International Consortium on Government Financial Management

“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”

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Call for Papers
Special Issue on African Accounting Studies

Special Guest Editor: Dr. Charles Elad

Critical research is a tradition of scholarship that depends on openness to fresh perspectives and experiences for continuous re-invigoration. This special issue invites contributions inspired by African historicity, culture, and erudition. Contributors are invited to interpret this call for papers broadly, to draw on the diversity of their own historical and contemporary experiences in order to present their own unique formulation of “critical”.


The deadline for receipt of manuscripts is May 31 2009. Electronic copies of submissions should be in Microsoft Word format, including name, address, email, telephone and fax numbers of all authors (designating the corresponding author), and should be sent to all of the following:

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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 (accountant, 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 needs of the people are better met.

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

1. **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 Board of Directors and receives 10 copies of all ICGFM publications to be distributed within their organization. (Dues: $1,000)

2. **Organization Members**: government entities with financial management responsibilities, educational institutions, firms, regional and governmental organizations, and other professional associations. Six organization members serve on the ICGFM Board of Directors and organization members receive 5 copies of publications to be distributed to their members. (Dues: $250/$125*)

3. **Individual Members**: persons interested in or dedicated to activities directly related to financial management and who wish to be members in their own right. Six members of the ICGFM Board of Directors will be selected from among all individual members. Each individual member will receive a copy of all ICGFM publications. (Dues: $100/$50*)
4. **Student Members**: persons enrolled at a college or university who is interested in financial management are eligible and will enjoy the benefits of Individual Members. Student Members enjoy the benefits of Individual Members. (Dues: $25/$15*)

* A special discount is offered to developing countries with economics in transition and regional groups and organizations in such countries to encourage participation. This discount is not available to Australia, Canada, China, Egypt, European countries (except transition economies), India, Iran, Israel, Japan, Kuwait, Libya, Mexico, New Zealand, Nigeria, Oman, Russia, Saudi Arabia, United Arab Emirates, USA, and Venezuela. Full time students also receive the 50% discount.
Foreword

The current global economic crisis has brought about a major re-think in macro-economic theory. This re-appraisal could usefully be extended to the practice of private sector accounting and audit. For far too long the private sector has been promoted as the best practice which accountants and auditors in the public sector institutions should follow, or at least aspire to. However, the world recession has highlighted some strange anomalies. For example, in the US, both Lehman Brothers and Bear Stearns received unqualified audit reports on 28 January 2008. Lehman Brothers filed for bankruptcy on 15 September 2008, and, even faster, by 14 March 2008 Bear Stearns found itself in trouble and was sold to JP Morgan Chase before the end of May 2008 with state support to avoid liquidation... In the UK, Northern Rock received an unqualified audit report on 27 February 2007, but by September of that year it had queues of customers outside its branches and was eventually nationalised on 22 February 2008 (thanks to Stewart Smyth for this information).

That is not to say that public sector accounting and audit is perfect and this issue continues the debate over a variety of issues. The first two contributions cover audit. In the first, Patrizio Monfardini and Patrick von Maravic consider developments in the field of external audit of local government in Europe. Thomas Asare then considers the role of internal audit in promoting good governance and performance improvement mainly based on the experience of African governments.

James Chan provides an outline of the differences between government accounting and business accounting. In doing so he considers three important questions. What is so appealing about business accounting that it is urged upon government? How is government viewed differently by public budgeting specialists? When these two groups hold conflicting views on government financial presentation, how should those conflicts be resolved?

In the next contribution, Norvald Monsen continues his series of articles on cameral accounting. This was specifically developed for public sector entities in German speaking European countries. Enterprise Cameralistics is the version of cameral accounting which was developed for government owned enterprises and produces similar information to that provided by private sector financial statements.

The final two papers in this issue consider wider issues of public sector financial management. K.M. Mahiuddin reviews the recent history and workings of public accounts committees in Bangladesh and their role in promoting financial accountability. Finally, Joseph K. Achua considers the imperatives of prudent management of oil resources in Nigeria. Despite the apparent lack of political will-power to effect a change, Joseph believes that recent events suggest that civil society, and specifically the organised working class, can ensure that the necessary reforms are achieved.

