include at least disclosure of the following to comply with the Government Financial Statistics (GFS) reporting requirements of the International Monetary Fund:
   - Assets by major class, showing separately the investment in other sectors;
   - Liabilities by major class;
   - Net assets/equity;
   - Total revaluation increments and decrements and other items of revenue and expense recognized directly in net assets/equity;
   - Revenue by major class;
   - Expenses by major class;
   - Net surplus or deficit;
   - Cash flows from operating activities by major class;
   - Cash flows from investing activities; and
   - Cash flows from financing activities.

   (IPSAS Std. no. 22)

**C. Assessment of Accounting and Auditing in State-Owned Enterprises**


10. Financial statements should include (a) balance sheet, (b) income statement, (c) statement of changes in equity or a statement of recognized gains and losses, and (d) cash flow statement [IAS 1.8]

    Financial statements should present fairly (or give a true and fair view of) the financial position, financial performance, and cash flows of the entity. [IAS 1.13]
Financial statements should be prepared on the accrual basis of accounting [IAS 1.27]

Financial statements should be prepared using the accounting policies established by the International Accounting Standards. [IAS 1]

II. Public Sector Auditing
A. Assessment of the Public Sector Auditing Environment

Effective scrutiny by the legislature through comprehensive, competent external audit enables accountability for the implementation of fiscal and expenditure policies. The environment for an effective supreme audit institution requires a comprehensive approach to public financial management. Supreme audit institutions are not stand-alone institutions; they are part of a public financial management architecture that also includes budgeting, accounting, internal control, audit and legislative oversight, and government response. Improving the way the Supreme Audit Institution functions is integral to providing information for improving the overall public financial management system under the watchful eyes of the legislature and the public. A strong demand for good public-sector external auditing is necessary for the supreme audit institution to have any impact. This requires willingness of the executive branch to accept and respond to external scrutiny over its management of funds and to ensure that action is taken for reform. It also requires public presentation of the audit reports to ensure public support for effective action.

(1) Statutory Framework

10. Statutory auditing requirements should be established by legislation. (INTOSAI Lima Declaration, Preamble and Sections 16 and 18)

11. The Supreme Audit Institution should have authority to conduct a full range of audits for all government-owned or -controlled entities, including regularity, financial, and performance audits. (INTOSAI Lima Declaration, Sections 18-19)

12. The legislation should set out penalties in the event of non-compliance with the auditing requirements, and these penalties should be applied appropriately. (INTOSAI Lima Declaration, Section 11)

(2) Setting Auditing Standards

13. The government should adopt the INTOSAI Auditing Standards and the IAASB International Standards on Auditing for public sector entities. (INTOSAI Auditing Standards1.0.14 and ISA 200.5)

(3) Code of Ethics

14. The INTOSAI Code of Ethics should be fully adopted by the Supreme Audit Institution, communicated to all staff, and applied. (IAASB ISA 200.4 and INTOSAI Code of Ethics 4)

(4) Accountability in the Supreme Audit Institution

15. There should be an accountability process in the supreme audit institution. (INTOSAI Auditing Standards 1.0.20). The following elements are important:

16. There should be clear responsibility in the Supreme Audit Institution for (a) advising on internal finance, (b) keeping proper financial records and accounts, (c) maintaining systems of internal control; and (d) ensuring compliance with laws and regulations.

17. The supreme audit institution should prepare an annual report on its operations and performance that is separate from its reports on its audits. It should provide an objective, balanced, easily comprehensible account of activities and achievements; and details of financial position and performance.

The UK National Audit Office developed an SAI Maturity Model partially based on INTOSAI concepts and these criteria are extracted from the SAI accountability elements of its model.
18. The supreme audit institution should prepare a corporate plan or equivalent.

19. The supreme audit institution should undergo peer review or independent quality review (ISA 220.7).

(5) Independence provided by the Legislation

If the Supreme Audit Institution is to provide effective external scrutiny, legislation should be adequate for the following core principles of Supreme Audit Institution independence:

(1) Existence and actual application of an appropriate and effective constitutional and legal framework;
(2) Independence of the Supreme Audit Institution Heads, including security of tenure and legal immunity in the normal discharge of their duties;
(3) Sufficiently broad mandate and full discretion in the discharge of Supreme Audit Institution functions;
(4) Unrestricted access to information;
(5) Obligation to report on their work;
(6) Freedom to decide on the content and timing of their reports and to publish and disseminate them;
(7) Existence of effective follow-up mechanisms on Supreme Audit Institution recommendations;
(8) Financial and managerial autonomy and the availability of appropriate human, material, and monetary resources.

(Core Principles of Supreme Audit Institution Independence, Sub-committee on Supreme Audit Institution Independence, 2004)

20. The legislation should spell out in detail the extent of Supreme Audit Institution independence. (INTOSAI Lima Declaration Section 5)

21. The legislation should assure the independence of the Supreme Audit Institution Heads and “Members” (in collegial organizations) and that there is security of tenure and legal immunity in the normal discharge of their duties. (INTOSAI Lima Declaration Section 6)

22. The Supreme Audit Institution constitutional/statutory/legal framework should ensure that it has available sufficient human, material and monetary resources. (INTOSAI Lima Declaration Section 7)

23. A fixed term must be long enough to survive changes of government and avoid pressures concerning reappointment impinging too early in the term of office of the Supreme Audit Institution office holder. A single non-renewable appointment is preferable to avoid those pressures. (INTOSAI Working Group on Supreme Audit Institution Independence, 2004)

24. The legislation should ensure that the Supreme Audit Institution Head is free to determine the organization of the audit office, including personnel and contract management systems and material acquisition or disposal policies and procedures. The Supreme Audit Institution Head should be able to determine personnel policies, including the selection, recruitment, training, remuneration, promotion, discipline, and dismissal of staff and contract personnel. (INTOSAI Lima Declaration Section 6)

25. There should be unrestricted access to information. (INTOSAI Lima Declaration Section 10)

26. The legislation should give the Supreme Audit Institution the right and obligation to report on their work. (INTOSAI Lima Declaration Section 16)

27. The legislation should give the Supreme Audit Institution the right and obligation to report effectively on its work, and the freedom to decide on the content and timing of its reports and to publish and disseminate them expeditiously. (INTOSAI Lima Declaration Section 17)
28. To the extent that Supreme Audit Institution findings are not delivered as legally valid and enforceable judgments, the Supreme Audit Institution shall be empowered to approach the authority, which is responsible for taking the necessary measures, and require the accountable party to accept responsibility. (Lima Declaration Section 11.2)

(6) Qualifications and Skills of the Auditor

The Supreme Audit Institution needs qualified accountants to sign audit opinions and auditors must have adequate professional expertise and technical knowledge to carry out audits.

29. The government and the Supreme Audit Institution accounting schools’ syllabus should cover all areas recommended by IFAC-issued International Educational Standards (IES).

28. There should be adequate professional criteria for recruitment and promotion of auditors. (INTOSAI Lima Declaration Section 14 and INTOSAI Auditing Standards 2.1.4)

(7) Training

29. The Supreme Audit Institution should operate a continuing professional development program for its professional personnel. (INTOSAI Lima Declaration Section 14 and INTOSAI Auditing Standards 2.1.5-2.1.12)

(8) Audit Competence

30. The Supreme Audit Institution should equip itself with the full range of up-to-date audit methodologies, including systems-based techniques, analytical review methods, statistical sampling, and audit of automated information systems. (INTOSAI Auditing Standards 2.2.37)

(9) Quality Assurance

31. The Supreme Audit Institution should have the quality assurance programs in place to ensure audit performance and results. Written quality control policies and procedures should be communicated to the audit personnel in a manner that provides reasonable assurance that the policies and procedures are understood and implemented. (ISA 220.7)

Quality control procedures should cover:

- **Direction.** Assistants to whom work is delegated need appropriate direction.

- **Supervision** covers the following functions during the audit: (a) monitoring progress of the audit, (b) becoming informed of and addressing significant accounting and auditing issues, and (c) resolving any differences of professional judgment between personnel and considering the level of consultation that is appropriate.

- **Review.** The work performed by each assistant needs to be reviewed by personnel of at least equal competence. (ISA 220.8-220.17)

**B. Assessment of Public Sector Auditing Standards and Practices**

Results from the audits should hold the executive accountable for its fiscal and expenditure policies and their implementation.

(1) **Planning**

32. The planning process should
• collect information about the audited entity and its organization in order to identify important aspects of the environment in which the audited entity operates, develop an understanding of the accountability relationships, determine whether appropriate action has been taken on previously reported audit findings and recommendations, assess risk, and determine materiality. (ISA 300.6-300.9)

• identify the scope of the audit and specify the audit objectives and the tests necessary to meet them. (ISA 300.10-300.12)

• review the internal audit of the audited entity and its work program, identify key management systems and controls, and carry out a preliminary assessment to identify both their strengths and weaknesses, and determine the approach to be adopted in the audit. (ISA 300.9)

• highlight special problems foreseen when planning the audit. (ISA 300.10)

• prepare a budget and a schedule for the audit, and provide for appropriate documentation of the audit plan and for the proposed fieldwork. (ISA 300.10)

• identify staff requirements and a team for the audit. (ISA 300.11), and

• familiarize the audited entity about the scope, objectives and the assessment criteria of the audit and discuss with them as necessary. (ISA 300.7)

(2) Supervision

33. The process of supervision should ensure that the members of the audit team have a clear and consistent understanding of the audit plan. (INTOSAI Auditing Standards 3.2.3a)

34. The process of supervision should ensure that the audit is carried out in accordance with the auditing standards and practices of the Supreme Audit Institution (INTOSAI Auditing Standards 3.0.3b)

35. The process of supervision should ensure that the audit plan and action steps specified in that plan are followed unless a variation is authorized. (INTOSAI Auditing Standards 3.0.3c)

36. The process of supervision should ensure that working papers contain evidence adequately supporting all conclusions, recommendations and opinions. (INTOSAI Auditing Standards 3.0.3d)

The process of supervision should ensure that the auditor achieves the stated audit objectives. (INTOSAI Auditing Standards 3.0.3e)

The process of supervision should ensure that the audit report includes the audit conclusions, recommendations and opinions, as appropriate. (INTOSAI Auditing Standards 3.0.3f)

The process of supervision should ensure that the audit report includes the audit conclusions, recommendations and opinions, as appropriate. (INTOSAI Auditing Standards 3.0.3f)

(3) Internal Controls

37. The auditor should obtain an understanding of the entity and its environment, including its internal control, sufficient to identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, and sufficient to design and perform further audit procedures. (ISA 315.2)

After obtaining an understanding of the accounting and internal control procedures, the auditor should obtain a sufficient understanding of control activities to assess the risks of material misstatement at the assertion level and to design further audit procedures responsive to assessed risks. (ISA 315.90)
The auditor should document in the audit working papers: (a) conclusions reached about susceptibility to material misstatement due to error or fraud; (b) the understanding obtained of the entity’s accounting and internal control procedures; and (b) the assessment of control risk. (ISA 315.122-123)

The auditor should perform tests of controls to obtain sufficient appropriate audit evidence that the controls were operating effectively at relevant times during the period under audit. (ISA 330.23)

When the auditor cannot obtain sufficient appropriate audit evidence as to a material financial statement assertion, the auditor should express a qualified opinion or a disclaimer of opinion. (ISA 330.72)

The auditor should make the management aware in writing, as soon as practical and at an appropriate level of responsibility, of material weaknesses in the design or operation of the accounting and internal control procedures, which have come to the auditor’s attention. (ISA 315.12)

(4) Compliance with Laws

38. The auditor should obtain a general understanding of the legal and regulatory framework applicable to the entity and the industry and how the entity is complying with that framework. (ISA 250.15)

The auditor should perform testing and other procedures to help identify instances of noncompliance with those laws and regulations where noncompliance should be considered when preparing financial statements. (ISA 250.18-250.19)

Generally, management is responsible for establishing an effective system of internal controls to ensure compliance with laws and regulations. In designing steps and procedures to test or assess compliance, the auditor should evaluate the entity’s internal controls and assess the risk that the control structure might not prevent or detect non-compliance. These evaluations should be used to report to management on defects in the system of internal controls and the steps that should be taken to improve the system. (ISA 250.17)

The auditor should obtain written representations that management has disclosed to the auditor all known actual or possible noncompliance with laws and regulations whose effects should be considered when preparing financial statements. (ISA 250.23)

The Supreme Audit Institution should use regularity audit to make sure that the State budget and accounts are complete and valid. The audit procedure may result, in the absence of irregularity, in the granting of a "discharge". If not other processes are needed to resolve irregularities.

(5) Evidence

39. When obtaining audit evidence from tests of control, the auditor should consider the sufficiency and appropriateness of the audit evidence to support the assessed level of control risk. (ISA 500.10)

When obtaining audit evidence from substantive procedures, the auditor should consider the sufficiency and appropriateness of audit evidence from such procedures together with any evidence from tests of control to support financial statement assertions. (ISA 500.12)

40. When inventory is material to the financial statements, the auditor should obtain sufficient appropriate audit evidence regarding its existence and condition by attendance at physical inventory counting. (ISA 500.5)

When in substantial doubt as to a material financial statement assertion, the auditor should express a qualified opinion or a disclaimer of opinion. (ISA 500.18)
(6) Analysis of Financial Statements

41. In regularity (financial) audit, and in other types of audit when applicable, the auditor should analyze the financial statements to establish whether acceptable accounting standards for financial reporting and disclosure are complied with. (INTOSAI Auditing Standards 3.6.1)

Analysis of financial statements should be performed to such a degree that a rational basis is obtained to express an opinion on the financial statements. The auditor should ascertain whether the following actions have been taken:
(a) Financial statements are prepared in accordance with acceptable accounting standards.
(b) Financial statements are presented with due consideration to the circumstances of the audited entity.
(c) Sufficient disclosures are presented about various elements of financial statements.
(d) Various elements of financial statements are properly evaluated, measured, and presented.
(ISA 200.2-200.12)

(7) Reporting on Financial Statements

42. The auditor should provide an opinion paragraph in the audit report. (ISA 700.4)

There should be a reference to the financial reporting framework used to prepare the financial statements (including identifying the country of origin of the financial reporting framework when the framework used is not International Accounting Standards). (ISA 700.12-15)

The opinion paragraph should contain an expression of opinion on the financial statements stating the auditor’s opinion as to whether the financial statements give a true and fair view (or are presented fairly) in all material respects. (ISA 700.17)

43. The Supreme Audit Institution should provide a detailed report amplifying the opinion in circumstances in which it has been unable to give an unqualified opinion. Reports should be made where weaknesses exist in systems of financial control or accounting. (ISA 700.17)

(8) Reporting on Fraud

44. The Supreme Audit Institution should report fraudulent practices or serious irregularities discovered by the auditors. (INTOSAI Auditing Standards 4.0.7)

ISA 240 establishes standards and provides guidance on the auditor’s responsibility to consider fraud and error in an audit of financial statements. The standard requires that, when planning and performing audit procedures and evaluating and reporting the results thereof, the auditor considers the risk of material misstatements in the financial statements resulting from fraud or error.

(9) Reporting on Compliance

45. With regard to regularity audits, the auditor prepares a written report, which may either be a part of the report on the financial statements or a separate report, on the tests of compliance with applicable laws and regulations. (INTOSAI Auditing Standards 4.0.7)
Public Expenditure Management - Peer-Assisted Learning (PEMPAL) Initiative in Europe and Central Asia

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Introduction

A critical issue facing every public expenditure management reform effort is how to sustain and motivate the participants. Peer consultations offer an important tool for these purposes, since it enables professionals to learn practical approaches to key tasks and challenges from those who have similar responsibilities in other countries. Comparisons with these peers can help to judge progress and identify obstacles that must be faced.

At this year’s International Consortium on Governmental Financial Management (ICGFM) annual conference in Miami, a presentation on a new peer-based approach was given. It described the PEMPAL (Public Expenditure Management - Peer-Assisted Learning) initiative, which is underway in the World Bank’s East Europe and Central Asia Region (ECA). Montenegro Assistant Finance Minister Nikola Vukicevic and Rich Bartholomew of the U.S. Treasury Office of Technical Assistance made the presentation. This article is an expanded version of their presentation.

Description

PEMPAL is a peer-based, capacity-building initiative organized for the benefit of Eastern European and Central Asian public finance management professionals. It includes public expenditure management leaders from Moldova, Lithuania, Slovenia, Montenegro, Ukraine, Belarus, Kyrgyzstan, Tajikistan, Turkey, Azerbaijan, Armenia, Macedonia, Bulgaria, Slovakia, Georgia, Albania, Serbia, Kosovo, Uzbekistan, Romania, Poland and other locations. However, PEMPAL is an organization composed of individual officials, not a formal organization of member countries. It is very similar to a professional association but it has unique characteristics that differentiate it from a simple grouping of like-minded members.

Similar to an association, it engages in two common activities:

Peer Learning

Professionals in any field know that we are particularly interested in the work being done by our peers. We want to learn from their experiences both good and bad. We do not want to repeat their mistakes; but, more importantly, we want to learn “what works.” We want to know how similarly-situated practitioners understand and attempt to meet the challenges that we face daily. Peers have a special authority and credibility. Unlike academics or consultants who often work outside current professional and geographic realities, true peers are perceived as “being in the same boat.” Most professionals are more open to hearing about and studying their peers’ activities and results. We see these as both relevant to our work and realistic, in comparison to ideas offered by people who come from different systems and job responsibilities. A professor or an outside expert from the private sector may make valuable observations about what practitioners do in public finance management. However, outsiders do not enjoy the legitimacy given to the advice and comments of those who do the same type of work on a daily basis.
**Benchmarking**

For PEMPAL purposes we will define this term as the mutual comparison of public finance systems and practices, through which participants can gauge their relative public finance development and progress. Benchmarking serves as one of the most common activities in which peer professionals engage. It is a natural result of peer interactions. To better understand exactly what we do, we need to know how others do the same thing. Informal benchmarking starts when we are children and never stops. We not only want to know how we rank in direct comparison to others, but we also want to use accurate and fair metrics or performance indicators to make the measurement. In school, we want to know exactly how the teacher will grade our examinations and determine our place in the class. We expect the marks to be legitimate and without prejudice or exceptions. In business, managers ask government to create a “level playing field” of regulatory policies so that they can compete fairly. In government, we want to adapt, create or accept formal devices that allow us to determine our place within our various disciplines. PEMPAL enables its members to do all three.

Another similarity to professional associations can be found in the structure of PEMPAL. While it has a unified, over-arching structure and holds plenary meetings, it has divided itself according to Communities of Practice (COP) focused on sub specialties within public finance:

- Budgeting
- Treasury/Information Systems
- Internal Audit
- External Audit (tentative)

Division into these subgroups is useful for both peer interactions and benchmarking, since each distinct community of practice offers an enriched focus on technical specializations that are essential to any nation’s public finance management system. Each Community of Practice area addresses complementary yet unique roles. For example, treasury specialists practice techniques that execute the budget as it was formulated and documented within the budget department; and treasury-produced data is vital to budget analysis, reporting and auditing.

Many professional organizations use similar subdivisions to attract participants who have both thematic and specialized interests. Organizations of employers, elected officials, accountants, lawyers and doctors come to mind.

Similar to other groups, PEMPAL also brings technology into play to carry out its purposes. It employs videoconferences, websites and telephonic interactions as fundamental tools.

**Special features**

But PEMPAL also has its unique features. For example, it has decided that a joint Secretariat should be based in Slovenia at the Center of Excellence in Finance. The Center has developed as a mutual capacity development organization used by finance ministers from many southeastern European countries. It has expanded its influence and usefulness into much of the ECA region, as Azeris, Armenians and Moldovans came to its classes. With a sustaining appropriation from the Slovene Government and an extensive network of donors, the Center of Excellence in Finance enjoys the confidence and respect of public expenditure management practitioners. Hundreds of regional practitioners have attended its classes, developed its curriculum and met their peers at Center of Excellence in Finance events. Thus it exists as a unique regional resource that has no exact duplicate in other places around the world.

The World Bank has decided to provide a three year grant to the Center of Excellence in Finance to serve as the PEMPAL Secretariat and website administrator. As a result, PEMPAL will operate administratively from
inside the ECA Region, under local institutional leadership. More information about the Center of Excellence in Finance is available at: www.cef-see.org

Another distinctive feature of PEMPAL is the support it receives from a broad consortium of donors, led by Britain’s DFID, the World Bank, Germany’s InWent & GTZ, the Swiss State Secretariat for Economic Affairs (SECO), the Polish Central Bank, the U.S. Treasury Office of Technical Assistance and others interested in advancing the practice of public finance. Leaders within these organizations understand the powerful nature of peer consultation and the positive effect it can have in advancing the practice of public expenditure management. They believe that sustained public expenditure management progress requires peer support to succeed in both short and long timeframes.

While donor involvement in PEMPAL is significant, it is not the essence of the initiative. PEMPAL’s core reality can only be supplied by the practitioners who come together under its banner to learn from each other and pursue the advancement of their professional disciplines.

The only way that PEMPAL can succeed is to engage in the time, attention and personal efforts of the public finance professionals in the ECA Region. They must decide that the forums and visits enabled by this Initiative make it worth their personal involvement. The donors are sensitive to this reality and have made special efforts to avoid playing leading roles in PEMPAL activities. Each Community of Practice must evolve its own identity and establish its own leadership.

**Background**

In the spring of 2005, the World Bank ECA staff decided to bring together public expenditure management practitioners at a conference in Warsaw. The objective was to focus on the activities and observations of the managers responsible for public finance tasks in countries throughout the Region.

The meeting featured presentations of country case studies and personal accounts of reform activities. Deputy ministers, treasurers, budget chiefs and auditors from around the region offered their insights.

The gathering was considered a success by all involved. It was followed by discussions about how to organize public expenditure management peers into groupings based on the major professional disciplines needed to operate national finance systems. It was decided to reconvene again in Warsaw in 2006 to further gauge practitioner interest in the peer learning concept. Because they experienced similar positive interactions at the second conference, those involved decided on a more formal and sustained approach.

Country and donor leaders identified some powerful reasons for creating a formal structure:

- **Universal practice:** Public Expenditure Management is a task performed in every nation. There has to be a finance ministry. There must be a way to make payments. There has to be some system for deciding which persons and institutions will receive or contribute money to the state.

- **A critical subject:** efficient and effective public finance is at the center of economic development policy and national stability. It is an essential requirement for any country that wants to advance economically. There is no choice but to use the tools of modern public expenditure management if national leaders want to compete or even survive in the global economy.

- **Effective peer learning:** many public expenditure management professionals are trying different approaches to their tasks as they respond to contemporary pressures and developments. Budgeting suffers when there is no ability to do multi-year estimates of spending needs. Information technology has a fast evolving role in finance operations. Markets demand fiscal transparency as a price for international loans and sound debt ratings. Political leaders are not satisfied if accurate answers cannot be given about how money was spent and whether the spending had the desired results. Faced with
these realities, public expenditure management professionals wanted to learn much more from each other. The Warsaw meetings provided good opportunities to do just that. It whet the appetite of those involved for more peer learning opportunities.

Out of such considerations, PEMPAL took its current shape. Using the jump-start of a substantial donation from the British Department for International Development (DFID), donors formed a Steering Committee (SC) to guide the development of the PEMPAL Initiative. The SC decided to foster multiple Communities of Practice organized around the four public expenditure management disciplines that had shown the most participant interest. Different donors undertook sponsorship duties: The Bank would support the Treasury/IT and Internal Audit communities. U. S. Treasury signed on for the Budget Community of Practice. GTZ and InWent declared interest in External Audit. Official Community of Practice representatives would be added to the Steering Committee as the different public expenditure management disciplines organized themselves.

Rather than hold another Warsaw plenary session, each Community of Practice was invited to develop its own meetings and peer activities in later 2006 and 2007. An array of interactions began in various places such as Chisinau, Tbilisi, Vilnius, and Ljubljana. More and more PEMPAL interactions are also taking place virtually on the World Wide Web.

Examples of PEMPAL activities include:

- Benchmarking; comparing PEFA assessment ratings or special surveys of public expenditure management practices among participating members
- Research on public expenditure management issues or practices, such as integrated financial management systems, applying international accounting rules or capacity development methods
- Telephone conference calls, especially useful for setting future Community of Practice agendas, planning study visits and conducting Steering Committee business
- Development allows each Community of Practice to have an electronic information base and a forum for interactions outside of physical meetings
- Events that allow joint efforts or synergies among Community of Practice’s, such as the next planned plenary meeting currently scheduled for February, 2008
- Small, bilateral study tours focused on well-defined issues, such as capital budget execution methods, project management and monitoring, or internal audit techniques. Any study tour must be preceded by preliminary interactions between the peer participants, such as discussions at a Community of Practice meeting, telephone interactions or email ‘chats’.
- Workshops on subjects identified as priorities by each Community of Practice. For instance, the Program Budget Workshop held by the Budget Community of Practice in Tbilisi, Georgia in late June 2007
- Continuation of successful activities from previous PEMPAL interactions, such as a reciprocal study visit.

Involvement with established public expenditure management organizations, such as OECD’s Senior Budget Officers, ICGFM and the Institute of Internal Auditors
- Emulating or borrowing ideas for successful peer activities from outside the Region, such as Africa’s Collaborative African Budget Reform Initiative (CABRI)
- Presentation of the PEMPAL approach, as was the case at the Miami ICGFM meeting which generated this article
**Measurement**

Multiple comparative measurement devices are coming into play within PEMPAL Community of Practice’s. The Treasury/IT group is adapting a framework that will allow practitioners to position their treasury development operations within a common frame of reference. The following chart offers one example that peers can use to compare the time and activities associated with completing new public expenditure management information systems in the ECA Region:

![ECA - Treasury/PFMS Development Indicators - Estimates](image_url)

The Budget Community of Practice created its own program budget survey instrument for different ministries to see comparative levels of program budget development and some related facets, such as the multiplicity of budget classifications in use.

A rising international measurement device for public expenditure management are the so-called PEFA indicators (see Box 1), which are being applied in most PEMPAL countries. It is expected that PEFA will become a widespread finance system benchmarking tool for public sector professionals and policymakers all over the globe.

**Box 1 Benchmarking with PEFA**

In the discussion of measurement and benchmarking we made reference to the PEFA benchmarks. PEFA stands for *Public Expenditure Financial Accountability* and is a joint venture of the World Bank, IMF and several national aid agencies. Further information about this initiative is available from www.pefa.org

PEFA offers a set of 28 high level benchmarks that can be applied to calibrate the status and progress of national public expenditure management systems. They were developed by international donor institutions to offer a comparative diagnostic tool. It can be used by a finance ministry, a parliament or donor agencies to assess the relative soundness of a country’s public financial management systems. The public expenditure management processes PEFA can be used to measure include:
• Recording and management of cash balances, debt and guarantees
• Competition, value for money and controls in procurement
• Effectiveness of internal audit
• Quality and timeliness of in-year budget reports
• Scope, nature and follow-up of external audit
• Legislative scrutiny of external audit reports

If a minister or a donor wants to make qualitative judgments and comparisons about such things, the tool to do so is at hand. If a PEMPAL participant wants to do some serious benchmarking across total or partial systems, two PEFA-supported paths are available.

In the first case, there is the opportunity to compare ratings or scores from country to country. Thus one can look at Country “A” and compare its in year budget reporting to multiple other nations, especially the ones nearby that operate in similar political economies. For example, there are many legitimate reasons to compare the systems of countries that were once part of the Soviet Union and are now embarked on separate development trajectories from that common base. Someone desiring to improve a formerly Socialist public expenditure management system can do so, based on these internationally accepted and validated standards. A public expenditure management leader from such a country may well consult with PEMPAL colleagues on practical methods and experiences needed to raise PEFA scores.

A second, and perhaps even more valuable option, is to track and validate the public expenditure management progress being made within one particular country. PEFA analyses do not simply provide snapshots of the current quality of a system. They also set baseline measurements upon which reform strategies can be developed and monitored.

In this case, the Deputy Finance Minister of Country “A” could decide that her ministry will target 2 or 3 indicators for improvement. She knows from the start what conditions must be met to move her system from a “C” to an “A” grade for each indicator selected. She can cite the indicators as an internationally legitimate guide to pursue a system improvement. When the PEFA grade eventually goes up, no one can challenge the accomplishment and many stakeholders can claim credit for it. And PEMPAL offers a highly appropriate peer forum in which to compare PEFA rankings and results.

**The Budget Community of Practice (BCOP)**

Each Community of Practice is in the process of creating its own internal culture and leadership. The authors participate in the Budget Community of Practice, so this community will be used as an example of how a Community of Practice has developed and operates.

The organization of the BCOP started with a fundamental precept held by its sponsor, the U.S. Treasury Office of Technical Assistance Budget Team: the success of the Community of Practice would depend primarily on the emergence of peer leaders who could provide credibility and stability to the group. The CABRI organization in Africa was demonstrating ways to build its organization and leadership structure through activities that brought its members together for both subject matter interchanges and organizational development decisions. Observing CABRI’s progress, the Office of Technical Assistance decided to concentrate on creating an immediate opportunity for a BCOP leadership election.
The OECD and GTZ had previously scheduled a March 2007 gathering of Senior Budget Officers from Eastern Europe. OECD leaders graciously agreed to invite potential BCOP members to attend its meeting. This conferred two instantaneous benefits upon the nascent community.

First, BCOP invitees took their Senior Budget Officer seats adjacent to budget practitioners whom they regarded as peers. Each delegation, seated behind their national flags, took part in the very substantive technical discussions and case presentations that are the hallmarks of a Senior Budget Officer event.

With the Senior Budget Officers providing the core professional subject matter input for the event, the BCOP attendees were able to devote their meeting time to organizational development.

Thirty BCOP participants had time to:

1) Set their own future issues agenda.
2) Elect officers.

They completed both of these tasks over the four day period surrounding the Senior Budget Officer sessions. The priority topics set for exploration included, among other things, program budgeting, medium term budget frameworks, intergovernmental budgeting, technology issues and interactions with line ministries.

A strong indication of professional interest in BCOP was the decision by seven delegates from different countries to run for office. Many observers had not anticipated this level of interest in pursuing peer leadership roles. The quality and professional stature of the candidates was significant. After the voting, the winners invited the full candidate slate to help lead the organization through its formative year by developing bylaws and making initial decisions. Immediate decisions were made to schedule more BCOP activities in the second calendar quarter of 2007.

Moldovan Deputy Finance Minister, Nina Lupan, was elected as the 2007 Chair of BCOP. She now represents the BCOP on the PEMPAL Steering Committee. One of the co-authors of this article, Nikola Vukicevic, gained the position of First Vice Chair. He was further assigned to attend the ICGFM conference in Miami in May 2007 to represent the BCOP and describe its plans to this professional network. Grigol Gobejishvili, the Deputy Finance Minister of Georgia became the Second Vice Chair. He immediately offered to host BCOP’s first annual workshop, devoted to learning more about individual program budget experiences.

The workshop was scheduled for Tbilisi in the final days of June 2007, assuring that preparatory work (and organizational momentum) would commence immediately. In the world of public sector budgeting, most practitioners do not schedule outside meetings during the most intense periods of budget formulation. For the vast majority of countries, autumn is the period when the following year’s budget must be technically prepared, presented, debated and enacted. The reality is that “budgeteers” do not have much time for extraneous activities between late August and December. So BCOP needs to look to the first six months of each year for any activities that involve member travel and meetings.

Staff started to work on the Tbilisi agenda even before the Vilnius events came to a close. Peer presentations needed to be developed, along with a tentative agenda and lots of logistical plans. A program budget benchmarking device had to be developed for use in June. All these activities required iterative processes involving many discussion drafts and comments. The enthusiasm and availability of the elected officers smoothed the process. The Center of Excellence in Finance served as the BCOP communication “switchboard” with a lead staff person tending to the seemingly endless details.

Later, at Tbilisi, BCOP gained further momentum. Focused on the theme of program budgeting, participants had time to get deep into the subject in plenary and breakout sessions, each of which was organized around the group’s three working languages, Serbo-Croatian, Russian and English. Participant evaluations of the sessions were very positive.
On the day following the Workshop, the elected officers got together to assess BCOP progress and instruct the staff on what features they wanted included in the draft organizational bylaws. Their proposed rules of operation envision an enlarged elected leadership cadre to assure that top level budget officials will guide the organization in the future.

Chair Lupan had previously participated in the PEMPAL Steering Committee and reported on the plan to hold a plenary PEMPAL gathering in early 2008. (Minister Lupan has perhaps the best understanding of PEMPAL operations from the practitioner viewpoint, since she also participated in the Treasury Community of Practice before she was promoted to her current post; and Moldova hosted an Internal Audit Community of Practice gathering in June.)

**Going Forward**

The more ways that are available to express information and relate to other professionals, the greater the likelihood of effective learning. By promoting a diverse set of options for participant interaction, PEMPAL leaders hope to generate flexible and appropriate sharing of knowledge and motivations.

That last factor, the personal motivation for reform and professional accomplishment, may be the most potent element in PEMPAL’s own growth and development. Most professionals, whether they are involved in public expenditure management (or any career), want to do their work well and receive recognition for their accomplishments. And recognition from peers is often the most valued professional ‘currency’.

This desire for recognition is readily observable in PEMPAL activities. Individuals continuously present themselves for assignments, committees, leadership posts and other duties that require extra work and, often, the chance to present opinions and accomplishments to their peers.

Not surprisingly, there is also a certain amount of friendly competition involved. Participants have been known to rework and improve their presentations after seeing peers deliver high quality products.

**Box 2: The Complexity of Public Expenditure Management**

The tasks involved in public expenditure management are often complex and interdependent. Much of the subject matter with which PEMPAL deals, requires technical, legal and political change. It is never easy to effect change in any area of endeavor and this is especially true in public finance. For example, if a leader wishes to modernize a treasury system, the list of complications is daunting, including:

1. a multi-year time frame
2. significant budgetary resources
3. highly technical “in house” and external consulting expertise
4. competition among sophisticated vendors requiring expert contract and project management by the ministry
5. disruptions in organizational relationships and reporting
6. political oversight or even challenges to management decisions
7. probable changes in law or regulations
8. strong stakeholder reactions, as all affected parties (employees, ministers, banking interests, etc.) strive to protect their interests in the face of change
9. technical issues that the general public does not understand (e.g. should we choose proprietary or open source software?)
10. dependence on other players (vendors, internal bureaucracies) who can slow down or disrupt the effort
Faced with such realities and obstacles, it is not surprising that public expenditure managers look for relevant peer examples and experiences. How much easier is it to propose and pursue system improvements if there are nearby examples to point to and use as proof that the task can be accomplished under similar circumstances? How vital is it to learn the lessons about what really worked and what failed? No one has to convince a public expenditure management professional about the advantages of such information.

The unique motivational aspects of peer interaction appear self evident to PEMPAL supporters. It is not difficult to see how this can propel reforms, encourage managerial risk taking, create a shared sense of accomplishment and lend an aura of credibility to those professionals who want to improve their public expenditure management systems.

In the closing months of 2007, the Budget Community of Practice will experiment with Internet Website communications between members. Several topics will be posted for comments and interchanges that can occur at times convenient to the individual participants. This is known as asynchronous communication, which allows a professional dialogue to develop over time without requiring participants to adjust their time schedules.

The Internal Audit Community of Practice has already made good use of electronic interactions through videoconferences, email and Website communications.

A series of bilateral visits among practitioners has been and will be an important feature of PEMPAL. Uzbekistan, Moldova, Montenegro, Lithuania, Tajikistan and Slovakia have been involved in these consultations, each one focusing on a specific subject identified during individual Community of Practice activities.

Efforts are underway to develop the External Audit Community of Practice. Once it is established, the other Community of Practices will seek synergies with it on topics such as performance and program auditing.

The plenary PEMPAL meeting planned for February, 2008, will involve separate and joint agenda items. Each Community of Practice will explore its meeting schedule, bilateral contacts, case studies, electronic interactions and organizational development. There will be time for cross-communication among different Community of Practice’s on subjects of mutual public expenditure management interest, such as international accounting and reporting standards. The gathering will be designed to generate a further sense of momentum among all the stakeholders in PEMPAL.

PEMPAL’s involvement with ICGFM will also move ahead. The ICGFM Board voted in Miami to collaborate actively with PEMPAL. One of the tangible demonstrations of this cooperation will occur during the December, 2007, Washington workshop on IFMIS - Integrated Financial Management Information Systems.

No one knows exactly how this will evolve in the coming months and years. If it holds fast to its origins as a practitioner-driven concept, it should be in a good position to play a constructive role in public expenditure management for the foreseeable future.

Further information on PEMPAL and its Communities of Practice is available from: PEMPAL - Center of Excellence in Finance - www.cef-see.org
Measuring and Improving the Quality of Supreme Audit Institutions of Developing Countries - Likely Challenges

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Introduction

In the middle of 2006, we examined the use of European Foundation for Quality Management [EFQM] based quality assurance models within middle and high income country supreme audit institutions at a high level, examined the current approach to quality assurance within a sample of developing country supreme audit institutions, and explored the issues to consider in applying formal benchmarking tools to this sample of developing country supreme audit institutions.

My research covered the challenges arising within each supreme audit institution’s environment and identified the most likely drivers and restrainers of change. Various perspectives on the efforts being made by external and internal stakeholders to drive improvements in the quality of the operations of each supreme audit institutions were examined. I also briefly explored the barriers being faced in introducing international best practice in quality assurance, and whether there are emerging lessons which could be applied more widely.

The concept of quality assurance is quite broad. In specific relation to supreme audit institutions, it refers to the mechanisms or processes by which each institution ensures it is either gaining improvements, or maintaining a high level of performance within all aspects of its endeavour. These aspects range widely from core audit processes and outputs, to each and every one of the various facets that make up the internal environment of the institution.

The developing country supreme audit institutions included within the research were based on my judgment, and on the willingness of short listed supreme audit institutions to participate. The supreme audit institutions of Nigeria, Namibia, Lesotho and Mauritius kindly agreed to be a part of my research.

It became clear at the onset that for the purposes of clarity during research, a distinction had to be made between quality assurance at an institutional level and quality assurance at the practice level. At the institutional level, I focused on efforts being made to determine and implement an overarching strategic plan for the development of the audit institution. At the practice level, I examined the efforts being made to ensure that the quality of audit procedures and audit outputs met international standards.

Semi-structured interviews were carried out with key members of staff within each supreme audit institution, and with key members of staff within the main external stakeholders expected to be involved in the pursuit of quality audit. (i.e. The Parliamentary Committee of Public Accounts [PAC] or equivalent, and the Ministry of Finance).

Within the supreme audit institution, interviews were held with the Auditor General [or the Deputy], senior staff responsible for Strategic Planning and Quality Assurance, staff responsible for leading audits, and staff responsible for the management of training and capacity building programs.

Outside of the supreme audit institution, interviews were undertaken with key members of the PAC or equivalent and with key persons within the Ministry of Finance primarily responsible for the determination of
the resource inputs into the audit office. The interviews covered core issues of audit development, as well as the perceptions of participants on several of the wider issues affecting the work of the audit office.

The interviews and discussions covered five broad areas, as follows:

- The current situation on quality assurance;
- Challenges faced in driving up quality;
- The involvement [if any] of external stakeholders in the direction of the Audit Office;
- Resources for the Audit Office; and,
- Institutional arrangements, in particular, the independence of the Auditor General.

These five areas formed the basis of the questionnaires applied during the interviews.

Summary of findings and challenges identified

The various challenges noted within this paper have been separated into the categories below to facilitate the process of analysis and explanation.

- Challenges within the internal environments of some of the supreme audit institutions.
- Challenges within the external environments of some of the supreme audit institutions.
- General challenges that cut across the internal and external environments of all four supreme audit institutions.

Challenges within the internal environments of some of the supreme audit institutions

Understanding the need for a structured approach to institutional development - Within two of the supreme audit institutions, the results showed some evidence of resistance to change that can be linked to weaknesses in the level of appreciation of the value of a structured approach to institutional development. For example, in both supreme audit institutions the Auditors General recognized the need to move away from what was called the ‘civil service mentality’, however, there was no real visible strategy in place for achieving this change.

In one instance it was assumed that by achieving an amendment to the current audit act to grant the Auditor General greater independence, change would automatically happen. There was no clear strategy to ensure that the gains expected from the new act would indeed translate into better quality audit. Although all four supreme audit institutions are pursuing changes in their audit law, only in one supreme audit institution was a strategy seen for turning the changes in the Audit Act into real change within the Office. This one strategy also included steps to be taken whether or not the proposed changes to the audit Act actually happened. Overall, there is a need for a better and more structured approach to change management, in particular, a strategy for addressing the various restrainers of change within each particular environment.

Understanding the need for a functional quality assurance unit - Underpinning the need for a structured approach to institutional development is a need for a properly established quality assurance unit within each supreme audit institution. Three out of the four supreme audit institutions visited did not have functional quality assurance units in place. In some instances, senior members of staff were tasked with quality assurance, however, it was difficult to find evidence that any assurance processes other than reviews of audit papers were carried out. Furthermore, the current approach to ‘quality control’ was found to depend on the skills of certain experienced individuals rather than on any systemic or institutionalized methods of ensuring consistently high quality.
quality outputs and outcomes. This meant that there was no sustainable system for ensuring consistency in the quality of outputs across all audits.

**The co-ordination of training** - In three of the four supreme audit institutions visited the results showed that there was a need for better co-ordination of the training process. Only in one supreme audit institution was a system seen for the wider dissemination of knowledge gained by staff trained on individual courses. In this one example of good practice, it was mandatory for staff trained individually or in small groups to disseminate knowledge gained by designing and delivering formal training to others.

Furthermore, within three of the four supreme audit institutions visited there was no comprehensive annual [or cyclical] training plan backed up by a thorough assessment of needs. There was also no process to ensure that the training received is reflected within practice. Auditors were attending training courses and coming back to continue with their previous methods.

**Internal communication** - The issue of internal communications not being effective came up quite strongly in two of the four supreme audit institutions visited. Members of staff were concerned that they were not being informed in a timely manner on developments and decisions that have a direct impact on their lives. This has a serious impact on morale/motivation and threatens the level productivity as well as the quality of outputs. In the absence of a clear and published forward strategy, it becomes even more vital for modes of internal communications within an institution to be robust, efficient and reliable. No clear evidence of such a robust system, whether formal or informal, was seen at the two supreme audit institutions.

**Quality assurance for contracted out work** - A significant amount of scope exists to improve the process [if any] by which the quality of outputs by contracted firms is assured. No systems were seen in place for benchmarking the quality of the work done by private sector auditors on behalf of any of the supreme audit institutions visited. The supreme audit institutions will need to develop benchmarking processes and also take steps to ensure they have the right personnel with the right skills to carry out benchmarking exercises.

**Pay and performance** - The perception of a direct link between the levels of pay and the levels of performance was strong within two of the supreme audit institutions. In these two supreme audit institutions, members of staff believe their remuneration levels are much lower than the levels within the private sector. In one supreme audit institution, it was clearly felt that the issue of pay needed to be addressed before any other areas of need could be tackled meaningfully. However, as the workforces of all four supreme audit institutions are all still firmly within the civil service pay structure, the Auditors General have little or no scope to change remuneration arrangements. It was unclear what options are available to these supreme audit institutions in the event that their proposed new Audit Acts do not materialise in a way that provides the independence in setting remuneration levels that is so clearly needed if they are to compete favourably for good audit staff. One approach however would be for the supreme audit institutions to seek a realignment of audit grades with correspondent grades of the civil service. Qualified and suitably skilled staff could therefore have their pay scales upgraded to be matched with higher grades within the wider civil service if this would usefully reduce the gap between current earnings and potential market pay rates. One possible example of how this would work can be found within supreme audit institution-3 where a Principal Auditor is on the same civil service scale as a Director within the Ministries.

**Demonstrating Internal ‘Value for Money’** - In one of the supreme audit institutions there were no systems in place to prove the value being derived from various elements of expenditure, especially training expenditure. The absence of a transparent system to demonstrate value obtained for monies spent by the supreme audit institution erodes the ethos of good governance that should be in place amongst auditors. Supreme audit institutions should introduce an internal culture of visibly demonstrating good value for all monies spent. This will involve ensuring that the evidence required to prove that the most desirable outcomes have been achieved should be agreed with budget holders in advance of any expenditure. This emphasis on
internal ‘value for money’ should focus not just on outputs but also on outcomes, e.g. not on increasing the number of people attending training events but on making sure there is a clear and unambiguous system for measuring the extent to which the trainees have applied what was learnt. This should form a significant part of each supreme audit institution’s quality assurance systems.