We have now established an editorial board for the Journal. This should help to raise the status of the journal, especially amongst academics, and should ensure we have access to a wider pool of expertise to review potential contributions. We would however still like to hear from other readers who would like to play a more active role with the Journal either as writers or potential editors. Further details are provided at the end of this issue.
As always, we invite your comments on these papers and the topics covered in any prior issues of the *Journal* – these are available from the ICGFM website at [www.icgfm.org](http://www.icgfm.org)

Please contact the editor - andywynne@lineone.net - if you would like to contribute an article, or discuss any issue which you believe we should consider. Alternatively, feel free to contact us by telephone, facsimile, or email - *icgfm@icgfm.org*

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Introduction
In the last decade, has the ‘audit game’ changed? Or its operating context? Or both? These questions lie at the core of the discussion on the relationship between public management reform and public sector auditing (Pollitt, 2002). Devolution of powers and tasks (Gruening, 2001) and new managerialism introduced by the reforms have changed the environmental and legal framework in which municipalities operate. A popular argument is that these developments have also affected how audits, internal and external, are conducted (Hoggett, 1996).

This research analyses the link between public management reforms and public auditing in German and Italian municipalities in recent decades. By tracing changes and constancies of the audit institutions in countries so fundamentally different with respect to administrative culture, political systems, and legal traditions, the developments in the two countries that are similar will be significant. Furthermore, the study of local audit systems in Germany and Italy highlights the institutional conditions of reform paths by describing (1) the historical process of institutional survival of auditors through adaptation of new tasks in Italy and (2) the relative ‘decline’ of auditors in Germany due to institutional resistance. It therefore describes the different functions local auditors play during restructuring processes. Interestingly, audit reform doctrines in both countries have been similar. Both envisioned a kind of consultant role for the auditor. In the Italian case the role of local auditors changed towards being a ‘Trojan reform horse’ within local government. German auditors actively opposed such a notion.

One widely accepted argument is that New Public Management (NPM) triggers change in public auditing. This argument builds on an institutional theoretical perspective that changing institutional environments lead to reaction of those operating within them. Central (and presumably municipal) auditing bodies respond to NPM as the paradigm of public sector management in Anglo-Saxon countries by institutional, procedural, and cultural acclimation (OECD, 1996). The introduction of performance audits is for example seen to be one consequence of administrative reform though it has been mainly discussed with regard to supreme audit institutions, meaning that local auditors have thus far not been in the limelight (Pollitt & Summa, 2002, Power, 1997, Barzelay, 1996, OECD, 1996).

The study identifies institutional factors, such as institutional protection regulation and German local governments’ high culture of independence, to burden both reformers and auditors. It therefore focuses on the paradoxical consequences of institutional protection through regulations, status, or traditional role models. Institutional protection refers to the rules, traditions, and habitus that protect actor status and are hard to change. The Italian story reveals a pragmatic handling. In contrast to this, the phenomenon contributed to the
relative decline of auditors in many German local governments. The reasons for both developments will be explained in detail. It will be argued against the notion that actors operating within a changing institutional context automatically adapt to it. Recalcitrance, or an opposition to reform, then becomes an important feature of these institutions. That New Public Management (NPM) reforms are responsible for all shifts in the auditing environment is therefore debatable.

The article briefly describes the international reform context by highlighting the implications for public sector auditing. The next section provides an overview of the main reform elements in Italy and Germany. It then analyse the link between public management reforms and auditing with regard to four widely discussed factors: audit subject, audit object, audit type, and audit information recipient.

**International reform trends and public sector auditing**

Though balancing public sector organizations’ autonomy and control is a classic topic, it has experienced a renaissance in the course of the modernizing, streamlining, and sometimes dismantling processes of public management reform (see Pollitt & Summa, 2002, p.1). At its centre stands the question of how public organizations can be task efficient and accountable while relatively free of bureaucratic red tape. Auditing is the traditional instrument to maintain a grip on government activities and provide information to administrations, elected officials, and (sometimes) constituents. It is generally seen as an indispensable element of the regulatory system. The management of public funds demands trustworthiness and the audit aims to reveal deviations from accepted standards, be they legal, ethical, or economic (INTOSAI, 1998). The relevance of this question to a wider audience stems from the fact that audit system changes directly effect public organizations’ management.