**Auditors as value adding partners** - There was significant scope across all the supreme audit institutions to improve the perception of auditors by their clients. In the general, external stakeholders [clients] were unable to articulate outcomes currently being derived from the audit process other than the overall audit opinion on the consolidated financial statements of the government. Auditors were in general not seen as adding value to the levels of efficiency, effectiveness and economy of client’s operations. This was compounded by instances of the auditors being years behind with their workload of annual audits and making recommendations that are viewed by clients as late and therefore obsolete. The absence of expectations from the client that auditors should add value over and above the audit opinion reduces the likelihood that auditors are pushed to improve the quality of their operations.

**Challenges within the external environments of some of the supreme audit institutions**

**The transparency of proceedings within the Parliamentary Committee responsible for Public Accounts [PAC]** - In discussing with PACs their role as external stakeholders directly interested in the quality of the supreme audit institutions outputs, I found that not all PACs were open to the suggestion that their proceedings be covered by the media. This would however go a long way towards helping each PAC to focus its efforts properly. It is arguably unacceptable that a committee set up by parliament to scrutinise public accounts would be reluctant to introduce transparency into its own proceedings. Wherever PAC sessions are not open to the media, this can be seen as a substantial omission on the part of the proponents of good governance within that environment.

**Adherence to the civil service ‘scheme of service’ or equivalent** - Several examples came up on areas where the civil service structure under-serves the needs of a modern audit office. In one particular example seen at two supreme audit institutions, it was found that the civil service scheme of service ‘restricted’ the pool of candidates for recruitment as auditors to people with accountancy qualifications. These schemes are severely outdated, as modern audit institutions require a mix of skills to be able to deliver high quality outputs. For example, audit offices routinely require the services of statisticians, analysts and economists to be able to deliver high quality performance audits.

**The absence of individual financial statements for each Government Ministry** - None of the Countries visited required Ministries or Central Government Departments to prepare financial reports to local or international financial reporting standards and submit them for audit. However, there were government parastatals in each of these countries and these are required to prepare and submit financial statements for audit [not necessarily by the supreme audit institution]. The non-preparation of financial statements by Ministries has a direct impact on the ability of supreme audit institutions to improve the quality of their performance. If all supreme audit institution staff work toward one single audit opinion year on year, there will be a significant amount of scope for some members of staff to pass on the responsibility to deliver high quality outputs on to others. There will also be little scope for various audit teams to compare their performances on an internal basis, in a manner that they could if they were working on different financial reports leading to independent audit opinions. Furthermore, it becomes more difficult to determine the impact of audit on accountability within any one Ministry if the Ministries do not prepare individual financial reports to set accounting standards.

**The ‘local factor’** - Within one particular supreme audit institution, a key challenge put forward as a barrier to driving up quality within the supreme audit institution was the prevalence of a ‘local factor’. On further examination, this ‘local factor’ turned out to be a cross between a wide range of corrupt practices and a belief
that good ideas will simply not work within the local context. This term came up so many times in interviews at this one supreme audit institution that it also seemed to be an excuse for inertia, as in, ‘I would have done this or that but I won’t because I am doomed to fail anyway due to the local factor’.

This so called local factor seemed to be the single biggest threat to the success of any good initiatives, not simply because of corrupt practices, but more because of the general acceptance that failure is inevitable. However, within the same local context, several other agencies of government involved in the reform of governance systems were seen by the interviewees as achieving significant successes despite the local factor.

The issue of genuine nationhood - Of the four supreme audit institutions covered in my research, supreme audit institution-3 and supreme audit institution-4 are the supreme audit institutions of the two countries with the strongest level of national identity and national cohesion. These two have arguably the more advanced supreme audit institutions for at least two reasons. Firstly, supreme audit institution-4 is an accredited training for the Association of Chartered Certified Accountants and will be subject to monitoring by the Association. Secondly, supreme audit institution-3 appears to be in the driving seat of developing and applying methodology within the Organisation of English Speaking Supreme Audit Institutions in Africa [AFROsupreme audit institution-E]. It also appeared to have the best chance of actually realizing significant changes to its audit act. Supreme audit institution-1 on the other hand is historically the least cohesive of the nations within our sample and has by a long margin the supreme audit institution most in need of development.

It is noteworthy that of the four supreme audit institutions visited, the country with by far the most turbulent recent history in its journey so far towards nationhood has the supreme audit institution facing the biggest challenges. On the other hand, the country with the most mature independent democratic systems had, based on my results, the most strategically advanced of the supreme audit institutions. This suggests a link between the maturity of each country’s state of nationhood and the development of institutions such as the supreme audit institution.

It is unclear whether each country needs to achieve maturity of nationhood before its supreme audit institution is able to achieve the appropriate level of maturity or whether increments in the quality of the supreme audit institution over time have a beneficial impact on the cohesiveness of each nation and on the fostering of genuine democracy. It is clear however that the challenge of building the supreme audit institution of developing countries should go hand in hand with other institution and nation building initiatives [economic reform, the judiciary, etc] and should not sit outside the primary reform agenda. It also stands to reason that due to its role in auditing [overseeing?] all arms of central government in receipt of public funds, a high quality supreme audit institution will be well placed to drive improvements in governance, accountability, efficiency, effectiveness and economy across publics bodies. On the other hand, where the supreme audit institution of a country is weak in its performance of its oversight function, it is unlikely that any gains from centrally led governance reform initiatives within the public sector will be sustainable in the longer term.

Challenges that cut across the internal and external environments of all the supreme audit institutions

The independence of the Auditor General - The laws of each of the four countries visited did not provide true financial or resource independence to the Auditors General. This meant that to varying degrees, each of these audit offices remained central government departments with the Auditors General having little discretion to think outside the civil service box in their forward planning. Each of the four countries had proposed amendments to their audit laws going through the channels of democratic legislation, however, only in one instance was there any real optimism that the proposed amendments would be passed. In all four countries the proposed amendments had been in process for over 18 months and there was a general sense of ‘hands being tied’ until an outcome was achieved.
The capacity of the Parliamentary Committee responsible for Accounts [PAC] equivalent - My research results showed a link between the quality of each country’s PAC and the level of focus on quality within each supreme audit institution. In other words, it appears arguable that supreme audit institutions can only be as efficient as their respective PACs demand. Within all four countries visited the PACs were clear on the need to improve their own capacity and some were also clear on the areas where their needs are greatest.

In one instance, the PAC viewed the question on whether it contributes or should contribute to the supreme audit institution’s forward strategy as perhaps verging on tampering with the Auditor General’s constitutional independence. There is therefore a need to clarify within each context that are, or should be, ways of contributing to the Auditor General’s forward agenda without the perception of interference. It was also suggested however, in another supreme audit institution, that the concept of ‘non-interference’ with the independence of the Auditor general was possibly being used as an excuse by external stakeholders not to engage as drivers of change in driving up the quality of the supreme audit institution.

One clear message from the results of my research is that a global approach to improving the quality of each supreme audit institution must include a significant element for building up the capacity of the country’s PAC equivalent. In some countries, PAC will require a significant amount of capacity building before they are able to engage fully and effectively with the supreme audit institutions.

The level of engagement with the Ministry of Finance [MoF] equivalent - Most economic reform agendas are driven by the Ministry of Finance and this was the case in all four countries visited. My results however showed that there was a wide disparity in the levels of engagement between each supreme audit institution and its respective MoF. In one instance the level of interaction between the supreme audit institution and the MoF was at the minimum required to keep the machinery of government working. There was no engagement at a strategic level and very little interaction other than through official channels. In this particular instance, the supreme audit institution was clearly excluded from all aspects of what was a very demanding economic reform agenda. There was no interest by the MoF in the driving up of quality within the supreme audit institution and no clear consideration of the need for an robust supreme audit institution if any gains in economy, efficiency, effectiveness, accountability, governance etc achieved through the wider reform initiatives are to be sustainable in the longer term.

Within another supreme audit institution, it was clear that a healthy and useful relationship existed between the supreme audit institution and the MoF. However, the results of meetings with the MoF showed that the supreme audit institution had not been kept in the loop on major changes to financial systems operated by the central government. A major Integrated Financial Management Information Systems had been implemented without consulting the supreme audit institution to ensure the risks relating to audit had been addressed. This second example shows that having a healthy system of interaction between the supreme audit institution and the MoF [as one key external stakeholder] is not in its own sufficient. For the relationship to yield true dividends there is a need for open communications at a strategic level on how one institution’s forward strategy impacts on, or can be affected by the work of another.

To explore this issue further, an examination of the ‘vibrancy’ of the relationship between each of the four supreme audit institutions covered and their three immediate external stakeholders [Ministry of Finance, PAC and the Donor/International Development community] was carried out and Table 1 below shows the results obtained. The lower section holds the received perceptions of stakeholders from all three local sides on the relationship between the sample supreme audit institutions and its three key external stakeholders using the traffic light system. The model applied within Table 1 was developed during my research.
### Key to Table 1

<table>
<thead>
<tr>
<th>Assessment</th>
<th>Criteria</th>
</tr>
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<tbody>
<tr>
<td>Green</td>
<td>The relationship is vibrant, beneficial or likely to be beneficial. Each party is convinced of the value of the other and there are serious intentions to work together for the genuine benefit of the country. There is real evidence that the two parties are working well together.</td>
</tr>
<tr>
<td>Amber</td>
<td>Relationship is amicable but neutral. Each party is aware of the potential value of the other but there is little or no evidence of proactive efforts by either party toward making sure the relationship generates the best possible outcomes for the country. The evidence available suggests that just enough is being done for the existing relationship to be deemed partially productive.</td>
</tr>
<tr>
<td>Red</td>
<td>Relationship is unproductive. Each party is aware of the existence if the other but no clear efforts are being made to work together comprehensively to extract maximum benefits or outcomes for the country. There is evidence that not much above the absolute minimum required of both parties is being done to derive useful outcomes from the relationship.</td>
</tr>
</tbody>
</table>

### Table 1 - Results

<table>
<thead>
<tr>
<th>supreme audit institution</th>
<th>External Stakeholder</th>
<th>Relationship Rating</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>PAC</td>
<td>Amber</td>
</tr>
<tr>
<td>supreme audit institution-1</td>
<td>Ministry of Finance</td>
<td>Red</td>
</tr>
<tr>
<td></td>
<td>Donors/Multilaterals</td>
<td>Amber</td>
</tr>
<tr>
<td></td>
<td>PAC</td>
<td>Green</td>
</tr>
<tr>
<td>supreme audit institution-2</td>
<td>Ministry of Finance</td>
<td>Amber</td>
</tr>
<tr>
<td></td>
<td>Donors/Multilaterals</td>
<td>Green</td>
</tr>
<tr>
<td></td>
<td>PAC</td>
<td>Green</td>
</tr>
<tr>
<td>supreme audit institution-3</td>
<td>Ministry of Finance</td>
<td>Amber</td>
</tr>
<tr>
<td></td>
<td>Donors/Multilaterals</td>
<td>Green</td>
</tr>
<tr>
<td></td>
<td>PAC</td>
<td>Amber</td>
</tr>
<tr>
<td>supreme audit institution-4</td>
<td>Ministry of Finance</td>
<td>Amber</td>
</tr>
<tr>
<td></td>
<td>Donors/Multilaterals</td>
<td>n/a</td>
</tr>
</tbody>
</table>
The relevance of supreme audit institutions - The three issues raised above [the independence of Auditor General, the capacity of PAC and the level of engagement with the Ministry of Finance] are intertwined with the perception by wider external stakeholders of the relevance of the supreme audit institution. The results showed a firm link between the perception by external stakeholders of the relevance of the supreme audit institution and how much support the supreme audit institution is able to extract from these stakeholders. There is also a link between the level of resources and political support an supreme audit institution has and the quality of its performance at both institutional and practice levels. Supreme audit institutions must therefore do as much as possible to protect and increase not only their relevance but the perception of others as to their relevance.

One of the key threats to the relevance of supreme audit institutions was the level of attention given to the follow-up of audit results. All the supreme audit institutions visited stated that to varying degrees there were weaknesses in the follow-up of their recommendations. In some instances, the same recommendations were being repeated year after year. There appeared to be no strategy for changing this situation and change was seemingly based more on a hope that the clients would engage better at some point, or that PAC would do more to push these recommendations at some point. The supreme audit institutions could be more proactive in this area as the lower the impact of their recommendations on government, the lower the level of relevance ascribed to the supreme audit institutions by all external stakeholders will be. This is especially critical in environments where serious governance challenges exist. In one of the countries covered, other agencies involved in governance reform are gradually encroaching on work that used to be the preserve of the supreme audit institution.

Resources - The results showed that all the supreme audit institutions covered were to various extents unable to formally influence the setting of their own resource limits. The resource limits in all four cases were set by the executive. This inability to influence the level of resources received stems from two main sources.

Firstly, the supreme audit institutions are all currently treated like civil service agencies. There has not been enough of an emphasis on separating the treatment of the auditor from the treatment of the audited. The supreme audit institutions will need to explore ways of differentiating themselves from the wider civil service and possibly escaping the clutches of the so called ‘civil service mentality’. As part of this process of seeking differentiation from the civil service, each supreme audit institution should demonstrate to its external stakeholders the importance of having an entity separate from the executive [possibly a committee of parliament] set its resource limits. There should then be scope for the supreme audit institution to contribute to the budgeting setting process as this committee should automatically wish to engage with the needs and aspirations of the supreme audit institution in setting its resource limit.

Secondly, in formulating their cases for resources, the supreme audit institutions appeared not to have placed enough emphasis on the impact of their work or on the need for the nation to invest more in the supreme audit institution to generate even greater financial and non-financial impacts. Financial impacts in this instance are quantifiable savings or efficiencies arising from the implementation of audit recommendations. This weakness in the emphasis on impacts was due in part to a lack of real impacts in the worse-off supreme audit institutions, and a weak appreciation of the value of aiming for, gathering and recording financial and non financial impacts during the course of audit in the more advanced of the four supreme audit institutions.

Resources versus the case for performance audit - I observed that all the four supreme audit institutions are struggling in various ways with the introduction of Performance Audit. In two instances, the issue was clearly one of resources. In one other supreme audit institution it was clear that key internal and external stakeholders were unable to see the case for investing in performance audit. Performance audits are a good source of financial impacts across government. These impacts serve well as part of an supreme audit institution’s case for resources and as noted earlier in this paper, there is a perceived link between the level of resources available to an supreme audit institution and its ability to focus on driving up quality across the board.
The engagement of international stakeholders with the supreme audit institution - There were varying levels of engagement by the traditional international development agencies with the need for an effective supreme audit institution within each country. It must be noted that no interviews were carried out with these agencies as I sought to focus on the challenges as perceived by each country. This finding therefore originates from the responses obtained from ‘local’ stakeholders on the level of engagement by international development agencies in the growth of each supreme audit institution.

There was evidence within supreme audit institution-1 and supreme audit institution-3 that the level of engagement by international stakeholders could be better but for different reasons. In one instance, a newly constituted donors’ forum failed to carry the supreme audit institution along in decisions relating to the specific development activities to be sponsored. In the other and perhaps more critical situation, the international development partner currently funds an ad-hoc and piece meal approach to institutional development in a situation where there is a need to reverse decades of governance decay. In this second instance the first step towards genuine growth should have been for the supreme audit institution to formulate a comprehensive forward strategy capable of delivering real improvements in quality across all key aspects of institutional endeavour, with technical support for the formulation and implementation of this overarching strategy provided by the international stakeholder[s] as required.

Conclusions

On the difficulties faced in applying EFQM based models within supreme audit institutions of middle to high income countries, and the benefits to these supreme audit institutions. The UK National Audit Office [UK-NAO] has applied its EFQM based supreme audit institution maturity model in Lithuania, Romania and in Ghana. The elements of the EFQM based model were clearly understood as the application of the model was preceded by presentations by the UK-NAO facilitator to participants from the candidate supreme audit institutions. In all instances, the model was well received and the results provided significant material for the forward strategic plans of the respective supreme audit institutions. No difficulties of a contextual nature were faced outside of the usual need to overcome language barriers.

On the current approach to quality assurance within the sample of developing country supreme audit institutions; I found a wide range of approaches were in place. These approaches ranged from an ad-hoc approach within supreme audit institution-1, to a focus on practice level quality assurance within supreme audit institution-2 and supreme audit institution-4, and the early stages of exploring the use of a quality assurance model encompassing quality assurance at the institutional level and at the practice level within supreme audit institution-3. The approaches in place within all four supreme audit institutions are home-grown in so far as they are not structured in a manner similar to western models. They also appear to be based on the ‘best efforts’ of the individuals tasked with quality assurance within each supreme audit institution. Overall, all the supreme audit institutions except supreme audit institution-1 already recognise the need for a structured approach to institutional development and are likely to be willing to adopt EFQM based models or similar.

On the wider issues to be considered if western benchmarking tools are to be applied to the sample supreme audit institutions; The supreme audit institutions again fall into separate categories in this regard. Supreme audit institution-1 will need to take several steps before it can usefully apply a benchmarking tool. Some of these steps are outlined under ‘challenges within the internal environments of some supreme audit institutions’. In particular, there is a need for a better understanding of the value of a structured approach to institutional development as well as better internal communication systems.

Supreme audit institution-2 and supreme audit institution-4 are probably suitable for benchmarking in their current state but could also prepare better for the process by addressing some of the findings noted in this paper, for example, understanding the need for a functional quality assurance unit. Supreme audit institution-3 on the other hand is probably the most ready for benchmarking.
On the challenges to improving quality that exist within each local internal and external environment;
The main challenge is arguably the varying levels of understanding of the standards required of a mature
supreme audit institution and the levels of willingness to commit to achieving these standards. The best
examples of this lie within supreme audit institution-1. Within the internal environment for example, there is a
perception that improvements in pay and rations will lead to improvements in morale and thus lead to
improvements in quality. There was little awareness however of what the supreme audit institution had to do to
achieve improvements in pay in the first place, other than to hope that proposed amendments to the audit act are
passed into law. In reality, the supreme audit institution will need to invest a lot of effort to convince its external
stakeholders of the need for an increase in its pay budget and this investment will arguably require a strong and
visible commitment to achieving higher standards.

Within the external environment of supreme audit institution-1, it was clear that external stakeholders were not
stretching themselves to ensure the best possible outcomes for the supreme audit institution. The responses to
the needs of the supreme audit institution ranged from near disinterest to a preference for ad-hoc interventions.
There was little appreciation of the need for an overarching strategy for comprehensive institutional
development.

On the perceived drivers and restrainers of change; Within the supreme audit institutions covered, the
Auditors General were all without exception attempting to drive change but with varying levels of success. In
some instances, the level of resistance to change by actors within the internal environment was extremely high.
The temporal effect of an entrenched civil service mentality, members of staff being accustomed to what can be
termed a low governance environment, and the effects of years of decay have combined to varying degrees to
weaken the responsiveness of internal stakeholders to change.

In this scenario external stakeholders would be well placed to drive change. However, as shown within the
findings stated earlier, these stakeholders are at best ambivalent in some instances. In the clearest instance, they
appear to be unaware of the need to, are unwilling to, or are incapable of influencing the process of change
within the supreme audit institution in a comprehensive manner. There is a clear need for better engagement
with the exponential contribution a well functioning Supreme Audit Institution could add to each developing
country’s poverty alleviation agenda. This is in addition to the more obvious need for a strong supreme audit
institution if donors and other external stakeholders are to obtain proper discharge on funds disbursed.

On the likelihood that quality assurance models developed in the western world can be usefully
introduced into the sample of supreme audit institutions; Based on the progress made by supreme audit
institution-3, it is clear that over time assurance models can be usefully applied in any of the four supreme audit
institutions. However, stakeholders involved in the building of supreme audit institution capacity will need to
consider the various challenges noted within this paper, amongst others, for the supreme audit institutions to
develop to a stage where quality assurance models can be most usefully applied. No specific cultural or
contextual nuances were found that made it unlikely that quality assurance models can be applied successfully
to the respective supreme audit institutions. If the application of the quality assurance models is preceded by a
clarification of what the specific concepts [Leadership, Independence of the supreme audit institution etc] mean in
the local context, it is unlikely that the supreme audit institutions will fail to properly absorb any of the elements of the
models.

Overall, my results showed that:

- There are various approaches to quality assurance in place ranging from a basic and ad-hoc approach
to institution building, to a quite advanced application of strategic forward planning across all aspects
of supreme audit institution endeavour.
• The applicability of benchmarking tools depends mainly on the level of clarity in the overall direction within each supreme audit institution. The clearer an supreme audit institution is on its vision and its forward strategy, the more likely it is that a benchmarking tool can be applied.

• The four Supreme Audit Institutions [supreme audit institutions] covered fell into three broad categories. One supreme audit institution had a clear vision underpinned by a well formulated strategy. Two of the supreme audit institutions had enough clarity in their vision, but had no structured approach or strategy as yet, for the achievement of their objectives. One supreme audit institution was at the most basic level of development.

• The three supreme audit institutions with evidence of sufficient levels of clarity of their vision were able to engage with the concept of institutional development with the value of a tested quality assurance model.

• The supreme audit institution without evidence of sufficient clarity of vision was unable to demonstrate a clear understanding of the value of an institutional development model. This did not mean however, that an institutional development model could not be applied with success in this supreme audit institution, in due course.

• The level of engagement with the needs of the supreme audit institution displayed by external stakeholders mirrored the supreme audit institution’s appreciation of its own needs. Where an supreme audit institution was sufficiently aware of its needs and was pushing its development agenda in a coherent manner, external stakeholders were receptive towards its intentions and were generally on side to support the change needed.

• Where an supreme audit institution was not sufficiently self-aware and did not have a coherent forward strategy, its external stakeholders appeared to be even less informed on the needs of the supreme audit institution or of the value of an effective supreme audit institution, and made very minimal effort to contribute comprehensively to improving the quality of the supreme audit institution.

• As the supreme audit institutions selected for study were restricted to Anglo-phone countries, there is scope for further work to be done in examining the challenges faced by developing country supreme audit institutions working outside of the Westminster supreme audit institution model. There could also be more detailed research on the challenges within each supreme audit institution’s environment as perceived by international development stakeholders.

• In particular, further research should be undertaken on the role the supreme audit institution plays in fostering development within nations. Is there a direct relationship between the rate of growth of democratic governance systems within a country and the pace of the supreme audit institution in its progress towards maturity? Do successes in the development of the supreme audit institution act as a catalyst for wider gains in governance across government, or is the pace of the growth of each supreme audit institution currently limited by the pace of achievements in wider governance reform?
Contingency Factors Affecting the Adoption of Accrual Accounting in Malagasy Municipalities

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Abstract

This paper examines the reasons why accrual accounting has not been adopted by Malagasy municipalities despite official regulations being passed in 2005. The objective of the study is to link the failure to implement the accrual model to relationships between central government, the municipalities and the national accounting institute. The study uses Luder’s contingency model and adopts a qualitative approach. Between 2004 and 2006, a range of semi-structured interviews were undertaken with politicians, civil servants in central government ministries, professional accountants and a range of municipal officials. This was reinforced by a review of official documentation relating to public sector accounting. This is the first academic study of public sector accounting reform in Madagascar. It may facilitate a comparison of accounting reforms between francophone African countries or between developing and developed nations.

Key Words: Accrual accounting basis – Malagasy’ municipalities – contingency factors


Introduction

Accrual accounting in the public sector has attracted significant interest from academic researchers in the past decade. This approach developed from the idea that one way to modernise public sector management was to adopt private sector approaches (Pallot, 2001; Ezzamel and al, 2004; 2005; Wynne, 2005). Thus in some countries public sector accounting reform has followed this route with the adoption of private sector style accrual accounting in place of the traditional cash based budget out-turn statement (Lande, 2005; Wynne, 2005).

In the past, and still in most countries, public sector financial information is used to assess the performance of public officials in terms of budgetary compliance. Cash receipts and payments are used as the main basis of evaluation. The objective is to determine whether public resources have been utilised as set out in the annual budget agreed by the relevant politicians. In this context, cash information - cash accounting and cash budgeting - is used to monitor financial decisions.

Since the 1990s some people have claimed that users of public sector financial information need more comprehensive and detailed financial information on the value of assets, liabilities, depreciation and net profit. This information, it is argued, is required to evaluate the full cost of providing public goods and services and to better evaluate the performance of politicians and managers. This was, for example, the case for the Government of New Zealand. Other governments such as those of France, Spain or the United Kingdom were then motivated to adopt accrual accounting to provide the impression of modernisation (Lande, 2005). Some other governments, for example, Egypt, Algeria (Merrouche et al, 2005; Ouda, 2005) or Madagascar, have been required to implement reforms of public sector accounting practice in order to improve their credibility with international donors. This has not necessarily involved a move to accrual accounting.

This paper is organized in six sections. In the next section, we introduce the research question; in the third section, Luder’s contingency model is outlined; the fourth section details the research methodology; in the fifth section we provide the study’s findings; and the study’s conclusion is outlined in the last section.

I - Differences between accounting standards and actual practice

In Madagascar, it was agreed that accrual accounting would be introduced in stages, from 2000. The first accounting reform was the elaboration of the public sector code of accounts 2000 (PCOP - Plan Comptable des Opérations Publiques). This recommended the modified cash basis for all Malagasy’s municipalities, except for the smallest. However, this accounting innovation was still to be implemented by the municipalities three years after its enactment (CSC, 2003). Before being introduced by all the municipalities, PCOP 2000 was abolished and replaced by PCOP 2006 (CSC, 2003).

According to this second stage reform, full accrual accounting was now to be adopted by all except the smaller municipalities. This approach was required by the organic financial budget law (loi organique relative aux lois de finances - LOLF 2004). This was supported by a ministerial decree (2005-210 of April 2005 on accounting codes) and an order (6458/2005 of June 2005 on application guidance). In spite of these regulations, this second stage reform has also not been implemented by Malagasy’s municipalities. The research question for this paper derives from this observation and is formulated as follows: Why has accrual accounting not been implemented by Malagasy municipalities in line with the 2004 law and associated regulations?

1 CSC: Conseil Superieur de la Comptabilite : national body of accounting regulation
II - LUDER’s contingency model

Contingency theory was initially a theoretical basis which served to explain organizational structure in relation to its contextual environment. This included the organisation’s size, the technology used and the organization’s culture (Lawrence and Lorsch, 1967; THEODORE and al, 1977; CROZIER and FRIEDBERG, 1992). In the early 1990s, LUDER used this contingency theory to explain why certain governments implemented accrual based accounting reforms whereas others did not. LUDER’s contingency model was further developed to refer to stimuli, key actors, the institutional organization and the implementation strategy, as variables for the success or failure of the implementation of accounting innovation. A diagrammatic representation of Luder’s model is shown in annex 1.

1) Stimuli

Stimuli represent events which serve as a precondition for the decision to innovate. These events may not be discrete: they may depend on media coverage or the outcome of academic or political debates (LUDER, 1992, 2000, 2004; CHRISTENSEN, 2001). These stimuli have an effect on the promoter’s actions. These may arise from politicians or technicians. According to LUDER (1992, 2000, 2004) and CHAN (2005) such stimuli may result from international accounting convergence and harmonization, moves to adopt New Public Management, financial crises or aid dependency.

2) Key Factors

The results of the stimuli are then utilised and built on by the reformers’ mobilisation and actions. These actors are the key reform agents. They may include the political promoters of the reform, the officials involved in the reform process, the academic research community and the information users (LUDER, 1992):

- political influence has an important effect in sustaining and validating the reform decision;
- the technical agents involved in the reform process are the regulatory authorities, the government authorities and the professional accounting bodies. They are responsible for elaborating the accounting standards;
- the academic research community is responsible for reflecting on the reform concept;
- the users of the financial information influence the other actors.

3) The institutional factors

According to LUDER, the success or failure of accounting reform also depends on the institutional factors, such as the structure of the state and the culture of the public sector. On the basis of this assertion, LUDER (1992) proposed that the implementation of accounting innovation is more likely in a context where professional accountants are influential rather than in the situation where bureaucrats monopolize the reform agenda. Other authors, such as TORRES and PINA (2003) argue that the implementation of accrual accounting is more difficult in the context of bureaucratic centralised state structures than in the context of decentralized state structures.

4) The implementation strategy

The strategy adopted for implementation of accounting innovation is also important because of its ability to facilitate or to hinder the implementation process. According to LANDE (2005), central implementation of reforms is generally more successful than decentralised implementation. In contrast, LUDER (1992) asserts that authoritative implementation is less successful than participative implementation.
III – Methodology

According to LUDER’s contingency model, the implementation of accounting reform is a protracted process beginning with the initial motivation and culminating with the success or the failure of the reforms. In this study, we focus on the reasons for the failure of the accounting innovation to be implemented despite the promoters in central government having been motivated to develop the necessary laws and, after these had been promulgated, by successive decrees and regulations since 2000. We concentrate on part of the LUDER model, the effects of the actors’ behaviour and the organization of accounting, on the implementation of accounting innovation in the Malagasy municipalities.

A qualitative approach was undertaken. A range of semi-structured interviews were undertaken to ascertain the opinions of a range of key actors. This was used to study the political discourse and was supplemented by a review of relevant documentation. Two main categories of actors were interviewed: central government officials and municipal officials.

1) The central government officials

As shown in the following tables, we collected opinions from four categories of officials from central government over the period 2004 to 2006. They were officials from the Ministry of Economy, Finance and Budget\(^2\) who participated to the development of the new code of accounts within the Higher Accounting Council\(^3\), officials from the Ministry of Decentralisation and Local Government\(^4\), officials from the Ministry of Interior and Administrative Reform\(^5\) and accountants who are members of their professional body, the Accounting and Auditors Association of Madagascar\(^6\).

\(^2\) Ministère de l’Economie, des Finances et du Budget - MEFB
\(^3\) Conseil supérieur de la comptabilité - CSC
\(^4\) Ministère de la Décentralisation et de l’Aménagement du Territoire - MDAT
\(^5\) Ministère de l’Intérieur et de la Réforme Administrative - MIRA
\(^6\) Ordre des Expert Comptable et Financiers de Madagascar - OECFM
Considering our objective to consider the actions of professionals, civil servants and politicians in relation to the diffusion and implementation of accrual accounting, we have compared the technical promoters’ opinions with those of others civil servants. It is important because these latter are responsible for supporting the implementation of accrual accounting at all levels of the state-structure, they are:

Table 1: Technical promoters of the new accrual based code of accounts in the Higher Accounting Council

<table>
<thead>
<tr>
<th>Official</th>
<th>Number</th>
<th>Date of Interview</th>
<th>Entity</th>
<th>Objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accountant - member of Higher Accounting Council</td>
<td>1</td>
<td>March 2004 - September 2006</td>
<td>OECFM</td>
<td>- Interactions with the other CSC members during the development of the new code of accounts (PCOP 2006)</td>
</tr>
<tr>
<td>Civil servants - members of Higher Accounting Council</td>
<td>4</td>
<td>February 2004 - November 2005 - June 2006</td>
<td>MEFB-DCP</td>
<td>- Perceptions of accrual accounting’s applicability for municipalities and its adoption - Relations with the other MEFB civil servants at the time of implementation of accrual accounting in the municipalities</td>
</tr>
</tbody>
</table>

Total 5

Considering our objective to consider the actions of professionals, civil servants and politicians in relation to the diffusion and implementation of accrual accounting, we have compared the technical promoters’ opinions with those of others civil servants. It is important because these latter are responsible for supporting the implementation of accrual accounting at all levels of the state-structure, they are:

Table 2: Civil servants in the Ministry of Economy, Finance and Budget

<table>
<thead>
<tr>
<th>Official</th>
<th>Number</th>
<th>Date of Interview</th>
<th>Objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Inspector</td>
<td>1</td>
<td>June 2006 - November 2004</td>
<td>- Appreciation of accrual accounting applicability in municipalities</td>
</tr>
<tr>
<td>Manager of the Information System Division</td>
<td>1</td>
<td>September 2006</td>
<td>- Legal arrangements for accrual accounting implementation</td>
</tr>
<tr>
<td>Manager of the Public Accounting Division</td>
<td>1</td>
<td>September 2006</td>
<td>- Relationships between the CSC, OECFM and the Information System Division at the time of implementation of accrual accounting</td>
</tr>
<tr>
<td>Official from the Division of Public Accounting</td>
<td>1</td>
<td>January 2007</td>
<td>- The approach of introducing accrual accounting to the municipalities</td>
</tr>
</tbody>
</table>

Total 4

To ensure a more coherent approach to implementation, civil servants in other ministries, such as the Ministry of Decentralisation & Local Government and the Ministry of Interior & Administrative Reform, were involved. They are in direct contact with the municipalities because they control their finances, and so they can ensure and facilitate the diffusion of this accounting innovation. Thus, we considered it useful to ascertain their opinions. Interviews were undertaken with the following officials:

7Direction de la Comptabilite Publique - Public Accounting Division
Table 3: Civil servants within others ministries : Ministry of Decentralisation and Local Government and Ministry of Interior and Administrative Reform

<table>
<thead>
<tr>
<th>Official</th>
<th>Number</th>
<th>Date of Interview</th>
<th>Entity</th>
<th>Objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manager of the Municipality Financial Support Division</td>
<td>1</td>
<td>March 2006</td>
<td>MDAT</td>
<td>- the departments’ responsibilities</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>- interaction with the MEFB and/or the CSC in the implementation of accrual accounting in municipalities</td>
</tr>
<tr>
<td>Official from the Training Division</td>
<td>1</td>
<td>November 2004</td>
<td></td>
<td>- the administrative position taken by the ministry and the department in order to implement accrual accounting in municipalities</td>
</tr>
<tr>
<td></td>
<td></td>
<td>March 2006</td>
<td></td>
<td>- the nature, the extent and the content of accounting training provided to the municipalities</td>
</tr>
<tr>
<td>Official from the Follow-up and Assessment Division</td>
<td>1</td>
<td>November 2004</td>
<td></td>
<td>- views on the applicability of accrual accounting in municipalities</td>
</tr>
<tr>
<td></td>
<td></td>
<td>March 2006</td>
<td></td>
<td>- the extent and nature of financial control exercised over the municipalities</td>
</tr>
<tr>
<td>Manager of the Information System Division</td>
<td>1</td>
<td>June 2005</td>
<td>MIRA</td>
<td></td>
</tr>
</tbody>
</table>

**Total** 4

The interview results were then compared with those undertaken with other stakeholders, such as the Accounting and Auditors Association of Madagascar and other civil servants within the Ministry of Economy, Finance and Budget as shown in the following table:

Table 4: Others stakeholders

<table>
<thead>
<tr>
<th>Official</th>
<th>Number</th>
<th>Date of Interview</th>
<th>Entity</th>
<th>Objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accountant working with the CSC</td>
<td>1</td>
<td>Feb 2004</td>
<td>CSC and OECFM</td>
<td>- views on the practicality of current public accounting</td>
</tr>
<tr>
<td></td>
<td></td>
<td>August 2006</td>
<td></td>
<td>- views on the implementation of accrual accounting by municipalities</td>
</tr>
<tr>
<td>Civil servant representing MEFB on the CSC</td>
<td>1</td>
<td>August 2006</td>
<td>CSC and MEFB</td>
<td>- plan of implementation of PCOP 2006 across the whole of the Madagascan public sector</td>
</tr>
<tr>
<td>OECFM Vice President</td>
<td>1</td>
<td>Sept 2006</td>
<td>OECFM</td>
<td></td>
</tr>
<tr>
<td>OECFM President</td>
<td>1</td>
<td>Sept 2006</td>
<td>CSC and OECFM</td>
<td></td>
</tr>
<tr>
<td>Auditor in the MEFB</td>
<td>1</td>
<td>Sept 2006</td>
<td>MEFB</td>
<td></td>
</tr>
<tr>
<td>Second General Manager within the National Statistical Institute*</td>
<td>1</td>
<td>August 2006</td>
<td>MEFB</td>
<td></td>
</tr>
<tr>
<td>Advisor within the MEFB</td>
<td>1</td>
<td>Sept 2006</td>
<td>MEFB</td>
<td></td>
</tr>
</tbody>
</table>

**Total** 7

*Institut National de la Statistique - INSTAT*
2) **Municipal officials**

In order to gain a comprehensive understanding, we also collected official opinions from municipal officials. During 2005 and 2006 we undertook interviews with close to fifty-two such officials as shown in the following table:

**Table 5: Municipal officials**

<table>
<thead>
<tr>
<th>Official</th>
<th>Number</th>
<th>Objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mayors</td>
<td>23</td>
<td>- Financial information quality</td>
</tr>
<tr>
<td>Chiefs of staff</td>
<td>2</td>
<td>- Implementation of accrual accounting</td>
</tr>
<tr>
<td>Municipal accountants</td>
<td>18</td>
<td></td>
</tr>
<tr>
<td>Financial and administrative managers</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Management controllers</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Accountants</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Advisors</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>52</strong></td>
<td></td>
</tr>
</tbody>
</table>

**IV - Findings**

From these interviews we concluded that the main obstacle which prevented the implementation of accrual accounting in the municipalities was the failure to promote the approach. This was due to a failure by the technical promoters of the reform and the reaction of the national accounting institute.

1) **The effects of interactions between the technical promoters on the diffusion of accrual accounting in the municipalities**

The interactions between promoters failed because there was a lack of:

- synergy between civil servants and accountants on the Higher Accounting Council during the development and implementation of accounting standards; and
- political commitment within central government.

- **The lack of synergy between accountants and civil servants**

In order to ensure convergence with international accounting standards, a new accounting plan, PCOP 2006, was introduced to replace the previous one, PCOP 2000. The new plan is based on the private sector approach to accounting and requires the adoption of full accrual accounting by all public entities. It was developed in early 2003 by officers from the Ministry of Economy, Finance & Budget (MEFB) working with the Higher Accounting Council (CSC). The working group consisted of one accountant (a member of OECFM) and seven civil servants, representing the Ministry of Finance the Auditor General and the Ministry of Decentralisation & Local Government:
The accountant was the chairperson of the group and ensured that it closely followed international accounting standards.

The influence of the accountant on the group was greater than that of the civil servants in developing the new accounting plan. The members of working group we interviewed agreed that the plan largely derived from the work of the accountant. The approach was based on the private sector standard, PCG 2005. It is important to note that this standard is the origin of all sector accounting plans and is designed in line with IAS - IFRS. The civil servants did not directly participate in the development of the accounting standard. Some of them, at least, only learnt about it after it was issued, in early 2005.

Table 6: Members of the working group

<table>
<thead>
<tr>
<th>Group’s member</th>
<th>Entity</th>
<th>Roles</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accountant</td>
<td>OECFM</td>
<td>Chairperson</td>
</tr>
<tr>
<td>Civil servant</td>
<td>Division of Public Treasury</td>
<td>Group’s line chief</td>
</tr>
<tr>
<td>Civil servant</td>
<td>Division of public accounting</td>
<td>Technical</td>
</tr>
<tr>
<td>Civil servant</td>
<td>Division of public accounting</td>
<td>Technical</td>
</tr>
<tr>
<td>Civil servant</td>
<td>Auditor General’s Office</td>
<td>Technical</td>
</tr>
<tr>
<td>Civil servant</td>
<td>Ministry of Decentralisation and Local Government</td>
<td>Technical</td>
</tr>
<tr>
<td>Civil servant</td>
<td>External Aid Community⁹</td>
<td>Technical</td>
</tr>
</tbody>
</table>

The lack of political support from central government

As Madagascar has a bureaucratic system, centralised in the presidency (World Bank, 2005), state reform has to be endorsed by the politicians in central government, that is the president or at least the ministers. On the basis of semi-structured interviews undertaken with civil servants of the MEFB and other stakeholders, we can conclude that the lack of political commitment is the main reason for the failure to implement accrual accounting by the municipalities.

⁹CAE : Communauté d’Aide Extérieur
Since the development of the revised accounting plan in 2003, no political debate has taken place and no political interest has been shown in modernizing public accounting or the benefits which may be gained from introducing accrual accounting. This is why some politicians, for example, the Finance Minister and the Chief of Staff of the MEFB, were indifferent to the implementation of such reforms in the municipalities. Some officials within the MEFB argue that such reforms are not relevant for the municipalities and others argue that they require greater political support for their success.

Table 8: Views the adoption of accrual accounting by municipalities

<table>
<thead>
<tr>
<th>Position</th>
<th>No.</th>
<th>category</th>
<th>View of the reform</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minister of MEFB</td>
<td>1</td>
<td>Politician</td>
<td>Indifferent</td>
</tr>
<tr>
<td>Chief of Staff of the MEFB</td>
<td>1</td>
<td>Politician</td>
<td>Indifferent</td>
</tr>
<tr>
<td>Official in charge of public expenditure in the CSC</td>
<td>1</td>
<td>Civil servant</td>
<td>Indifferent</td>
</tr>
<tr>
<td>Auditor</td>
<td>1</td>
<td>Civil servant</td>
<td>Indifferent</td>
</tr>
<tr>
<td>Manager of Information System Division, MEFB</td>
<td>1</td>
<td>Civil servant</td>
<td>Indifferent</td>
</tr>
<tr>
<td>Financial Inspector</td>
<td>1</td>
<td>Civil servant</td>
<td>Not applicable</td>
</tr>
<tr>
<td>Chief of accounting unit (ACCT(^{10}), MEFB,</td>
<td>1</td>
<td>Civil servant</td>
<td>Not applicable</td>
</tr>
<tr>
<td>Second General Manager of the National Statistical Institute, INSTAT</td>
<td>1</td>
<td>Civil servant</td>
<td>Not applicable</td>
</tr>
<tr>
<td>Accountant in the Treasury</td>
<td>1</td>
<td>Civil servant</td>
<td>Not applicable</td>
</tr>
<tr>
<td>Manager of accounting division, MEFB</td>
<td>1</td>
<td>Civil servant</td>
<td>Not applicable</td>
</tr>
<tr>
<td>Official in the accounting division, MEFB</td>
<td>2</td>
<td>Civil servant</td>
<td>Applicable with political will</td>
</tr>
<tr>
<td>Line chief of PCOP 2006 CSC working group</td>
<td>1</td>
<td>Civil servant</td>
<td>Applicable with political will</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>14</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

As key central government officials were not supportive, information was not effectively provided to the municipalities and municipal officials, who usually take their lead from central government, were not interested in the reforms. Others policies, for example, the fight against AIDS and malaria, the introduction of new laws regulating genetically modified organisms or the implementation of other new agricultural techniques, have political benefits. However, the implementation of accrual accounting is not a key national priority. It is not included in national policies, nor in the poverty reduction strategy (DSRP, 2005, 2006), nor in the MAP (2007). So accrual accounting is not included in any reform programmes financed by the international institutions such as the World Bank or the European Union.

Of 52 municipal officials we interviewed, 69% were satisfied with the quality of financial information available from the modified cash basis and 71% considered they could adequately manage their municipality with the current approach. As a result, there is no great desire for change. They argue that central government politicians do not consider such reforms as fundamental.

\(^{10}\) ACCT : Agence Comptable Central du Trésor – Central Accounting Agency of the Treasury


\(^{12}\) MAP : Madagascar Action Plan for five years (2007 to 2012)
The main contribution of political support would have been to spread acceptance of the benefits of accrual accounting among public sector officials and to gain their active support for public sector accounting reforms.

2) The effects of the accounting organization on the adoption of accrual accounting in the municipalities

In the middle 2004, the Ministry of Finance issued a constitutional financial law, LOLF 2004. This requires public entities to adopt the private sector approach to accounting. Despite this initiative, others public sector accounting regulations were not modified. Cash receipts and payments continue to form the basis of accounting regulation and so the cash accounting model is retained.

According to decree 2005-003 of January 2005 carrying on the public sector accounting regulation, the law 95-005 of June 1995 carrying on the budgetary regulation of decentralized community, there is separation between the attributions of public accountant and the official in charge of public expenditure. In the others words, the municipalities are considered as the treasury correspondents.