The reform processes took place over time, moving from New Zealand to other Anglo-Saxon countries, spreading to the Scandinavian countries, and finally reaching the Mediterranean and other nations (Kettl, 2000, Wollmann, 2004, Hood, 1995, Pollitt & Bouckaert, 2004, van Wart & Cayer, 1990, among others). Though this topic has received much attention with regard to supreme audit institutions in the Anglo-Saxon and Scandinavian countries, continental European countries and local government levels have not been the highlight of academic attention. The driver of these changes has been identified as NPM, which is considered to be a global trend with country-specific time schedules, conceptual models, and implementation styles (Pollitt & Bouckaert, 2004, Pollitt & Summa, 1997). According to the literature most countries’ central as well as local levels of government and healthcare sector organisations have been affected by the reform wave (OECD, 1995, Hood, 1995, 1998). The NPM hype sparked a new interest in accountability (Behn, 2001, 1998, Erkkilä, 2007, Parker & Gould, 1999, Schwartz, 2005) and therefore auditing, primarily understood as performance goals, indicators of success, and a corresponding system of controlling and reporting (Schröter & von Maravic, 2007). Increasing co-production of public goods and services by public, private and non-profit organizations poses additional challenges to any system of public auditing that is supposed to counter centrifugal tendencies of decentralized agencies and public enterprises.
Public management reform and auditing in Germany and Italy

The benchmarks for comparisons in audit studies are mostly the Anglo-Saxon reform countries. Both Germany and Italy have seen ambitious reforms on the local level. Rather than minimizing or marketizing local government as for example in the United Kingdom these countries have developed their own tailored models of reform. The so-called New Steering Model (NSM) in Germany aims to modify the existing bureaucratic system by adapting accounting systems to private sector standards, decentralizing service delivery, and introducing purchaser-provider relationships, output standards for policy formulation, and flexible personnel management and appraisal systems (see Bogumil and others, 2007). One important element has been to decentralize administrative departments into intermediate forms, for example, public enterprises.

The Italian reform process has been implemented through a vast and continuous flow of new legislation (Panozzo, 2000). The main reform processes to Italian public sector organisations began in the 1990s, some decades later than active Anglo-Saxon countries (Mussari, 1997a, Capano, 2003, OECD, 2001, 1995). As a consequence of the local level reform processes, municipalities became more autonomous with respect to their performance and expenditures (Mussari, 2002). Direct election, increasing fiscal autonomy, and a reduced number of transfers from the central state brought municipalities closer to citizens and, as was the aim of the reform, more accountable to them. The law allowed public managers to spend public resources, creating a distinction between politicians and management (Borgenovi, 2002). In 1999 management control, strategic control, and top management evaluation became compulsory for all municipalities and other organisations in the public sector (Leg. Decree n. 286/1999). In 2001 a reform of the constitutional framework equalized all levels of government. The state was no longer hierarchically superior to local governments, namely, regions, provinces and municipalities (Cost. Law n. 3/2001). The old pyramid with municipalities at the lowest level was replaced with a flat structure; no one is subordinate. As a consequence, formal controls on municipalities’ activities and actions carried out by regions and the state were removed to protect the autonomy of those organisations. Accrual accounting was introduced at the municipal level, and public service provision was strongly outsourced to companies with separate legal status, leaving the municipalities to provide only services without economic relevance (Borgenovi, 2002).