In the one hand, the ministry of finance exercises, at a time, the public bookkeeper and the financial controller. In its role, it employs the public accountant within treasuries to keep the municipalities’ deniers, to hold the municipalities’ bookkeeping, and to record the municipalities’ equipment. These last are in charge of holding municipalities’ bookkeeping according to the accrual accounting rules. But practically, as disposed by the MEFB instruction N°06-32-G of December 2006, the public accountant records the municipalities’ financial operations according to moderate cash accounting: the expenses are recorded in the basis of the mandates and the receipts in the basis of the receipt orders.
In the other hand, according to the same regulations, the accounting attribution of the official in charge of public expenditure, as the municipality’s mayor, is limited in holding the administrative accounting: budget and the budget execution reporting. The budget recapitulates the cash receipts and disbursements in terms of investments and running affairs. Then, the budget execution reporting recapitulates equally the same operations.

To resume, at the actual statutory provision, the accrual accounting cannot be diffused: the public accountant, whose attribution is joined to cashier, is in charge of the municipalities’ bookkeeping according to accrual basis, but the actual legal provision doesn’t foresee a procedure for the recording of specific operation as the physical assets or assets depreciation. Whereas the official in charge of public expenditure, who needs further information to manage the municipalities, contents to manipulate limited information: they are established in the basis of cash model.

In addition, the control mechanism is more appropriate to cash accounting practice. According to law 2005-025 of April 2003, the decree 2004-573 of June 2004, the law 95-005 of June 1995, the financial control exercised by the MEFB, the MIRA and the MDAT in the municipalities are all focalised to regularity and legality of the cash operations undertaken by the official. There is no legal provision for the control in the terms of financial audit or in the term of conformity with the new plan of accountant established by the CSC. In order to remain compliant with legal provision in force, the municipalities’ officials pay more attention to the budget and the budget execution reporting. In others words they are leaded to grant more importance to the cash accounting practice to the detriment of accrual accounting.

V Conclusion
The influence of the Higher Accounting Council (CSC) and national accounting institute (OECFM) were not sufficient to result in the adoption of accrual accounting. In addition, the lack of effective communication between the civil servants and the accountant on the CSC, led to the development of a standard which was not really understood, even by those responsible for its development. As a result, it was difficult to convince other stakeholders to support the process of accounting reform.

In the context of a bureaucratic system centralised on the president, political support is essential to gain acceptance of the possible benefits of accrual accounting by all levels of government. Political support is also needed to ensure the implementation of accrual accounting, both at central government level and in the municipalities. Without such political commitment, accounting reforms will not become a national priority and so will not automatically gain funding from the international community.

As a result, it is logical for the major actors, civil servants in central government and municipalities, not to be motivated to implement the accounting reforms. Consequently:

- some statutory provisions relative to public sector accounting remained unmodified and others are badly solved:
  - the financial control mechanism is still focused on the cash basis;
  - there is no legal provision regulating the recording of the physical assets or assets depreciation;
  - there is no legal provision for the financial audit;

- the municipalities’ officials are content to manipulate cash financial information, but they need more detailed financial information to manage the municipalities.
Annex 1

LÜDER’s contingency model

Stimuli
- Financial crisis
- Necessity to reform the public sector accounting
- Dominante doctrine

Political promoters
- Government members
- Parliament’s members

Reform’s concept

Implementation strategy
- Authoritative
- Participative
- Central guide
- Multi stage implementation
- One stage implementation

Reform’s results

Institutional organization
- Legal system
- State structure
- Public fonction
- Culture

Stakeholders
- Public
- Parliaments
- Ministry/agency/department
- Statistical institution

Person implicated in the reform
- Government commission
- Professional association
- Audit institution
- Harmonization body
- Consultants
- Academic network

Epistemic community

Source: LÜDER, 2002 (cited by OUDA, 2005)
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Cameral Accounting as an Alternative to Accrual Accounting

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It appears that authorities often are changing over from the cameralist bookkeeping method to the commercial method for reasons of prestige rather than from any efficiency comparisons of both methods. (Oettle, 1990, p. 349)

Introduction

In recent years, we have witnessed an increasing interest in government accounting. For example, in Public Fund Digest (Vol. VI, No. 1, 2007), three interesting articles discussed the introduction of accrual accounting in government organizations. While Hughes (2007) and (2007) are positive about this development, Wynne (2007) is more sceptical. At the outset he states:

“Over the last 20 years, there have been sustained calls for governments to move towards accrual based accounting and to adopt private-sector-style financial statements. Indeed, this move has become some what of a trend or fashion and accrual accounting was described recently as the hero of the day at an academic conference on public sector financial reporting.” (Wynne, 2007, p. 25)

Wynne (2007, p. 26) underlines that government financial accounting has traditionally consisted of providing an out-turn report comparing actual payments and receipts with those which were authorised by parliament in the annual budget. This approach still forms the basis of accountability for almost all governments across the world. It is a simple and robust approach which provides assurance, through the audit of such accounts, that government spending has been in line with the agreed budget and that fraud and other irregularities have been minimised.

Cameral accounting is a specific government accounting model traditionally developed for cash accountability. It has its historical roots and practice in German-speaking continental European countries (Austria, Germany and Switzerland; see e.g., Buschor, 1994). In recent years cameral accounting has been replaced, or is in the process of being replaced, by ‘accrual accounting’ (see e.g., Glöckner, 2007), thus it might soon become a “forgotten accounting model” (Monsen, 2000). This is unfortunate, because the current international development of government accounting would benefit from referring to - and learning from - the historical development of cameral accounting. In particular, a study of the historical development of cameral accounting will tell us that attempts at replacing traditional governmental accounting (in the form of cameral accounting) with ‘accrual accounting’ (prepared within the framework of commercial accounting) in government organizations is not such a recent phenomenon, as seems to be the general international opinion today. The following observations about earlier attempts at replacing cameral accounting with commercial accounting are of particular interest:

Referring to the period 1500-1750:
“The introduction of commercial accounting for the whole public sector was only an intermission. It failed because insufficient consideration had been given to the special requirements which the state sector has for its accounting system. One could not totally overcome the problems in the way that had been chosen; rather one had to develop the existing accounting system (i.e., the cameral accounting system).” (Walb, 1926: 215; translated from German)
Referring to the period after 1910:
“It is instructive to note that, as recommended and partly implemented 150 years earlier, the introduction of commercial accounting was again recommended, even though this time it was limited to public enterprises. Further it is instructive to observe, that this time this approach again turned out not to be the correct one. Where one had followed this way, one has partly left it again (Kieler Werft) or considers it not to be too favourable (Bayerische Staatsverwaltung).” (Walb, 1926: 224; translated from German)

“The latest development (of the cameral bookkeeping method) was therefore forced to follow the same route as the one followed after the first crisis, namely further development of the existing (i.e., the cameral) bookkeeping method.” (Walb, 1926: 224; translation from German)

“Attempts to introduce the commercial bookkeeping method in the state administration have always failed.” (Johns, 1951: 9; translation from German)

Furthermore, Mülhaupt (1987) states:

“Unfortunately, there are very few scientists and practitioners having any interest in the development and standardisation of the cameral bookkeeping method, something which is strongly regretted due to the importance of these questions.” (Mülhaupt, 1987, p. 119; translated from German)

It may be argued that the current international context of governmental accounting is different from that found earlier in the German-speaking countries, when attempts at replacing cameral with commercial accounting failed. Nevertheless, in an earlier article we argued that cameral accounting - in addition to commercial accounting - should be incorporated into our discussions about how to develop governmental accounting:

“Before continuing the international trend towards the introduction of commercial (accrual) accounting in the governmental sector, the time has come to revisit accounting history. In particular, the historical development of cameral accounting theory should - in addition to the theory of commercial (accrual) accounting - be incorporated into further governmental accounting discussions, and after such discussions, paying special attention to the objectives of governmental accounting, we could decide either to continue developing governmental accounting within the framework of commercial (accrual) accounting or we could replace this framework with the cameral accounting framework of administrative cameralistics and enterprise cameralistics.” (Monsen, 2006, p. 377)

Now I want to strengthen my argument for further studies of cameral accounting by referring to Wynne (2007). He reports that “the use of accrual accounting by public sector entities is still unusual” (p. 26) and he questions the benefits of replacing traditional cash based governmental accounting models with accrual based models. In particular, he argues that “the cash basis of accounting ... should be accorded its appropriate status as a valid, modern approach to public sector financial reporting” (p. 36). Therefore, the purpose of this article is to present cameral accounting, with its strong cash focus, as an alternative to ‘accrual accounting’ (prepared within the framework of commercial accounting) for use in governmental organizations.

Since cameral accounting will be presented as an alternative to commercial accounting, it is important to explain the latter accounting model more extensively than appears to be the case in the current international English-language literature. Hence, we will first turn our attention to commercial accounting, focusing specifically on the relationship between the merchant’s bookkeeping methods and the accounting information prepared by these methods. Thereafter, cameral accounting will be explained, focusing on the relationship between the cameralist’s bookkeeping methods and the accounting information they provide. After this there will be a discussion comparing ‘accrual accounting’ and cameral accounting, and the article will conclude by arguing that cameral accounting is preferable for use in government organizations compared to ‘accrual accounting’, used by commercial accountants.

**Commercial Accounting**

According to Mülhaupt (1987), the main accounting concepts are revenues and expenditures (see Figure 1 below). Revenues are defined as claims on cash receipts, while expenditures are defined as obligations for cash payments. The revenues and expenditures will always have a cash effect, either in the form of immediate or
later cash inflows and immediate or later cash outflows, respectively. Furthermore, it may also be of interest to focus on the level of profit earned as a result of the revenues earned or deferred and expenses incurred or deferred, respectively. This means that we have two main types of accounts, namely cash accounts (see the upper part of Figure 3), which record immediate or later cash inflows and immediate or later cash outflows, and accrual accounts (see the lower part of Figure 3; records of revenues earned or deferred and expenses incurred or deferred) which aim to measure the profit earned.

When entering the revenues and expenditures in the accounts, the merchant has three different bookkeeping methods at his disposal (Kosiol, 1967). First, the single-entry bookkeeping was historically used to report the immediate cash effect of the revenues and expenditures (i.e., immediate cash inflows and immediate cash outflows, respectively; see Figure 3: upper part). This type of accounts is referred to as cash accounts. Over time, single-entry bookkeeping was developed to systematic single-entry bookkeeping. Systematic single-entry bookkeeping is still based upon use of the principle of single-entry. The single bookkeeping entries are, however, entered systematically in the accounts, by separating money transactions with a performance effect (e.g., wages) from money transactions without such an effect (e.g., loans). Moreover, non-money transactions with a performance effect (e.g., write-ups and depreciations of fixed assets) are added, so that a resulting profit can be reported as the difference between the accrual effect of the receipts (referred to as ‘revenues earned’) and the accrual effect of the payments (referred to as ‘expenses incurred’). Given the fact that systematic single-entry bookkeeping allows the reporting of profit via the payment side (balance accounts) only (see e.g., Kosiol, 1967), and given the fact that the principle of single-entry bookkeeping, which is a principle for use in cash accounts (also see Oettle, 1990), is used in a systematic way, I refer to systematic single-entry bookkeeping as a bookkeeping method forming the basis of modified cash accounts with an element of a performance reporting.

Over time however, commercial accounting has developed. Double-entry bookkeeping emerged in response to the needs of business in Italy in the thirteenth century (Kam, 1990, p. 29), and Luca Pacioli’s book Summa de Arithmetica Geometrica Proportioni et Proportionalita (Review of Arithmetic, Geometry and Proportions) in 1494 was the first book on double-entry bookkeeping to be published (see e.g., Kam, 1990, p. 19), at least in the west. When using the principle of double-entry bookkeeping, every transaction is entered twice (debit=credit), and two different accounts are used. In particular, the balance accounts, representing the payment side of the transactions, and which are the accounts used in systematic single-entry bookkeeping, are supplemented with the profit and loss accounts, representing the activity side of the transactions (Kosiol, 1967). Hence, use of double-entry bookkeeping allows for reporting the financial result via both the payment side (balance accounts) and the activity side (profit and loss accounts) (Walb, 1926). As a result, double-entry bookkeeping now forms the basis of commercial or accrual accounting and the reporting of annual profits.
Accrual accounting is the term most commonly used today when referring to accounting in the business sector. This general term may be appropriate if one only discusses the current version of business accounting, focusing on the performance (or profit) effect of the revenues and expenditures resulting from buying/producing and selling products (and services) (i.e., from commercial activities). However, it is not appropriate if we also consider the historical development of business accounting, because ‘cash accounting’, as opposed to ‘accrual accounting’, was historically also used by business enterprises. Neither is the general term ‘accrual accounting’ satisfactory to use if one wants to compare accounting for business enterprises with accounting for government organizations. This is due to the fact that accrual accounting information can also be prepared by using a specific version of traditional governmental accounting (i.e., cameral accounting in the form of ‘enterprise cameralistics’; see below). The term ‘commercial accrual accounting’ will therefore be used instead of ‘accrual accounting’, when referring to the current version of business accounting (using double-entry bookkeeping), and the term ‘commercial accounting’ will be used when referring to business accounting in general (incorporating both the historical and current versions of business accounting).

**Cameral Accounting**

Walb (1926, p. 210) indicates that the Latin word *camara* or *camera* referred to the place where the master stored his treasures, and the German expression *Kammer* in this connection denoted the room where those persons, who were responsible for administering the revenues, used to assemble. Thus the expressions cameralistics and cameral accounting have always been closely linked to both cash and revenue as well as their administration. Moreover, according to Walb (1926), the development of cameral accounting can be divided into four different phases, and he argues that the development of cameral accounting parallels that of commercial accounting, namely the development of a control instrument, the preparation of accounting information for statistical purposes and the preparation of profit and loss accounts, showing the performance or financial result of the transactions undertaken.

**Administrative And Enterprise Cameralistics**

There are currently two main approaches to cameral accounting, namely administrative cameralistics and enterprise cameralistics (see e.g., Monsen, 2002). *Administrative cameralistics* were developed for use by the core part of a governmental organization, which is primarily financed through the annual budget (agreed by parliament), from tax revenues. The main objectives of this original and core version of cameral accounting are cash management, budgetary control and payment control. In other words, administrative cameralistics should help to ensure that public (tax) revenues are managed within the boundaries of a politically adopted budget (budgetary control). Furthermore, there is a general rule in the government sector (at least in the continental European tradition) that no cash can be received or paid by an organizational unit without receiving a previous or simultaneous instruction from another organizational unit having this competence (receipt/payment control). The cameral account (see below) has been specifically designed to help carry out this important form of control.

Administrative use a developed version of single-entry bookkeeping, which can be referred to as the *single-entry bookkeeping method of administrative cameralistics* (see Figure 2). The approach forms the basis of financial accounts, showing total revenues and expenditures (i.e., immediate cash inflows and outflows as well as later cash inflows (accounts receivable) and later cash outflows (accounts payable)).

Over time, an increasing number of governments established their own enterprises (e.g., electricity companies), which were more similar to business enterprises (being market financed; see Danielsson, 1977) than to the core of government (being budget financed; see Danielsson, 1977). As a result, a more sophisticated version of cameral accounting was developed, with the objective of providing the same type of information for government enterprises as is prepared when using the double-entry bookkeeping. *Enterprise cameralistics* is the term used for this version of cameral accounting.
Enterprise uses a developed version of systematic single-entry bookkeeping, which can be referred to as the systematic single-entry bookkeeping method of enterprise cameralistics (see Figure 2). As distinct from the merchant’s systematic single-entry bookkeeping, which allows the reporting of performance or annual profit via the payment side only (by using balance accounts), the use of the systematic single-entry bookkeeping method of enterprise cameralistics allows the preparation of the performance result via both the payment side (by using balance accounts) and the activity side (by using profit and loss accounts). Hence, the performance result is reported in the same two ways as it is reported when using the merchant’s double-entry bookkeeping method (commercial accrual accounting). The systematic single-entry bookkeeping method of enterprise cameralistics thus forms the basis of modified cash or accrual accounts (see Figure 2).

![Figure 2: Cameral accounting (Source: Modified version of Figure 2 (p. 367) in Monsen, 2006).](image)

### The CAMERAL Account

Cameral accounting has developed a special account for use in cameral single-entry bookkeeping (see Table 1):

“In contrast with the two sides of the account within commercial accounting, the cameral account as a general rule is single-sided, i.e., it has either a receipts or a payments side. While the commercial account on each side (i.e., on the debit and credit sides) is single-sided, i.e., it has only one column, the cameral account consists in principle of four different columns (both on the receipts and payments sides).” (Mülhaupt, 1987, p. 95; translated from German)

The concepts presented in Table 1 are previous English language translations of the German cameral accounting concepts (see particularly Oettle, 1990 and Monsen, 2002). The corresponding English language concepts of commercial accounting are given in brackets in the following text.
Table 1: The cameral account.

The cameral account consists of two sides: Receipts and Payments. On each side it contains the following four different columns: Balances or residual dues brought forward (BD), Current dues (CD), Actuals (A) and Balances or residual dues carried forward (B). The cameral account is used both by administrative and enterprise cameralistics, although enterprise cameralistics have developed the interpretation of the various columns (see below).

The column Balances or residual dues brought forward (BD) shows the amounts brought forward from previous periods. On the receipts side outstanding claims are shown (compared to accounts receivable), and on the payments side obligations are shown (compared to accounts payable). The BD-column constitutes an opening balance account, because outstanding amounts from the previous period are brought forward here as incoming amounts in this period (administrative and enterprise cameralistics). Moreover, within enterprise cameralistics the BD-column also contains fixed assets (on the receipts side) and long-term debt and equity (on the payments side). The column Current dues (CD) shows the new claims on the receipts side (compared to revenues) and the new obligations on the payments side (compared to expenditures), are both within administrative and enterprise cameralistics. Furthermore, within enterprise cameralistics it also reports increases in fixed assets (receipts’ side) and increases in long-term debt and equity (payments side). The CD-column constitutes the activity side of the transactions and forms the basis for the preparation of reports, focusing on the cash result (receipts minus payments) within administrative cameralistics and the financial (accrual) result (revenues earned minus expenses incurred) within enterprise cameralistics.

The column Actuals (A) has a double task within administrative cameralistics. First, it is a settlement account for the balances brought forward (BD) and/or current dues (CD), by showing how much of these amounts have been realized in cash. Second, when we study the column vertically, it shows the cash inflows on the receipts side (compared to immediate cash inflows) and the cash outflows on the payments side (compared to immediate cash outflows). The A-column could also contain some non-cash transactions (for example losses on accounts receivable), but these amounts will be registered with the same amounts on the receipts and payments sides. Hence, the net difference between A-receipts and A-payments reports the net change of cash. Within enterprise cameralistics the A-column also contains the cash inflows and outflows on the receipts and payments sides, respectively. In addition, on the receipts side the A-column reports decreases in fixed assets and on the payments side it reports decreases in long-term debt and decreases in equity. Every non-cash entry will always appear with the same amount on both the receipts and payments sides of the A-column, implying that the net difference between A-receipts and A-payments also reports the net change of cash within enterprise cameralistics, like it does within administrative cameralistics.

The column Balances or residual dues carried forward (B) shows how much of the dues (i.e., BD+CD), which has not been realized in cash (A). Hence, this column constitutes a period ending balance sheet account, where the amounts in this column (compared to accounts receivable and liabilities) are carried forward to the BD-column for the following period. Within administrative cameralistics, the R-column represents...
non-comprehensive balance accounts, since only payment-instructed, but not cash-realized, claims and obligations are reported here. On the other hand, the R-column within enterprise cameralistics contains total assets, liabilities and equity, representing complete balance accounts. The two columns Actuals (A) and Balances or residual dues carried forward (B) constitute the payment side of the transactions.

In order to fulfil the payment control objective of administrative cameralistics, the cameral bookkeeping method requires that a transaction in the Actuals (A) column (actual payment; i.e. immediate cash flow) cannot be undertaken without a simultaneous or previous transaction in the Current dues (CD) column (payment instruction). Within enterprise cameralistics, this bookkeeping rule must also always be followed, although the interpretation of the different columns (BD, CD, A and B) has been extended, implying, among other things, that the CD- and A-columns do not only contain payment instructions and actual payments, respectively, as they do within administrative cameralistics. As explained above, within enterprise cameralistics the CD-column also contains increases in fixed assets, liabilities and equity (without representing payment instructions) and the A-column also contains decreases in fixed assets, liabilities and equity (without representing actual payments). Moreover, the connection between the four different columns in the cameral account is reflected in the cameral basic balancing rule, which applies separately on the receipts and payments sides (both within administrative cameralistics and enterprise cameralistics, respectively):

Balances or residual dues carried forward = Balances or residual dues brought forward + Current dues - Actuals
B = BD + CD - A

This means that the transactions are reported horizontally on one side, i.e., either on the receipts side (fulfilling the balance equation for receipts) or on the payments side (fulfilling the balance equation for the payments). This use of only one side of one account distinguishes cameralist single-entry bookkeeping methods sharply from the merchant’s double-entry bookkeeping method, which always uses two sides of two different accounts (the debit side of one account and the credit side of another account). Even though only one account is required to represent both the activity and payment sides of a transaction within cameral accounting, there is no standard number of entries for each individual type of transaction (see e.g., Oettle, 1990). Mülhaupt (1987) points out:

“While the commercial bookkeeping method always requires two different accounts (the double-entry bookkeeping principle), the cameral bookkeeping method only requires one, because every account represents a combination of two or more accounts within the commercial bookkeeping method. Any activity is reported on a result and stock account and is directly linked to a payment transaction or a credit transaction, implying that separate accounts for the payment and credit transactions, which result from these activities, are not necessary.” (Mühlaupt, 1987, p. 97; translated from German)

As pointed out above, the cameral bookkeeping method was primarily developed for the core budget-funded part of government (administrative cameralistics), where one generally deals with receipts and payments in the form of cash. Mülhaupt (1987, p. 97) underlines this as a special feature of cameralistics, which implies that each cash transaction goes through all the other accounts in form of the column Actuals. This provides a simple and accurate way to identify the sources of incoming and outgoing transactions. In other words, administrative cameralistics was specifically developed to ensure cash accountability within government.