While Italy stands for a clear, coherent, and visible link between central state reforms and changes to the audit system, Germany, despite 15 years of public management reform at the local level (see Reichard, 2002), is quite the opposite, showing a highly fragmented, dissolved reform landscape with – prima facie – no direct links between institutional change and the adaptation of new auditing instruments. But this is only half the story. At a closer look the German reforms reveal a similar picture vis-à-vis the Italian reform doctrine. They advocate a new role for auditors as consultants (Richter, 1997), advising other departments in streamlining processes and structures. This stands in sharp contrast to the traditional repressive and non-cooperative character of German local government auditors or, in more general terms, the notion of auditor independence in every audit framework. In Italy reformers succeeded, while in Germany reform advocates often found the auditors a hard nut to crack. Instead of reforming them, they often dismantled them, meaning their competencies, human and financial, were cut in the course of
devolving public service delivery (see von Maravic, 2007). Nevertheless, the special legal status of German municipal auditors as the ‘extended arm’ of the council protected them, and their high culture of independence made them resistant to attacks against their status. What seemed to be an asset, namely the institutional protection of the independent status of auditors, became the biggest burden. This presumed strength turned out to be clearly disadvantageous to their ‘institutional survival’. The more they resisted change, the less they were considered viable partners for other projects like decentralization or privatization by politicians and reform advocates. And German municipalities experienced massive decentralization during the last decade, devolving a large number of human and financial resources to public enterprises (Edeling & Reichard, 2003). The loss of legitimacy and reputation of the once respected ‘extended arm’ of the council illustrates a strong path-dependency. Despite the glorious resistance and victory in this reform battle as ‘proud independent auditors’, many lost a good deal of power, prestige, and influence. In the end, the auditors were the losers of the restructuring processes (see below for further discussion).

Italian auditors did not lose the battle because they did not fight it. One staff member in charge of auditing activities at the municipal level achieved professionalism and formal independence as a consequence of the reform, which disappeared in reality because the same regulation made him work as a sort of internal consultant for management-needy municipalities. Of the two remaining people in charge of auditing, one was fundamentally untouched by the reform and the other gained new and wider responsibilities while maintaining traditional prerogatives.

**Consequences for local auditing**

**Table 1: Pre- and Post-Reform Municipal Audit in Italy and Germany**

<table>
<thead>
<tr>
<th></th>
<th>Subject</th>
<th>Object</th>
<th>Type</th>
<th>Information recipient</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Internal</td>
<td>External</td>
<td>Core admin</td>
<td>3rd Parties</td>
</tr>
<tr>
<td>Germany</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>pre-reform</td>
<td>Y</td>
<td>N</td>
<td>Y</td>
<td>Y/N</td>
</tr>
<tr>
<td>post-reform</td>
<td>Y</td>
<td>N</td>
<td>Y</td>
<td>Y/N</td>
</tr>
<tr>
<td>Italy</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>pre-reform</td>
<td>Y</td>
<td>N &lt; 1982</td>
<td>Y</td>
<td>Y/N</td>
</tr>
<tr>
<td>post-reform</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y/N</td>
</tr>
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</table>

Table 1 illustrates where the influence of reforms on municipal audit in the two countries has been significant. The table distinguishes two periods, the first referring roughly to the late 1980s and early 1990s (pre-reform) and the second to the late 1990s up to the present (post-reform). It is difficult to define a precise starting point of the reforms; even more difficult is knowing whether they have ended. As we are talking of a continuous process defining start or end points is somewhat arbitrary. Pre- and post-reforms therefore do not
refer to precise dates but rather to the continuous process of change the system underwent or is still undergoing. Due to its extent, the topic has been operationalised into four conceptual areas. Accordingly, our research question can be split into four more detailed ones. Audit subject, audit object, audit type, and audit information recipient were selected as variables to analyse the causal link between reform and audit. These ‘indicators for change’ guide our comparative endeavour.

(Not) the same auditors as always!

The first question is, who are the auditors? It refers to the established distinction between internal and external audit. Internal auditors are established within a government department or municipality; external auditors are not part of the audited organisational structure (see for general reference INTOSAI 1998). Has the reform process modified the subjects in charge of carrying out the audit procedures in the two countries’ municipalities? Who is or can be appointed municipal auditor is important because prerequisites for the position strongly influence the auditing process due to the cultural background and present occupation of the auditor. In other words, did the change in the auditor subject have consequences on the procedures and outcome of the auditing? We try to answer this question by describing the changes provided by the administrative reforms on the subjects in charge of auditing in terms of their individual cultural backgrounds and other characteristics.

Auditing at the municipal level in Italy has been traditionally carried out by several separate bodies with intertwined responsibilities. The first is a compulsory auditing body for every municipality called Organo di Revisione (OdR); the second is the Corte dei Conti, the Supreme Audit Institution (SAI) that works as a special Court, the third is the internal body known as Segretario Comunale (SC), established in 1865 by law n. 2248 and also compulsory for every municipality.