In order to prepare accrual accounting information within cameral accounting (i.e., enterprise cameralistics), the interpretation of the balance columns in the cameral account were extended as follows: (1) all receipts and payments were entered in the balance columns, and not only those receipts and payments, for which payment instructions had been given, but which were not realized in cash, and (2) assets and liabilities (and thus equity), which were not entered in the accounts within administrative cameralistics (e.g., buildings not intended to be realized in cash, implying that no payment instructions were issued), were also entered in the balance columns. By extending the interpretation of the balance columns in these two ways, it was possible to prepare a performance (accrual) result (revenues earned minus expenses incurred) and comprehensive balance sheets.
with precisely the same meaning as in the double-entry bookkeeping method. (Readers interested in numerical examples illustrating cameralist’s bookkeeping are referred to Monsen, 2002).

Discussion
Cameral accounting was developed for use in government as an alternative to commercial accounting. This was because the latter accounting model (using the principle of double-entry bookkeeping and focusing on the accrual effect of the revenues and expenditures to report annual profit) could not provide the required information for cash management, budgetary control and payment control. Reporting the cash effect of receipts and payments is better carried out by using the principle of single-entry bookkeeping than by using the principle of double-entry bookkeeping (see above; also see Oettle, 1990; Monsen, 2001). Hence, cameral accounting uses the principle of single-entry bookkeeping. Moreover, by establishing a close link between the budget and the accounts within cameral accounting (not the case with commercial accounting) budgetary control could be achieved by comparing budgeted and actual receipts and payments. Furthermore, in order to contribute to payment control within government, the cameral single-sided account (receipts and payments sides) with separate columns for payment instructions (CD-column) and actual payments (A-column) was developed. By comparing the CD- and A-columns on the receipts and payments sides respectively, payment control can be carried out easily and systematically within administrative cameralistics.

As indicated earlier, it is not necessary to replace single-entry with double-entry bookkeeping in order to prepare accrual accounting information from commercial accounting systems. There is an advantage in so doing, however, and that is to report the performance (accrual) result via both the payment side (balance accounts) and the activity side (profit and loss accounts). However, there is also a disadvantage, and that is the replacement of the cash focus with the performance (accrual) focus. In other words, not only the profit and loss accounts (representing the activity side of the transactions) focus on the performance (accrual) result, but also the balance accounts (representing the payment side of the transactions), has this focus.

In order to achieve the advantage of reporting accrual accounting information, but without having to replace the cash focus with this accrual focus, enterprise cameralistics was developed for use as a supplement to administrative cameralistics. In particular, enterprise cameralistics was developed for use in government business enterprises, while the core budget-funded part of government continued to use administrative cameralistics. Since it is possible to use the principle of single-entry bookkeeping in a systematic way to report accrual accounting information, the cameralist’s single-entry bookkeeping method was developed in a systematic way for use in enterprise cameralistics in order to report this type of information. By so doing, one avoided the situation of having to use two fundamentally different accounting models for a single public sector, namely cameral accounting (using the principle of single-entry and the cameral single-sided account) for preparing cash information for the core-budget-funded organizations and commercial accounting (using the principle of double-entry and double-sided accounts) for preparing accrual accounting information for the government’s business enterprises (see Walb, 1926, p.208).

Conclusion
Thus we believe that cameral accounting still has much to offer in our ongoing discussions about how to improve government accounting and accountability. As reported in the introduction above, earlier attempts to replace cameral accounting with commercial accounting failed. After several such failures, another strategy was chosen, the development of cameral single-entry bookkeeping in a systematic way. By so doing, it became possible to prepare performance (accrual accounting) information in the form of enterprise cameralistics as a supplement to the cash based information from administrative cameralistics.
Given this cameral accounting history, we would argue that governments should use cameral accounting rather than commercial accrual accounting. The motivation for this conclusion is the fact that administrative cameralistics was specifically developed to contribute to cash management, budgetary control and payment control, which are still the core accountability issues within government (particularly in the budget-funded part). Moreover, to the extent that it also is interesting to prepare performance (accrual accounting) information (for example, for government business enterprises); there is no need to introduce commercial accrual accounting which would reduce the cash focus of traditional governmental accounting. A better strategy would be to continue using cameralistics and by adding enterprise cameralistics. By so doing, we can continue to prepare cash information as the basic information of government and we can add accrual accounting information for those government units where such information would be of interest.
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The Constitutional Fight
Against Corruption in Nigeria:
Is It Enough?

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Abstract

This paper examines the various dimensions of corrupt practices in Nigeria with a view to suggesting the level of corruption within the country. The Constitution of the Federal Republic of Nigeria is reviewed to highlight relevant provisions aiming to reduce corruption from the thoughts and actions of everybody in the country, especially public officers. These provisions are then subject to criticism. Based on the observed poor implementation of some of the corruption eradicating provisions in the Constitution, by all the three arms of governments, the paper is strongly inclined to the socio-political theory that less developed countries (LDCs), like Nigeria, are “soft states” whose governments are incapable of dealing with the rigidities of society that hold back economic development and that firm government action is needed to overcome those rigidities. It is along the line of this conclusion that the paper challenges the Nigerian law-makers to enact Nigerian version of Sedition Act, borrowing a leaf from Malaysia, with a view to overcoming the country’s social, political, economic and other corruption-related problems and moving forward. This is the best way to make the work of corruption crusading agencies in the country (EFCC, ICPC, etc) challenging and more understandable.

Introduction

Corruption has been described as an act of evil or wrong doing for the purpose of money-making (Michael & James, 1991). This shows the rush for money-making as the basic cause of corruption, (1997:261). Simply defined, corruption is “dishonest or wicked behaviour”. This shows corruption as any sign of diversion from accepted standard of behaviour. Auyo (1998) described corruption as the destruction or dissolution of a constitution or the perversion of anything from an original state of purity. Rossouw (1999) defined corruption as inducement by improper means to violate one’s duty towards one’s principal, resulting in harm to the interest of another party, and in financial benefit for the perpetrator. In other words, corruption is said to have taken place when there is aberration in the way of doing things normally. In public affairs, corruption includes embezzlement of public funds, theft, bribery or any attempt to steal or unlawfully obtain or misuse any asset or power.

Corruption is, therefore, demonstrated by perversion or destruction of integrity in the discharge of public duties through bribery or favour, or any other forms of influence or malpractice. It is, accordingly, considered as a social or psychological situation in which the right or correct manner of doing things or handling responsibilities is abandoned and replaced by improper behaviour as a result of certain internal or external stimuli.

Corruption, a term simply denoting dishonesty in thought and action, is a serious problem slowing down the process of industrialisation and economic development in developing countries, like Nigeria. Various efforts have been made or are being made, by different governmental and non-governmental organisations to fight corruption in Nigeria. But until recently, Transparency International, an independent organisation assessing
the level of corruption in countries of the world, has been showing Nigeria among the three most corrupt nations.

Nigerians, at all levels, must make it a duty to dig out the root cause(s) of corruption in the country and provide lasting solutions to it, no matter how bitter, painful or difficult the actualisation of the solutions would be. They must do this, if they really want the country to be industrialised and economically developed. Each of the three arms of government, and all citizens, have a role to play to ensure that corruption is eradicated, or at least reduced to the minimum level possible. Corruption cannot be checked through mere rhetoric or creation of agencies which can only bark but not bite!

Government efforts, such as the establishment of Economic and Financial Crimes Commission, Code of Conduct Bureau, Independent Corruption and Related Practices Commission, Public Complaints Commission and National Orientation Agency, suggest commitment to the fight against corruption. The presence of some non-governmental organisations (NGOs) like The Nigeria Chapter of Transparency International, Civil Liberty Organisation, Campaign for Democracy, Business Ethics Network of Nigeria (BEN–Nigeria), professional bodies, religious organizations, trade unions, mass media and other perceived whistleblowers should be deterrent to corrupt practices in the country. It is, however, clear that Government efforts and the presence of anti-corruption organizations have not had a major impact in combating corruption in the country. To succeed in the fight, the country must deal ruthlessly with the root causes of corruption that hold back sustainable economic development and this requires the adoption of some radical and stringent measures that could be likened to bitter pills.

The remainder of the paper is in five parts. Part 2 is about conceptual framework and literature review; part 3 describes our methodology; part 4 highlights the constitutional provisions on corruption and observed weaknesses thereon; part 5 proposes an alternative model of fighting corruption in Nigeria and part 6 summarises and concludes the paper.

**Conceptual Framework And Literature Review**

Although the concepts of ‘fraud’ and ‘corruption’ are often used interchangeably, a distinction between the two related phenomena should be made. While corruption is associated with the misuse of public positions and, consequently, is mostly associated with the public sector and public officials, fraud is a phenomenon that can occur in both the public and private sector (Rossouw, 1999). While corruption can be viewed as something that only affects the public sector and public officials, any employee or even outsiders can be perpetrators of fraud. Corruption implies third-party involvement where employees violate their duty to their principals by colluding with a third party; they abuse their positions by either accepting or demanding a bribe from a third party. This is, however, not the case in fraud: employees or even persons outside the organization can commit fraud on their own initiative. As fraud lacks third-party involvement, it is more difficult to detect than corruption, whose third-party involvement provides a possible source of information (Groenendijk, 1997).

Corruption in Nigeria, just as in most other African countries, has currently become the greatest challenge to leaders and citizens, threatening to undermine effective governmental financial management. It is also a threat to both economic development and the process of establishing an enduring democracy in developing countries, like Nigeria. Nigeria’s widespread corruption has historical roots that we should critically reflect on if we are to succeed in controlling and gradually eliminating it. Scholars like Callaghy (1986), Nukunya (1992), Groenendijk (1997), Ruzindana (1998), Waliggo (1999), Osei (1999) and Rossouw (1999) traced the root causes of corruption in Africa to: prevalence of dictatorial rules, monetized or materialised economies, poor economic and educational empowerment of the citizenry, the “politics of the belly”, making the public sector as the “prime mover” of economic development and the absence of national ethical and moral values and true patriotism. Appropriate measures, no matter how bitter, have to be adopted to root-out these causes of corruption, if Nigeria and indeed other African countries are really serious about the fight against corruption.
There are many branches or dimensions of corruption in Nigeria, which need stringent measures in practice for effective prevention and control. (1998) highlights some of them to include: abuse of power; ill-treatment of subordinates and indecent treatment of people’s needs; self-award of contract; malicious withdrawal or ‘carpeting’ of personnel files; unnecessary delay of actions on certain demands; fraudulent distortion of facts and figures; nepotism; embezzlement and other financial misappropriation; ghost worker systems; 10% syndrome; transfer of public funds to private accounts; over-invoicing; over-pricing of contracts; and arson, usually to cover-up corrupt practices.

The above 14 dimensions of corruption in Nigeria are not exhaustive. Corrupt practices could, however, be narrowed down to two main types: vertical and horizontal. According to (2003), vertical corruption, which involves managers and decision makers, is more common in less developed countries. Horizontal corruption, in contrast, involves all the official, informed and laymen groups in the countries. The two types of corruption should be seriously addressed and eradicated if any meaningful economic or political progress is to be made. Governments’ commitment towards the eradication of corruption has been a matter of serious concern in developing countries, like Nigeria.

Looking at the Nigerian public sector, Dandago (1997) identified five main influences including:

[i] economic factors; [ii] political factors; [iii] socio-cultural factors; [iv] soft-punishment; and [v] poor accountability. It is clear that the poor salary levels of most public servants have not kept pace with inflation which has eroded their purchasing power. It is also clear that the process of gaining power in Nigeria is either by armed force or the influence of money. Social values in Nigeria are obviously related to wealth accumulation, and this leads to widespread moral decadence as many Nigerians struggle to get recognition and status by amassing wealth, if necessary through illicit means.

Traditional chieftaincy titles and membership of boards of directors of government-owned corporations are only for the ‘influential’ individuals in the society who have ‘made it’ economically or politically. Most of those people ‘made it’ through enriching themselves fraudulently, but enjoy public respect and accolades. The most annoying thing is that honest and dedicated public servants, who have not accumulated dirty wealth, do not command much respect from the society. These attitudes serve to encourage a new-breed of public servants who engage in corrupt practices.

In most cases, recommendations of panels, commissions or committees of inquiry into corrupt practices are not being implemented. In some cases, the penalties meted out to the corrupt officers are not commensurate with the gravity of their offences. These soft penalties and, sometimes, total absence of punishment against confirmed corrupt officers encourage like-mind public servants to follow in their footsteps.

If public servants at all levels are to be sincere in declaring their wealth before and after holding public office, corrupt practices might be eradicated or reduced to the minimum. Those holding positions of authority are expected to provide explanations and reasons to interested parties (the public in general) on how they have discharged the responsibilities entrusted in them.

When Chief Obasanjo was first sworn in as President of Nigeria in 1999, he promised to make the fight against corruption a major focus of his administration. As part of this commitment, he requested the Federal Ministry of Finance to sponsor a survey of governance and corruption. Based on a methodology successfully applied in many countries around the world, the study consisted of the application of three standard complementary survey instruments (households, enterprises and public officials) to assess issues associated with government service delivery and related corrupt practices (overall Summary Report, 2003).

Having assessed the gravity of corruption in the country and having found it to be inhibiting of moves towards sustainable national development, the study called for a frontal assault on corruption and the introduction of
transparency and accountability in the mind set of government and its officials. It also called for citizens to join together in opposition to corruption until their collective call for action is heeded.

The main purpose of the survey was to provide the impetus to engage in a national dialogue about corruption, thereby focusing attention on the issue and creating windows of opportunity to pursue targeted reforms. The aim was to assist the government of Nigeria to develop effective accountability/anti-corruption strategies. This paper is in line with this purpose.

Methodology

The documentary method of fact finding was used to develop this paper. A thorough review was made of the 1999 Constitution of the Federal Republic of Nigeria with a view to assessing the strength of its specific provisions in the fight against corruption and what needs to be done to support these provisions for a successful fight against corruption. As the 1999 Constitution developed from the 1995, 1989 and 1979 Federal Constitutions, the paper also reviews these constitutions to ascertain the country’s constitutional efforts to fight corruption. Secondary data were also reviewed for and a literature review.

Results and Discussions

Constitutional Provisions on Corruption

The 1999 Constitution and the Guide to the previous civilian dispensation contain some provisions aimed at preventing or arresting the level of corruption in Nigeria. The major provisions are summarised below:

(i) Declaration of Assets and Liabilities: Sections 140(1) and 185(1) of the 1999 Constitution say that “a person elected to the Office of the President (or Governor) shall not begin to perform the functions of that office until and unless it has been confirmed that he has declared his assets and liabilities …” Sections 149 and 194 are about assets and liabilities declaration by ministers and commissioners respectively, before assuming duties. There are also provisions for other government officers, for example, judges and members of parliament, to declare their assets and liabilities, before assuming office. These declarations are to be made to the Code of Conduct Bureau. They have to repeat every four years and at the end of the relevant term of office.

(ii) Gifts and Benefits: The Fifth Schedule, part 1, section 6 (i) of the Constitution says “a public officer shall not ask for or accept any property or benefit of any kind for himself or any other person on account of anything done or omitted to be done by him in the discharge of his duties”. Section (2) says “…The receipts by a public officer of any gifts or benefits from commercial firms, business enterprises or persons who have contracts with the government shall be presumed to have been received in contravention of the said sub-paragraph unless the contrary is proved”.

(iii) Bribing Public Officers and Abuse of Office: Sections 8, 9 and 10 of the 5th Schedule (part I) warn that “No person shall offer a public officer any property, gifts or benefits of any kind as an inducement or bribe for the granting of favour or the discharge in his favour of the public officer’s duties”. And that, “a public officer shall not do or direct to be done, in abuse of his office, any arbitrary act prejudicial to the rights of any other person knowing that such act is unlawful or contrary to any government policy”. Again “a public officer shall not be a member of, belong to, or take part in, any society the membership of which is incompatible with the functions or dignity of his office”.

(iv) Power and Control over Public Funds: Sections 80(1) and 120(1) of the 1999 Constitution have provided for the establishment of a Consolidated Revenue Fund (CRF) at the Federal and state levels, respectively. The CRF is intended to be a “pool” where all monies raised or received by government, including public debts (internal and external), are to be paid.

Sections 80(2) and 120(2) have made it clear that no money shall be drawn from the CRF of the Federal and states respectively, “except to meet expenditure that is charged upon the Fund by this Constitution or where the
issue of those monies has been authorized by an Appropriation Act, supplementary Appropriation Act or Act passed in pursuance of section 81 (section 121 for the states) of this Constitution”. Similarly, section 80(2, 3 & 4) and section 121(2, 3 & 4) describe how money may be withdrawn properly to meet legitimate expenditure at the Federal and state levels.

(v) Audit of Public Accounts: Section 85(1) and section 125(1) of the 1999 Constitution have provided for the appointment of Auditor-Generals for the Federation and each state who shall audit the public accounts of the Federation and the states, respectively and accounts of all offices and courts of the Federation and states and submit audit reports to the National Assembly and the House of Assembly of the states, respectively. For this reason, the auditor-generals or persons authorized by them shall have access to all books, records, returns and other documents relating to these accounts. Auditor-Generals are to serve as external auditors who are to report to the representatives of the stakeholders – the legislature.

(vi) Preparation of Financial Statements: Section 85(5) and Section 125(5) of the 1999 Constitution cover the requirement for the submission of annual financial statements to the relevant auditor-general who shall, within 90 days, submit reports to the relevant assembly (National Assembly or House of Assembly) which shall then cause the reports to be considered by a committee responsible for public accounts.

(vii) Checks and Balances: Just as was the case with the 1979, 1989 and 1995 constitutions, the 1999 Constitution clearly segregates the powers of the judiciary, the legislature and the executive. Chapters V, VI and VII clearly spell out the powers of each of these three arms of government. These checks and balances should ensure that the financial affairs of the government are managed in a corrupt-free manner.

(viii) Punishment on Corrupt Practices: Section 18(1), part I, Schedule 5 of the 1999 constitution has empowered the Code of Conduct Tribunal to impose punishment, specified in the constitution or prescribed by an Act of the National Assembly, on public officers found guilty of any corrupt practices.

Section 18(2) of the fifth schedule says, “the punishment which the code of conduct Tribunal may impose shall include any of the following:

(a) Vacation of office or seat in any legislative house, as the case may be;

(b) Disqualification from membership of a legislative house and from the holding of any public office for a period not exceeding ten (10) years; and

(c) Seizure and forfeiture to the state of any property acquired in abuse or corruption of office”.

(x) Legislative Powers: Section 4(2) of the 1999 Constitution provides that “The National Assembly shall have power to make laws for the peace, order and good government of the Federation or any part thereof with respect to any matter included in the Exclusive Legislative List set out in part I of the Second Schedule of the Constitution”.

The above are the major provisions in the 1999 Constitution aiming to prevent or control corrupt practices in government, society and business activities in Nigeria. It is disturbing that, despite these provisions, the country is still rated as one of the most corrupt countries in the world. This clearly shows that the Constitutional provisions are not strong enough to eliminate corruption from the country. Further stringent legal measures, based on the provisions of the Constitution, especially section 4(2) on legislative powers, must be adopted for the country to overcome its corruption-related problems.

Structural Weaknesses in the Constitution

As far as the prevention and control of corrupt practices in Nigeria is concerned, the 1999 Constitution is structurally weak in many areas, the most important of which detailed below. These are the areas where specific legislative provision is primarily required:
(a) **Issue of Accountability**: Although sections 85(5) and 125(5) have provided for the preparation of financial statements by Accountant-Generals, the period within which the statements are to be prepared was not made clear, likewise the action to be taken against the Accountant-General for a failure to prepare and submit complete financial statements to the Auditor-General are not defined.

Over the years, several Auditor-Generals have complained of receiving incomplete financial statements from Accountant-Generals and that the financial statements are delayed. The complete Accountant-General reports (financial Statements) are only available for the years before 2000.

Again, the provisions of 1999 Constitution on the treatment of audited financial statements stopped on the consideration by a committee of the National Assembly or House of Assembly responsible for public accounts. The Constitution or related legislation should provide for the pronouncement of the actual financial statements at the end of the year by the President in the same manner as he pronounces budget estimates at the beginning of the year. It is then that Nigerians could make comparison between what has been budgeted for and what has actually happened in respect of income and expenditure and, of course, the financial position of the government.

With proper and sincere records keeping, the office of Accountant-General should be able to make available statements of Receipts and Payments, Incomes and Expenditures, and Assets and Liabilities for the consumption of the relevant Assembly and the general public in some few months after the end of a financial year.

(b) **The need for Re-defining Consolidated Revenue Fund (CRF)**: Under powers and controls over public funds, sections 80(1) and section 120(1) of the constitution are on the establishment of Consolidated Revenue Fund (CRF) into which all monies raised or received by the federal or State government shall be put into. These monies raised or received include public debts (internal and external), which, in modern public finance, are supposed to be treated separately from other revenues, especially in debtor countries, like Nigeria. The Constitution should have gone by what obtains in theory and practice of public finance nowadays and, so, remove monies raised or received by government through public debts from CRF, and put them into a separate fund to be called Consolidated Debt Fund or Consolidated Loan Fund (CDF or CLF).

It is hereby suspected that the drafters of the 1999 Constitution decided to lift the provisions of the 1979 Constitution on CRF, word to word, without being mindful of the changes that have taken place in the approach to public finance from 1979 to 1999 – a span of twenty years.

Before the promulgation of the 1979 constitution, public debts (at the federal and state levels) were not significant enough to attract any special constitutional attention. But now, public debts are major sources of funds to all the three-tiers of government in the country, a situation that calls for constitutional attention and care in respect of the power to borrow, accounting and remedy. It should be made clear as to who has the power to borrow money; the Executive or the Legislature? This is necessary for corruption prevention and control.

(c) **The Important Issue of ‘Political Will’**: The various provisions of the Constitution, and the aforementioned suggestions for improvement, may be good on paper only if ‘political will’, given by dedication, commitment, honesty and sincerity of purpose, on the part of the leaders, is weak or missing. In the absence of ‘political will’, corruption cannot be eradicated or controlled.

The Constitution should have clearly spelt out the character of leaders expected to be the custodians of its provisions and other laws of the land. This would have been a very good guide to the Independent National Electoral Commission (INEC) as it screens candidates for various political offices.

**An Alternative Model for Fighting Corruption**

The Constitutional provisions highlighted above are good attempts at preventing or controlling corruption in Nigeria. Despite their presence, however, corrupt practices, at all levels of governmental, societal and business
activities, are still significant. The strict measures needed, by the Constitution, to tackle the problem of corruption are not being adopted by those who have taken oath to bear allegiance with the Constitution. The required ‘political will’ to follow the provisions of the Constitution is absent. This supports the arguments of socio-political theorists, like Myrdal (1968), who argue that less developed countries, are “soft states” whose governments are incapable of dealing with the rigidities of the society that hold back economic development. Similar theorists are of the view that firm government action is required to overcome these rigidities (for example, superstition, communalism and ignorance).

Another important and widespread argument is that under-development, which breeds corrupt practices, occurred over time through exploitation, dependency and the backwash effects suffered by less developed countries in their relationship with the developed world and that these effects result from imperialism, colonialism and neo–colonialism, which drain the human and financial resources of the less developed countries (Frank, 1970).

Another economic argument is that by 1980 Nigeria was well on the way to becoming a middle income country and many of its young people had been able to go to university. In the early 1980s, at least partly due to external events, the economy crashed to less than a quarter of its previous level. This dramatic economic reversal meant that many people faced the choice of returning to their villages in disgrace or learning how to survive in the city. In these circumstances, is it any wonder that some used their education for illicit ends?

Going by these arguments, developing countries, suffering from high level corruption and related political and social problems, have to go beyond constitutional provisions in their efforts at solving the problems. The Malaysian model is a good model for other developing countries, like Nigeria, to adopt. Although it may be that it was economic development which led to the reduction of corruption in Malaysia, it could also reduce the problem in Nigeria.

Malaysia was a country suffering from many forms of tribal, religious, racial, ethnic, regional, political, social, economic and other corruption-related problems. The country’s National Assembly felt that what the country needed was a Sedition Act. This Act was strictly enforced, thereby substantially overcoming the country’s problems. Perhaps at least partly as a result, since 1997, the country has enjoyed the status of the fourth most rapidly industrializing nation in the world (, 1997). In addition, the Transparency International corruption perception index recognises that corruption is not now a major problem in Malaysia.

Malaysia’s Sedition Act spelt out five no-go areas:
1) Nobody must question the right of the non-indigenous people to citizenship
2) Nobody must question the special position and privileges of the indigenous people, the Bumiputa (sons of the soi
3) Nobody must question or ridicule the position of the monarchical rulers in the country
4) There must be no question on the official language of that country, the Malay language
5) Nobody must question that Islam is the official religion of the country (Islam, is however, not the State religion).

Anybody that is caught questioning any of the five rules is subject to imprisonment (Sopiee, 1997).

It is in the same line that this paper proposes the enactment of the Nigerian version of Sedition Act, by the country’s National Assembly, which should contain the following clauses:
(i) Nobody must deny access to educational, employment or business opportunity to any Nigerian no matter his/her chosen place of residence
(ii) Nobody must question the special privileges designed by a State government for the citizens of that State, in terms of scholarship grants, free or subsidised allocation (of houses, shops, plots of land, farmlands, etc) and appointment into political offices
(iii) No public servant must personalise public funds or property in any way and for whatever reason.

(iv) Nobody must champion the cause of any tribe in anyway.

(v) Although conversion from one religion to another is allowed, nobody must demean, abuse, or castigate any of the two official religions (Christianity and Islam) or other traditional beliefs.

The penalty for failing to comply with these requirements would, as is the case in Malaysia, imprisonment.

6.0 Summary and Conclusion

This paper has outlined the various dimensions of corruption in Nigeria and their major causes. It has identified the important provisions contained in the 1999 Constitution of the Federal Republic of Nigeria, for the prevention and control of corrupt practices. Some of the areas where the Constitution is weak in terms of prevention and control of corrupt practices were highlighted. This is in the hope that the country’s new parliamentarians will take note as they are set to make some amendments to the Constitution or enact related legislation. This would show the country’s real readiness for the fight against corruption.

In conclusion, Nigeria’s constitutional provisions are not yet considered strong nor stringent enough to successfully fight against corruption, especially as the country’s leaders appear reluctant to take the necessary action to ensure its eradication. It is, therefore, recommended that a Sedition Act, with five clauses addressing all the root causes of corruption in Nigeria, should be enacted by the National Assembly and be strictly enforced by the relevant law enforcement agencies (, , etc). Here is an opportunity for the National Assembly to score a very good “goal” that could amount to speedy social, political and economic development of Nigeria.
References


An Assessment of Nigeria’s Pension Reform Act of 2004

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Introduction

Pension reform has been a common aspect of public sector financial reform since the early 1990s. In industrial countries this has often led to a raising of the retirement age and a reduction of the benefits which are payable. The OECD (2007) has estimated that this has resulted in a reduction in the average pension promise by governments of 22%. For women, the situation is worse with a cut of 25%. Comparable reforms have also been introduced in developing countries as part of a package of neoliberal reforms. These have generally reduced the already limited social safety net for the poor, whilst benefitting employers by reducing the regulation associated with the provision of pensions. As a result, the risks facing poorer pensioners, especially, have increased as the state and employers have transferred their responsibilities for the provision of adequate old age pensions to the individuals concerned.

This paper critically examines the case of pension reform in Nigeria, a large developing country, and specifically its Pension Reform Act, 2004, as an example of this type of reform. The paper identifies weaknesses in the Act which could lead to reduced pension provision especially for poorer sectors of society.

A review of relevant literature is undertaken in three broad areas, namely, the need for pension reform, key patterns of pension reform and the political economy of pension reform. Next, certain critical provisions of the Act are highlighted and analyzed. This includes provisions on the contributory nature of the new pension scheme, discriminatory rates of contributions, adequacy/inadequacy of the rates of contribution, abolition of gratuity payment and payment of pension for life, ambiguity about retirement age, confusion about qualification for withdrawal from retirement savings account, legalized delay in payment of retirement benefits, the real purpose of retirement savings account, minimum pension guarantee, encouragement of non-remittance of deductions from employees’ salaries, share of returns on investment of pension funds and assets, institutional management structures of the Pension Fund, transitional management structures and denial of access to court by aggrieved contributors. The analysis of the above issues suggests that the level of economic development places limits on market flexibility in developing countries and that the impact of pension reform will be more disadvantageous for the poor in developing countries such as Nigeria.

Literature Review

The Need for Pension Reform

Holzmann, Orenstein and Rutkowski (2003:1) assert that pension reform has received greater attention in Western, Central and Eastern Europe than any other topic on the economic reform agenda even though the process in individual countries is uneven.
A comprehensive pan-European pension reform (in the 15 European Union (EU) countries, the 10 European Union Accession ( countries of Central and Eastern Europe, plus Croatia) is motivated by three main factors. They are: high budgetary or expenditure pressure and the tendency of an aging population; socio-economic changes, which render current provisions inadequate; and European economic integration and common currency, which tend to prompt higher levels of internal and external migration that current retirement provisions could hardly support. (Holzmann et al, 2003: 2).

The Conference organized by the World Bank and International Institute of Applied Systems Analysis ( ) in 2001 also found that the reform changes in both the EU and EUA countries had been characterized by claims over the inability to finance prior commitments, and the need to make pension systems more sustainable in terms of a move towards a greater role for privately managed, funded systems, and the conversion of the pay-as-you-go (PAYG) systems into defined, contributory systems (Holzmann et al, 2003:8), which are perceived to be ‘more self-sustaining and transparent’.

As was the case in Europe, pension reform in Nigeria was also rationalized by arguments over the inability of financing prior commitments and the need to make pension systems more sustainable in terms of a move towards a greater role for privately managed funded systems and the conversion of the pay-as-you-go () systems into defined contributory systems.

However, life expectancy, the main driver of pension cost, has been increasing for many decades. Despite this, the right to pensions and subsequent improvements in the level of pension provision was won in almost all countries. It is only recently, as part of what has been termed Neoliberalism or globalisation, that the argument has changed and it is now claimed that pensions are no longer affordable and that companies will only be competitive if regulation on pension provision is made less onerous.

**Key Patterns of Pension Reform**

Two reform styles have emerged in both EU and EUA countries. These are the ‘*parametric*’ and ‘*paradigmatic*’ styles. (Holzmann et al 2003:8 - 9)

Holzmann et al (2003:8) explain that,

*a parametric reform is an attempt to rationalize the pension system by seeking more revenues and reducing expenditure while expanding voluntary private pension provisions. A PAYG pillar is downsized by raising the retirement age, reducing pension indexation, and curtailing sector privilege; and a development of voluntary pension fund beyond the mandatory social security system is promoted through tax advantages, organizational assistance, tripartite agreements, and other means of administrative and public information facilitation. These among other things are happening in Austria, the Czech Republic, France, Germany, Greece and Slovenia (Holzmann et al 2003:8).*

There is also the paradigmatic reform which is often called a ‘three-pillar reform’. A paradigmatic pension reform is an attempt to

*move away from the monopoly of a PAYG pillar within the mandatory social security system. A paradigmatic reform is a deep change in the fundamentals of pension provision typically caused by the introduction of a mandatory funded pension pillar, along with a seriously reformed PAYG pillar and the expansion of opportunities for voluntary retirement savings. Among other measures, this is what three-pillar Bulgaria, Croatia, Denmark, Hungary, Latvia, the Netherlands, Poland, Sweden and the United Kingdom decided to do (Holzmann et al 2003:8 -9).*

Some of the attractions of a paradigmatic reform include the possibility of increasing a nation’s savings and investment, acceleration of the development of a nation’s capital market institutions and therefore overall
economic growth rate, which a funded pension system could afford. These advantages are perhaps the reason for the predominance of paradigmatic reform in the countries than in the EU countries. (Holzmann et al 2003:10)

Paradigmatic pattern of reform predominantly characterizes Nigeria’s pension reform, even though the changes reflect an amalgam of elements of parametric and paradigmatic changes. The fundamental changes include:

- the introduction of a mandatory defined contributory system
- abolition of payment of gratuity and payment of pension for life
- delay in accessing contributions
- an opportunity for early retirement, and
- significant down-sizing of the PAYG system by limiting it to judicial officers and those who have three years or less to retirement from the introduction of the law.

The opportunity for early retirement in Nigeria as opposed to late retirement in Europe may have been informed by shorter life-span and relatively higher fertility rate in Nigeria as opposed to the tendency for low fertility rate and aging populations in Europe. Similarly, the Nigerian pension reform does not provide tax advantages for additional voluntary pension contribution as indicated by the elements of parametric reform. Instead, the Pension Reform Act subjects voluntary contributions above the statutory rates to taxation at the point of withdrawal of such funds. Another element of parametric reform missing in the Nigerian pension reform is transparent or democratic administration of pensions through tripartite agreements. There is only marginal representation of trade union organizations in the management and ‘transitional’ structures.

**Motivation for Pension Reform: The Political Economy of Pension Reform**

The papers presented at the research workshop organized by the World Bank a day prior to policy conference in Laxemurg helped to clarify the likely triggers of a pension reform. (Holzmann et al 2003:13).

Studying four countries in Latin America and Eastern Europe, namely, Argentina, Bolivia, Hungary and Poland, Muller (2003: 47 -78) identified five key variables that could trigger reform – dynamic political leadership, the role of international financial institutions, pension system crisis, intelligent reform strategy design, and the respective power or powerlessness of reform advocates and opponents.

Of all the five variables, Muller finds the role of political leadership to be critical in the four case studies. In particular, she finds that paradigmatic reform is often triggered by new actors being involved in the debate process. In addition, while severe financial crisis may strengthen the position of the finance ministry, high foreign debt may enhance the arguments of international financial institutions pushing for reforms. She also reports that the movement relationship could also facilitate or hinder reforms.

Some of the factors identified by Muller are relevant in analyzing the pension reform process in Nigeria. For example, many of the economic reforms, including pension reform, could not be carried out under military dictatorship. They could only be realized under a civilian political regime. In other words, it appears that an active combination of both actors and type of political system tend to influence the feasibility of changes in social policy.

As was the case in the countries studied by Muller, the pension and general debt crises played important roles in the pension reform process in Nigeria. The unpaid pension liability in the public sector alone has been estimated at Nigerian Naira 2 trillion (US $15.4 billion) while Government’s foreign debt (before the $18bn
debt relief by the Paris Club) strengthened the arguments of government and the pressures of the international financial institutions, for the reform process.

In contrast, the relative powerlessness of the trade union movement was also clearly demonstrated in the process of developing legislative changes. Although all of the three central labour organizations, [the Nigeria Labour Congress (NLC), the Trade Union Congress (TUC) and the Conference of Free Trade Unions (CFTU)] were opposed to the fundamentals of the pension reform, radical changes were made in the new legislation on pension without reflecting their views. Similarly, the organized private sector resisted the lumping together of pension schemes in both the public and private sectors. But the new law disregarded private sector’s inputs in this regard, in spite of existing constitutional provisions, which support their position. However, in spite of the inability of the unions to prevent the enactment of the Pension Reform Act, 2004, they seem to have prevented its full implementation. The private sector employers organized under the Nigeria Employers Consultative Association (NECA) have been forced to retreat by continuing the payment of gratuity. The Association had planned to begin the implementation of the Pension Reform Act by issuing its ‘Guidelines for Migration into a new Dispensation of One Terminal Benefit Scheme’. The Association considered having to pay both pensions and a terminal gratuity as burdensome; it preferred to change to a ‘monolithic’ scheme. However, as a result of the spontaneous agitations of the Trade Union Congress (TUC) and other unions such as the Food Beverage and Tobacco Senior Staff Association (FOBTOB), the NECA, through its Director General, Olusegun Ogunowo, was compelled to temporarily surrender. It said, ‘…the intention is not to scrap gratuity now. We are simply setting in motion the planned reformation of terminal benefits in which we would be talking of only one terminal benefit, pension. Gratuity will be subsumed under a new pension dispensation.’ (The Nation, December 4, 2006:33).

On a different related aspect, Ney (2003: 79 – 110) argues that contrary to previous political economy literature which portrayed democratic structures and processes as obstacles to changes, pension policy changes had never been very democratic. Rather, it had been monopolized and manipulated by small policy networks, which operated in backrooms and excluded those lacking sufficient technical expertise. The trend of un-democratic process changed in the 1990s, when greater conflicts among opposing interest groups with different pension perspectives, ideas, and policies developed.

The findings and perspective by Ney are confirmed in the recent Nigerian experience. With the termination of military dictatorship in May 1999, and the introduction of representative system of governance, it is assumed that the process of law-making or changes in policy-making should reflect democratic norms. But as was noted above, inputs from labour and private sector organisations were not sufficiently considered in developing the new legal framework governing pension administration in Nigeria. In other words, the existing democratic structures and procedures were not, in reality, relied upon in effecting pension reforms.

The work of Chlon-Dominczak and Mora (2003: 131 -156) suggests that the identity of the foreign pension reform agenda setter – whether the World Bank, the United States Agency for International Development (USAID), or the International Labour Organization (ILO) - does not matter. Instead, domestic actors take a lead in the reform process - depending on the depth of pre-existing pension system crisis. Chlon-Dominczak and Mora (2003) also find that there is no strong relationship between institutional arrangements and implementation of pension reforms, noting that reforms have occurred equally in authoritarian and democratic countries. Rather, they argue that the influence of ideas, particularly the influence of neoliberal ideas, is more decisive as a causative factor to trigger pension reform.

The findings of Chlon-Dominczak and Mora (2003) regarding the influence of neoliberal ideas are relevant in explaining the evolution and development of pension system in Nigeria. The Pension Reform Act, 2004 appears to be a neoliberal piece of legislation. The Group Managing Director and Chief Executive Officer of the United Bank for Africa (an amalgam of the UBA and STB), for example, described the reforms, including the pension reforms, as a ‘silent’, ‘quiet’, ‘steady’, ‘irreversible’ or ‘permanent revolution’ aimed at ‘creating a
conducive investment climate’ (Elumelu, 2005: slide number 3). However, what is considered a ‘revolution’ from the standpoint of beneficiaries of the policy has been described by a section of the Nigerian labour movement as ‘counterrevolutionary’ (Fashina, 2003).

Boeri (2003: 157 – 170) and Orenstein (2003: 171 – 194) examine the relationship between international demonstration effects and domestic policy choices. The insights they provide help in an understanding of the impacts of global politics on reforms in developing countries, not only on pension reforms but also on the broader social policy models they adopt.

Boeri (2003) argues that the choice of social policy model in transition countries is influenced by geographical proximity to the EU countries. His work shows that countries with a greater chance of EU accession adopted social policy models that were more in tune with those of EU member states. Orenstein (2003) also analyses the global spread of paradigmatic pension reform. Drawing on the literature concerning diffusion of innovation, he posits that pension reform should not be seen simply as a result of domestic political processes but also as a product of global patterns of ideational innovation and diffusion. Countries tend to follow the model of innovative leaders in their regions. Hence, the larger, richer and more industrial countries tend to innovate first and smaller and poorer countries tend to lag behind.

Orenstein (2003) also shows that international organizations have played a major role, particularly in cross regional diffusion of ideas and models. Orenstein (2003) explains for example that the International Labour Organization gave a major boost to pension system creation in the years after the Second World War while the World Bank has played a leading role in diffusing paradigmatic reform in recent years. Orenstein (2003) also points out certain key differences between the creation of pensions and the diffusion of their reform. While Germany was the leader in the first phase of pension creation, the leader in the spread of paradigmatic reform was Chile. The reforms in Chile were part of a neoliberal experiment introduced after the overthrow of the democratically elected leftist president of Allende in 1973. Widespread privatisation, including pension provision, was introduced by the military junta led by General Pinochet (Harvey 2005).

The insights offered in the works of Boeri (2003) and Orenstein (2003) are confirmed by the Nigerian experience. The trade unions have had to constantly rely on the provisions of the Conventions and Recommendations adopted by the International Labour Organization in their strivings to maintain its universal minimum standards. Also, the tendency of the Nigerian judiciary is to hold that where there is variation between international law and domestic law, the international law or treaty prevails.

The History of Pension Reform in Nigeria

To determine the direction of changes in pension reform, it is apposite to trace the development of pension system in Nigeria, particularly from the 1970s. In the public sector, including civil and public services, statutory bodies and government owned companies, pensions were governed by the Pensions Act of 1979, later the Pensions Act 1990 as amended by the Pensions Regulations of 1991. The Act provided for benefits in terms of gratuity and pension payments. Gratuity is a single, lump sum payment while pension is a periodic payment, normally on monthly basis for life. The scheme was a compulsory and non-contributory one, which created a right to monetary collection by public servants and an obligation on the part of government to make payment.

Before April 1974, gratuity and pension for public servants were not treated as rights but as privileges. The applicable law provided that ‘no officer shall have an absolute right to …pension or gratuity’ [Section 6(1)]. As from 1974, they became rights to which a qualifying public servant was entitled to claim from the government.

The general pension scheme for civil servants was financed from government general revenue on a ‘pay-as-you-go’ basis and not from a special fund established for the purpose. Under the Pensions Act of 1979, both gratuity and pension were salary rate related and were financed wholly by the government without contribution by the workers.
In contrast, government parastatals tended to operate separate funded schemes which required setting aside on an annual basis, a percentage of the total basic salaries of their staff in a special fund under the management of a board of trustees.

The National Provident Fund Act provided for private sector pension schemes. Originally, the National Provident Fund (NPF), a contributory scheme, which was established in 1961, also covered public servants. It was wound up for public servants after it had lost N17bn in corruption. Unlike the public sector, most in-house pension schemes in the Nigerian private sector were funded by both the employers and employees. The employees contributed a percentage of their monthly salaries, subject to a maximum while the employers also contributed a percentage of employees’ salary to the scheme. Considering the small benefits resulting from the statutory scheme, individual companies tended to operate their own company administered contributory gratuity schemes to supplement the statutory retirement gratuity scheme.

The major advantage of the public sector over the private sector was that public sector employees enjoyed greater security of tenure with a guaranteed entitlement to both a pension and gratuity. In contrast to the public sector, private sector employers tend to have the right to hire and fire at will, with or without providing any explicit reasons.

The nature of the recent Nigerian pension reform and why it is perceived to be a retrogressive piece of legislation by, for example, the Academic Staff Union of Universities (ASUU) is provided by the ‘Blue Print on the Contributory Scheme’. This document is a summary of proceedings of the National Workshop on Pension Reforms, which held on 11 – 13 September 2001. From the Federal Government point of view, the previous pension system had to be reformed because ‘increasingly, the number of officers on pension payroll may in the next few years outnumber those in active service. At the moment, the Federal and State Governments are bearing the cost of pension one hundred per cent under the ‘Pay-As-You-Go’ system’ (FGN, 2001). Similarly, the President of the Federal Republic of Nigeria expressed concern for a situation in which ‘in some of our sectors, the pension bills are as high as the bills for wages and salaries. This is neither feasible nor sustainable … The pension bill has continued to grow phenomenally [and] given the growing demand from other economic sectors, the government will need to share the burden’(FGN, 2001).

This literature review shows that though there are certain differences in the content and speed of reform, there are also similarities between the reform processes in Europe and in developing countries, particularly in the areas of the rationale for reform, the typology of reform changes and the political economy of pension reform. The literature review has shown that pension reform is a globalized idea, which is influenced by, and consistent with, neo-liberal ideology.

The relevance and potency of the conclusions drawn from the literature review are further reflected in the analysis of certain key sections of the Act undertaken below.

**A Critical Analysis of The Pension Reform Act 2004**

**The Contributory Nature of the Pension Scheme**

Section 1 subsection (1) of the Act provides for ‘a Contributory pension Scheme’ for payment of retirement benefits of employees to whom the Scheme applies. Section 9 sub section (1) then provides that employers and employees in both the public service and private sector (in enterprises employing 5 or more employees) shall contribute ‘a minimum of seven and half per cent’ of the employee’s salary to the scheme. In the case of the Military, however, the government shall contribute ‘a minimum of twelve and a half per cent…’ while the employee shall contribute ‘a minimum of two and half per cent’. However, the stipulated rates can be revised upwards with agreement between the employer and the employees [S. 9(6)]. Alternatively, an employer may ‘elect to bear the full burden of the Scheme’, if they are willing to pay the equivalent of 15% of their
employees’ salaries into the Scheme. In addition, an employee covered by the Act may make voluntary contributions to his/her ‘retirement savings account’ in addition to the statutory or agreed rates [S. 9(5)].