Before the reform era, the OdR was comprised of three elected City Council members without executive responsibilities (art. 309 R.D. 383/1934). Since the City Council members were ordinary citizens, there were no special prerequisites to become an appointed member of the OdR. In 1990, however, members of the OdR were required to be professionals educated in business and economics (law n. 142/1990 art. 57). The OdR now comprises a private-sector certified auditor, a certified accountant, and a professional accountant. Each of these professions has special requirements and examinations (law n. 142/1990). In other words, the OdR external auditors are now formally independent of the municipality.

The SAI was and still is composed of magistrates with the same constitutional privileges as ordinary judges. They are independent of the executive and legislative powers and subject only to the law (Italian Constitution art. 100 and 103). The SAI, due to its peculiar characteristics and role in the Italian judicial framework, remained unchanged with respect to composition but over time undertook wider competences (Corso, 2006, Cerulli Irelli, 2006). In recent years, SAI magistrate selection has been open to candidates holding business and economics degrees together with traditional law degrees.

SC composition was not changed, but the appointment process was modified. Up to 1997 an SC was appointed by the Prefetto, the central government representative in every LG, which manages the list of qualified people (art 102, Leg. Decree n. 267/2000).
Qualifications remained almost the same. In every municipality, the mayor now appoints the SC from the list, setting up a trust-based relationship. SCs must have law degrees.

In the federal German political system, municipalities enjoy the status of ‘local self-administration’, which is guaranteed by Article 28.2 of the German constitution and by the 16 state constitutions. This status is therefore an integral element of ‘vertical federalism’. It protects municipalities from state interference, which does not mean that each municipality chooses its own institutional setting. Quite the opposite: the organization and structure of responsibilities and the administrative, mayoral, and local auditors’ duties and rights are as given in the local government code according to Article 70 of the federal constitution and subject to state law. Thus in a number of states, e.g., Lower Saxony or North Rhine-Westfalia, the so-called ‘county audit’ offices oversee municipalities with respect to local governments’ legal compliance with state law. Furthermore, the local government code is the basis for the municipal financial management and supervision of local governments by the states. The code is also the legal foundation for the creation of local audit offices. The existence of 16 different local government codes hinders drawing general conclusions about local auditors.

Formally, the right to audit the financial management of the municipal administration is the logical consequence and extension of the city council’s budget. In its democratic function as the representative organ of the municipality’s citizens, the city council controls financial management with the support of the local auditor, who is the city council’s ‘extended arm’ and therefore directly accountable to the city council audit committee (e.g. §104 (1) GO NW). State-specific differences notwithstanding, the common denominator among all local governments in Germany is the right of the city council to oversee the financial management of its administration. Furthermore these auditors enjoy a high degree of independence, which is supposed to guarantee objective support of the council. Certain institutional elements strengthen this position. For example, the head of the audit office and its members are directly appointed by the council; their dismissal is not an easy process; they are independent in what they audit and subject only to law; and they report directly to the council. All this grants municipal auditors a special and unique status. This ‘high culture of independence’ is an important characteristic of local auditors and their culture is of a habitus that is traditionally elitist, non-cooperative, hierarchical, and inaccessible. Furthermore most auditors have traditionally received law training, which explains their focus on compliance and recalcitrance with regard to the New Steering Model reforms. The new generation of auditors, however, supposedly receives more balanced training, e.g., courses in modern accounting techniques.

**Declining audit realms**

The second question considers the object of auditing. What is being audited and by whom? Who is actually doing what and can one observe a trend towards external auditors? And, has the audit mandate changed over time? Are the core administration, politicians, public enterprises, and contracted parties being audited together or as single entities? As previously stated, though reforms in Italy and Germany have been milder than in other countries, changes in the municipal role in the public sector with regard to fulfilling public needs with public service providers cannot be denied (Osborne, 2006, Reichard, 2005). The competences of municipalities have concomitantly changed. Many
reform advocates promote a so-called public governance model in which service provision is separated from its regulation and control (Schedler & Proeller, 2004, Röber & Reichard, 2001). This section hence takes a closer look at the legal frameworks and the competences assigned to the municipal audit (Peters & Pierre, 1998).