Current salary rates at both the Federal level (N7, 500.00 minimum basic wage - $58 a month) and State level (N5, 500 minimum basic wage - $42 a month) are considered inadequate. As a result, establishing a ‘contributory’ pension scheme represents an indirect cut and punitive taxation on the income of these workers. For ‘contributory’ pension scheme to make sense, government and the private sector employers should be required to pay increased salaries, which will compensate workers for having to pay their share of the contributions to the Scheme. The NLC, TUC and CFTU (2004) cited the practice in Chile, where at the inception of a similar scheme, the workers’ salaries were increased by the same degree as their rate of contribution.

**Discriminatory Nature of the Reformed Scheme**

The Act discriminates in favour of certain state employees including the military and the judiciary.

As indicated above, Section 9 of the Act requires most public and private sector employees to pay seven and half per cent of their salary as pension contributions. In contrast, for military staff, the rate is reduced to only two and half per cent.

The *Pension Reform Act 2004* exempts two groups of state employees from the Act [S. 8(3)]. These are:

- ‘any employee who at the commencement of this Act is entitled to retirement benefits under any pension scheme existing before the commencement of this Act but has 3 or less years to retire shall be exempted from the Scheme’ [S. 8(1)] and
- judicial officers.

Section 291(3) of the 1999 Constitution of the Federal Republic of Nigeria provides that any of the listed judicial officers shall ‘be entitled to pension for life at a rate equivalent to his last annual salary and all his allowances, in addition to any other retirement benefits to which he may be entitled’, provided he has been in that position ‘for a period not less than fifteen years’ [S. 291(3)(a)].

These discriminatory rates of contribution and benefits are in direct conflict with the Nigerian constitution and the principle of equality. The Preamble declares that the Constitution is based ‘on the principles of freedom, equality and justice….’

**Abolition of Right to Gratuity**

The Pension Reform Act, 2004 abolishes the right to a gratuity. A gratuity is a single, lump sum payment while pension is a periodic payment, normally on monthly basis, for the remainder of the pensioner’s life.

For workers whose poverty wages may cut short their life span, the abolition of the gratuity may significantly reduce their chance of benefiting from their pension savings. Thus the abolition of the gratuity discriminates against poorer paid employees.

**The Effect on Academic Staff**

As an example of the effect of the *Pension Reform Act 2004*, we will now consider its effect on a single group of workers, university academic staff.

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1Chief Justice of Nigeria, President of the Court of Appeal, Chief Judge of the Federal High Court, Chief Judge of the High Court of the Federal Capital Territory, Abuja, Grand Kadi of the Sharia Court of Appeal of the Federal Capital Territory, Abuja and President, Customary Court of Appeal of the Federal Capital Territory, Abuja. It also includes Chief Judge of a State, Grand Kadi of a Sharia Court of Appeal or President of a Customary Court of Appeal of a State.
The application of Section 8(3) of the Act has put the Academic Staff Union of Universities (ASUU) in a precarious position. The Act not only nullifies the Collective Agreement between ASUU and the Federal Government signed in 1992, it has also repealed a more favourable legislation – the Universities (Miscellaneous Provisions) Decree No 11 of 1993.

In the Collective Agreement, it was agreed that ‘the compulsory retirement age for academic staff shall be 65 years. Contract appointment may be given to a retired academic staff’. On voluntary retirement, it was agreed that ‘academic staff could retire voluntarily after ten (10) years’ service while on pension and gratuity, it was agreed that ‘each academic staff shall be entitled to gratuity after five (5) years of continuous service’.

The Universities (Miscellaneous Provisions) Decree No 11 of 1993 incorporated aspects of the above mentioned Agreement and indeed strengthened it. It provided, for instance, that ‘a person who retires as a professor having served a minimum period of 15 years’ in that position until retirement age, ‘shall be entitled to pension at a rate equivalent to the last annual salary and such allowances, as the Council may, from time to time, determine as qualifying for pension and gratuity, in addition to any other retirement benefits to which he may be entitled’ [Section 9(a)(b)]. The Decree (now Act), went further to provide that ‘notwithstanding anything to the contrary in the Pensions Act, the compulsory retiring age of an academic staff of a University shall be sixty-five years. [S. 8(1)], and ‘A law or rule requiring a person to retire from the public service after serving for thirty-five years shall not apply to an academic staff of a University’ [S. 8(2)].

Inadequacy of the Level of Contributions

The Federal Government commissioned studies to determine the level of contribution that could meet anticipated pension benefits. The actuarial reports indicated that, for adequate funding of the public service scheme, 25% of gross emolument of all Government employees needed to be set aside annually to meet existing and maturing gratuity and pension liabilities (Summary of Proceedings of the National Workshop on Pension Reform, 2001). However, the Pension Reform Act stipulates a contribution rate of 15% of total emoluments shared between the employee and the employer.

Ambiguity about Minimum Retirement Age

In the public sector, the statutory retirement age is either 60 years or 35 years of service, whichever comes first. In the private sector, retirement age varies between 55 and 60 years. The factor of 35 years of service does not apply to the private sector. After retirement, professionals with special skills may be employed on a contract basis.

Section 4(1) of the Pensions Act (CAP 436 laws of the Federation of Nigeria) 1990 had clear provisions on the minimum retirement age. But the Pension Reform Act 2004 contains no specific provision on same. It only stipulates that no person shall be entitled to make any withdrawal from their retirement savings account before attaining the age of 50 years [Section 3(1)]

This is the first of several examples of where the new Act makes the law less prescriptive and devolves aspects of the management of the pension scheme to regulatory bodies or individual employees. As a result, legal protection that previously existed for employees is removed. This is consistent with neoliberal aims of deregulation and a more flexible work-force.

Confusion about Retirement Age that Qualifies a Retiree to Withdraw from Retirement Savings Account

Whilst Section 3(1) provides that no person shall be entitled to make any withdrawals from his retirement savings account before attaining the age of 50 years, Section 3(2)(c) states a contradictory provision permitting
withdrawal from the retirement savings account by an employee who retires before the age of 50 years. Section 3(2)(C) provides as follows:

3(2)(C) … Any employee who retires before the age of 50 years in accordance with the terms and conditions of his employment shall be entitled to make withdrawals in accordance with Section 4 of this Act.

Thus the Act accepts, that employees could retire before attaining the age of 50, in accordance with the terms and conditions of employment and that there is now no uniform retirement age (even in the public sector). Such issues have been deregulated and employers and employees are required to determine retirement age through negotiation and agreement.

Legalized Delay in Payment of Retirement Benefits

One of the key problems and hardships which the Pension Reform Act 2004 sought to remove was the non-payment of retirement benefit as and when due [S.2(a)]. In contrast, in Section 4(2) the Act legalizes delays in the payment of retirement benefits.

Section 4(2) provides that when an employee retires before the age of 50 years in accordance with the terms and conditions of his employment [S.3(2)(C)],

the employee may, on request, withdraw a lump sum of money not more than 25 percent of the amount standing to the credit of the retirement savings account provided that such withdrawal shall only be made after six months of such retirement and the retired employee does not secure another employment [S.4(2)].

It does not seem to matter to the lawmakers that a retired employee or members of his/her family may die within the six month waiting period before he/she becomes entitled to receive their lump sum!

Retirement Savings Accounts: To Care for Contributors at Old Age or to Pool Funds for the Interest of Investors?

Section 2(b) of the Pension Reform Act 2004 states that one of the objectives of the Pension Scheme established under the Act is to assist individuals by ensuring that ‘they save in order to cater for their livelihood during old age’. However, the provisions of S.4 of the Act suggest that the real goal of the Pension Scheme under the Act is to provide a pool of funds for investors, rather than the concern for livelihood and survival of employees in old age.

For example, S.4(1) (a) provides that:

4(1) A holder of a retirement savings account upon retirement or attaining the age of 50 years, whichever is later, shall utilize the balance standing to the credit of his retirement savings account for the following benefits:

(a) programmed monthly or quarterly withdrawals calculated on the basis of an expected life span.

Certain questions arise from the provision of S.4 (1) (a) above. How is the so-called ‘expected life span’ of the individual to be determined? Do employees at top management level and lower management level who belong to different income brackets tend to have the same average life span? What will be the criteria for calculating the ‘expected life span’ of individuals at lower and top levels of management? What happens when the actual life span is shorter than the calculated ‘expect life span’ – who enjoys the surplus balance? What happens if the actual life span of the retiree is longer than the estimated ‘expected life span’ - who supplies the shortfall to maintain the retiree for the rest of his/her life? These are critical questions that the provisions of the Act do not answer. The Act is again reducing the regulation of pensions and so reducing the burden to business (to the detriment of its workers).
Section 4(1) (b) provides another ‘benefit’ (read purpose) to which the holder of a retirement savings account ‘shall utilize the balance standing to the credit’ of the account – ‘Annuity for life purchased from a life insurance company licensed by the National Insurance Commission with monthly or quarterly payments’.

While individuals should be free to buy any form or type of insurance policy at any time in his/her lifetime, it is curious that the Act should require a retired person to acquire a particular insurance policy by employing the word ‘shall’ rather than ‘may’.

The third ‘benefit’ for which a retired person ‘shall utilize the balance standing to the credit’ of the retirement savings account is provided in Section 4(1) (C). – collection of ‘a lump sum from the balance standing to the credit of his retirement savings account provided that the amount left after that lump sum withdrawal shall be sufficient to procure an annuity or fund programmed withdrawals that will produce an amount not less than 50 percent of his annual remuneration as at the date of his retirement’.

In the situation of a lack of any government welfare to provide social services for vulnerable groups, e.g. children and the aged, in the absence of any form of social security as a right, the tendency of retired persons in Nigeria is to use the lump-sum benefit received as gratuity to invest in some form of business activity to yield them income to supplement their pensions and so maintain themselves and their families. We have shown earlier that the Pension Reform Act has effectively eliminated the right to gratuity. Section 4(1) (C) of the Act is now reiterating that a retired person can only collect a lump sum from the retirement savings account if the sum left after the payment of the lump sum will be sufficient to buy an insurance policy – an annuity – or fund periodic pension payments which are at least half the remuneration the person was receiving when in employment.

When the combined effects of the provisions of S.4(1) (a), (b) and (c) are considered, it is easy to conclude that the Pension Reform Act 2004 appears less concerned with the care of retired persons than with the creation of a pool of cheap funds for the investors. It is within this context that S. 73(1) and S.74 can be properly understood. The two sections make provision for investment of pension funds within or outside the country.

S.73(1) itemizes how the pension funds and assets ‘shall’ be invested. It provides:

73(1) Subject to guidelines issued by the Commission from time to time, pension funds and assets shall be invested in any of the following:

(a) bonds, bills and other security issued or guaranteed by the Federal Government and the Central Bank of Nigeria.

(b) Bonds, debentures, redeemable preference shares and other debit instruments issued by corporate entities and listed on a Stock Exchange registered under Investment and Security Act 1999.

(c) Ordinary shares of public limited companies listed on a Stock Exchange registered under the Investments and Security Act of 1999 with good track records having declared and paid dividends in the preceding five years., and so on.

The move to create pension funds, some of which are invested outside Nigeria will inevitably lead to an increase in the capital flight from Nigeria to the advantage of industrialised countries with more developed capital markets. It will reduce the funds available for investment in Nigeria whilst reducing the cost of capital in more developed countries. How this will benefit the majority of workers in Nigeria is not clear, but this is a development which is occurring in several other developing countries across Africa and other continents.

To show the bias for creating a pool of investable funds rather than caring for employees at old age, Section 9(3) of the Pension Reform Act also strengthens the bias for the insurance sector of the economy. It provides that:
employers shall maintain life insurance policy in favour of the employees for a minimum of three times the annual total emolument of the employee’

The insurance industry hardly enjoys the confidence of ordinary Nigerians. So why is it that this act is creating such a large boost in demand for their products?

Encouragement of Non-Remittance of Deducted Contributions

The Pension Reform Act encourages corruption by providing such a weak penalty for failure by the employer to remit contributions (by employees and employers) to the Pension Fund Custodian within seven working days from the day the employee is paid his salary [S. 11(5)(b)].

The employer is empowered to deduct at source, the monthly contribution of each of the employees in his employment [S.11(1) 5(a)]. The penalty for non-remittance within the required timescale is payment of not less than 2 percent of the total contributions that remain un-paid in addition to making the remittance already due [S.11(7)].

With such a small penalty and the high cost of borrowing from the banks, employers are likely to prefer not to remit pension contributions and pay the cost of non-remittance.

Minimum Pension Guarantee

Section 71(1) of the Pension Reform Act provides that ‘All retirement savings account holders who have contributed for a number of years to a licensed Pension Fund Administrator shall be entitled to a guaranteed minimum pension as may be specified from time to time by the Commission’.

This section raises a number of questions. First, how will the ‘guaranteed minimum pension’ be determined? Pensioners are likely to be at the mercy of the Commission that may arbitrarily fix rates that may have no bearing on the salary structure, including the existing national minimum wage.

Second, in view of the provision of S.4(1) (a) which states that the monthly or quarterly withdrawals by a contributor will be calculated on the basis of an expected life span, how will the ‘minimum pension guarantee’ be met? If the rate of withdrawals based on an expected life span is below the ‘minimum pension guarantee’, how will the difference be made up?

Third, one of the qualifying criteria for being entitled to a ‘minimum pension guarantee’ is having contributed for a number of years to a licensed Pension Fund Administrator (S.71(1). Surprisingly, the number of years is not specified. The only conclusion to be drawn is that pension administration will be left to the regulation of the National Pension Commission.

Disbursement of Returns on Investment of Pension Funds and Assets

Although Sections 73 and 74 of the Pension Reform Act stipulate how Pension Funds are to be invested, details are not provided on how employee contributors to the scheme are to benefit from returns on the investment of pension funds and assets. How and why should employees be compelled to make contributions to be invested and without details of the returns being provided?

Section 47(f) provides that the pension funds custodian shall:

undertake statistical analysis on the investments and returns on investments with respect to pension funds in its custody and provide data and information to the pension fund administrator and the Commission
Surprisingly, the Act does not make any provisions with regard to the responsibility of the Pension Fund Custodians to render account on investments to the employee-contributors to the fund.

**Management Structure of the Pension Fund**

The *Pension Reform Act 2004* has created a complex management structure to manage the Pension Scheme. At the apex is the National Pension Commission (NPC) which is to regulate, supervise, issue licenses and ensure the ‘effective administration’ of pension matters in Nigeria. Section 4 of the Act establishes the NPC. The NPC is dominated by nominees of government, government officials and selected (not elected) representatives of the Nigeria Labour Congress and the Nigeria Union of Pensioners. Other trade unions representing employees in various industries are left out.

Section 44 of the Act establishes the Pension Fund Administrators (PFAs) to be licensed by the Commission. Section 45 of the Act empowers the PFAs to manage pension funds by:

- opening retirement savings account for all employees with a Personal Identity Number (PIN)
- investing and managing pension funds and assets
- maintaining books of accounts on all transactions relating to pension funds managed by them
- providing customer service support to employees, including access to employees account balances and statements on demand
- assuring retirement benefits are paid to employees, among other functions.

After the PFAs, there is provision for Pension Funds Custodians (PFCs) established by Section 46 of the Act. They are also to be licensed by the NPC.

The functions of the PFCs include:

(i) receiving contributions remitted by the employer under Section 11 of the Act on behalf of the Pension Fund Administrator, within 24 hours of the receipt of contributions from the employee [S.47 (a)]

(ii) Notifying the PFA within 24 hours of the receipt of contributions from any employer.

(iii) Holding Pension Funds and assets in safe custody on trust for the employee and beneficiaries.

(iv) Settling transactions and undertaking activities relating to the administration of pension funds investments, including collection of dividends.

However, Section 11(4) provides that:

> the employee shall not have access to his retirement savings nor have any dealing with the Custodian with respect to the retirement savings account except through the pension fund administrator.

From the above it appears that a PFC is nothing but an unnecessary duplication of the roles of a PFA. How can the PFA manage funds being kept by another body? Why should the employee not have access to a body (PFC) that is said to be holding fund in trust for him/her? The provision that says the employee cannot have any access to the PFC means that the PFC does nothing but insulate the PFA against the pressure of the employees.

According to Section 52 (1) (9) of the Act:

> ‘no applicant for licence to act as a custodian shall be approved by the Commission unless such applicant is a licensed financial institution’.
In other words, the PFCs are existing financial institutions.

By virtue of Section 11(3), the employee selects a PFA and notifies his employer. To be registered, the PFA is expected to have among other things, a minimum paid up share capital of N150million (just over $1 million). But the PFC is expected to be a financial institution, which in the case of banks, were recently required to have a minimum capitalization base of N25bn ($192 million). Why the duplication of roles and bodies? Why the resulting waste of funds and returns on investments realized from the pension funds?

In comparison, the previous pay-as-you-go scheme was much more efficient and included a minimal bureaucracy. The only administrative records were the salary and employment records of each government employee. In addition, there was no risk from the loss of funds from poor investments, future pensions were guaranteed by government.

**Transitional Bureaucratic Structures**

The Act makes provisions for transitional bureaucratic structures to co-exist with and be supervised by the NPC.

For the public sector, Section 30 of the Act establishes a Pension Department made up of the existing pension boards or offices in the Public Service of the Federation and the Federal Capital Territory. In the case of the Public Service of the Federation, it comprises the Civil Service Pension Department, the Military Pension Department, the Police Pension Department, the Customs, Immigration and Prisons Pension Department and the Securities Pension Department.

Sections 32 and 33 of the Act spell out the functions of the Department, which include receiving budgetary allocations from Government and paying pension and gratuity of existing pensioners and the exempted category of employees under the previous pay-as-you-go pension scheme. Section 38 of the Act provides that ‘the Department shall cease to exist after the death of the last pensioner or category of employee entitled to retire with pension before the commencement of this Act’. The establishment of the Department is another duplication of the activities of the NPC and it amounts to a further waste of resources.

Sections 39 to 41 of the Act make provisions for transitional arrangement for the private sector. Section 39 provides that ‘any pension scheme in the private sector existing before the commencement of this Act may continue to exist’. However, among other things, the pension funds and assets are to be fully segregated from the funds and assets of the company and held by a custodian. Every employee is given the option of continuing under the previous scheme or joining the Scheme established by the new pension Act. Any employer who opts to manage its pension fund shall apply to be registered as a ‘Closed Pension Fund administrator’ and be subject to the supervision of the NPC.

As in the case of the NPC, PFAs and PFCs, there is no consideration for accommodation of the democratic voice of the trade unions representing the employees in the transitional structures.

The establishment of the NPC, PFAs and PFCs tends to give the impression that the cause of pension administration failure in the past was due to the absence of such duplicated structures. But the problems of the previous pay-as-you-go system were related to the following:

- **Corruption.** The schemes were infested with corruption such that more often than not, those entrusted with their management embezzled the funds without any prosecution. It thus resulted in the inability of workers retiring, either voluntarily or compulsorily, to collect their entitlements.
- **Administrative bottlenecks and lapses** causing delay in the processing of retirement benefits due to non-availability of vital records.
• Problems associated with inter-sectoral, inter-governmental and inter-state transfers in connection with pension benefits. For example, the Federal Government was paying its share of pension and gratuities to state pensioners through State Governments.

• Non-payment of Government’s own share to previous funds/schemes while the proportion of workers’ contribution was duly and regularly deducted from their monthly salaries.

The key problem was the non-payment of employers’ share, particularly government, to the schemes. The above stated problems could be solved without necessarily creating the plethora of current administrative structures.

Denial of Access to Court

The Constitution guarantees access to court:

‘in all matters between persons, or between government or authority and to any person in Nigeria, and to all actions and proceedings relating thereto, for the determination of any question as to the civil rights and obligations of that person’.

Section 92(1) of the Act however, provides that any employee or beneficiary of a retirement savings account who is dissatisfied with the decision of a or PFC may apply to the NPC to review the matter. Section 92(2) guarantees speedy resolution of matters by the NPC. Hence, NPC shall dispose of any matter within three months from the date the matter was referred to it. Where any party is dissatisfied with the decision of the Commission, the party may refer the matter to arbitration or the Investments and Securities Tribunal established under the Arbitration and Conciliation Act and the Investment and Securities Act 1999, respectively. [S. 93(1) and (2)]. The awards made under S. 93(1) and (2) ‘shall be binding on the parties and shall be enforceable in the Federal High Court (S. 94).

However, no individual can apply to the Federal High Court: ‘An offence under the Act shall be instituted before the Court in the name of the Federal Republic of Nigeria by the Attorney General of the Federation or such officer, State Attorney General or his agent or any other legal practitioner in Nigeria that the AG may authorize (S. 91).

It is not only in respect of denial of access to court that the Pension Reform Act violates the Constitution. The idea of imposing a uniform regulation on both the private and public sector is contrary to the provision of Section 173 of the Constitution, which limits the legislative capacity of the National Assembly to pensions in the Public Service. But the private sector employers might not have been able to achieve such fundamental changes as ending the right to gratuity without the State’s support. Hence, the need for government’s unconstitutional and undemocratic action of disregarding collective agreements covering such issues in both the public and private sectors.

Conclusion

This paper assesses the pension reform process in Nigeria and particularly the Pension Reform Act 2004. The assessment indicates that there is a need to further review the Act in the interest of equity, transparency and poverty reduction. The assessment also shows that the Act is heavily influenced by neoliberalism especially in regard to the level of deregulation of pension provision and increasing the risks for individual employees and pensioners.

However, the extent of poverty in Africa, including Nigeria (where over 70 per cent of the population lives on less than $1 a day) should dictate limits to the extent and depth of deregulation and increased flexibility of the market. Much of political insecurity in Nigeria and Africa could be associated with socio-economic insecurity...
– poverty, absolute want, destitution, hunger, homelessness, disease and unemployment-induced idleness – of the vast majority of the citizens in individual countries. Pension reform which leads to lower pensions, and denial of pension for life, amongst others, would further deepen the existing levels of pensioner poverty and misery, and could have implications for degrees of corruption, commitment to work, productivity and overall wealth creation.
References


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