Italy’s pre-reform audit realm included only the municipality; autonomous organisations providing public services were excluded. Since 1958, the SAI has been in control of organizations receiving state financial resources through the compliance audit of their financial statements; municipalities are therefore part of their realm. OdR was at that time responsible for auditing only municipal accounts. Since its establishment, SC has been responsible only for compliance auditing of all municipal administrative acts. Although joint stock companies and other private legal status organisations are now available and often even compulsory for public service delivery, all such companies have their own auditors according to commercial law. Therefore, neither SAI nor OdR nor SC is allowed to carry out performance or compliance audits on them. On the contrary, only those bodies whose financial performance is included in the municipal financial statement have to be audited by the SAI, and of course by the OdR. If Italian reforms narrowed the audit area by excluding outsourced provision of services, performance audit was introduced and applied at the municipal level. The more externalized the service provision, the narrower the audit area for both OdR and SAI, and considering the number of municipalities in Italy (8101), this should mean more time available for performance audit at the core municipal level. The reform effect could be summarized as ‘smaller audit area, more audit depth’. Reality is, however, proving this wrong: Many independent service-providing companies are owned by municipalities and therefore included in the municipal accounts performance audits. In cases where one municipality has several companies, audit work is thus multiplied. Performance audit carried out by two bodies requires creating a hierarchy between the two.

With regard to Germany, local auditors have clearly lost influence during the last decade. Together with the increasing quantitative importance of decentralized service delivery (Reichard, 2002), German local auditors’ responsibility for audit of decentralized service delivery has decreased (von Maravic, 2007). Audit competencies are laid down as an object of the contract in the partnership agreement between the municipality, a newly founded public enterprise, and its private partners. In the end it is a question of political will and audit arrangement. Public enterprise managers defend the abolition of audit rights and the four-eye principle with the argument that too much supervision constrains their management flexibility. The four-eye principle requires that a single operation be performed by two different people. In addition to protecting from honest mistakes, this is to ensure that one person cannot commit an irregularity alone. While the reform doctrine of NPM granted managers higher decision-making discretion, many auditors criticize council members’ lack of awareness of control and the audit deficits that have been created. In a number of municipalities, auditors are either not involved in conducting a full and independent audit or have been limited to compliance audits of public enterprises. In German municipalities auditors have either limited or no legal competences to audit civil-law-based public enterprises such as public-private partnerships, public limited companies and joint stock companies (von Maravic, 2007). Their legal competences to fully audit institutions, which require full and unlimited access to files and data, are restricted to the core administration and public-law-based...
enterprises. One may pose the question whether an increasing complexity of legal and technical questions in contracting-out public services does not contrast the real audit demand with the actual municipal audit capacity. Private sector accountants audit only civil-law-based public enterprises and their function is not to investigate corruption but to assess a company’s economic performance. Thus in both Italy and many German municipalities, audit competencies have decreased, especially in decentralized service delivery units.

**About auditors as ‘Trojan horses’ and other things…**

The third research question concerns the impact of administrative reforms in the two countries on *how* auditing is being carried out. While Michael Power suggests that we are living in an audit society where auditing is very important for every kind of activity, a vast amount of literature describes the introduction of performance auditing in several countries as a consequence of the distribution of autonomy and discretionary powers to managers and politicians. Stressing the ‘three Es’ (economy, efficiency, effectiveness) by the reform church of NPM has certainly pushed the notion of performance auditing but it has not led to a situation, which Pollitt seems to fear (2002, p.54), in which auditors are no longer interested in procedure and correctness. The traditional ‘compliance audit’ sees that expenditure is authorized, spent on the designated purpose, and procedurally correct. According to INTOSAI, performance audit is “oriented towards examining the performance, economy, efficiency and effectiveness of public administration. Performance audit covers not only specific financial operations, but the full range of government activity including both organisational and administrative systems” (INTOSAI, 1998, §4.2, see also Summa, 2002, p.12).

As mentioned, the pre-reform OdR was responsible only for compliance audit of municipal financial statements. The 1990 law widened its competences, which can be grouped in four main duties:

(i) It supervises accounting and financial regularity informing the City Council about irregularities and misuse of public resources.

(ii) It still carries out the traditional compliance audit on financial statements and records and drafting a report on it. According to law, such activities cover companies and other institutions whose financial performance is included in the municipal financial statements.

(iii) It offers suggestions concerning efficiency, effectiveness, and economy after assessing the accounting system’s reliability and resource spending (De Robertis, 1992).

(iv) It assists the city council in its main duties of directing and controlling municipality management.

This last duty constitutes a novelty by rendering the OdR as a consultant of sorts to the City Council (Galeotti, 1997). Many scholars agree in considering the duty a means by which managerialism could have been introduced into municipalities which were traditionally rather refractory (Persiani, 1996, Marchi, 1997, Galeotti, 1997, Zavagnin, 2004, Mussari, 2005). As is evident, the new role implied a reduction in the recently awarded independence, leaving to SAI the entire responsibility of behaving as proper external auditor.
The SAI has two main functions. As auditor it checks the accounts of public sector organisations at all government levels to safeguard public finance (Santiso, 2006). As a Court it operates as a special tribunal for judging the misuse of public resources and discharging responsibilities for managers of public funds (OECD, 1996). Regional offices carry out municipal auditing but a national central office exists for autonomous local government issues. Auditing municipal financial reports by the SAI started in 1982 with law n. 51, which mandated that all local governments with more than 8,000 inhabitants send their financial statements to the SAI for auditing. It was merely a compliance audit. In 1994, during the reform season, law n. 20 clarified the competences of the SAI as auditor for municipalities including a performance auditing of sorts (Manin Carabba, 1998, Zavagnin, 2004). Since 1994 efficiency- and economy-focused performance auditing became an SAI responsibility on top of its traditional role as special Court for criminal accounting. Together with wider responsibility related to the Stability Pact, SAI now audits performance, task fulfilment, and internal control systems adequacy. (Art 7.7 law n.131/2003).

SC’s main function is to certify compliance with the law for every administrative act and procedure proposed by the city council and the executive committee. The reform wave, which hit the Italian coastline, had no influence on SC’s duties and it remains an internal compliance auditor. In sum, since the reform two of the three audit bodies carry out performance audits.

As the ‘extended arm’ of the council German local auditors conduct so-called compliance audits to ascertain whether the administration complies with the budget and spends resources according to the rules. So far it has not been the local auditor’s task to consult other departments regarding questions of financial or procurement management. In this respect local auditors differ significantly from the audit courts at the federal (Bundesrechnungshof) and state (Landesrechnungshöfe) levels (Fiebig, 1998, p.21). The council charges the auditor with special audit requests and can control their access to the municipal civil law companies. In North Rhine-Westfalia (as in other states), for example, the council may demand the auditor to oversee also the ‘appropriate and efficient’ (Zweckmäßigkeit und Wirtschaftlichkeit) use of financial resources but this tasks does not belong to the standard operating procedures of the auditor (GO NRW §103(2)1-5). This task has clearly grown in importance. The reason lies more in the area of budget constraints and financial pressure than in the implementation of a performance audit as an inherent part of a reform concept. It must be defined separately by the council and is not obligatory. Furthermore, the city council can also charge the auditor with auditing the role of the municipality as a ‘shareholder, stock owner or member in companies and other civil law consortia’ (GO NRW § 103(2)5). The problem lies in the actual application of these regulations. The incentives for council members are, generally speaking, not very high as they themselves serve often enough as representatives of the council in the board of a civil law company owned by the municipality. Machura criticizes the non-transparent institutional arrangements of public-private partnerships and reduced control by the city council and the audit department (Machura, 2001, p.82). The city council itself decides on the legal audit competencies to oversee civil law based enterprises of a municipality. In this case, audit competencies are laid down as an object of the contract in the partnership agreement between the municipality, the newly founded public enterprise and its private partners. There is no actual vulnerability of a certain legal
type of public enterprise. In the end it is a question of political will and audit arrangement. The sessions of the supervisory board as well as those of the shareholders are non-public. Members of the supervisory board, mostly politicians and public servants, are bound to secrecy and are not allowed to inform the city council properly and the audit is restricted to limited compliance audits.

Generally speaking, the special status described above has not been under attack by the New Steering Model itself but the function of the auditors has been subject to debate among reform advocates, such as the Local Government Institute (KGSt) as the ‘inventor’ and firmest supporter of the NSM (KGSt, 1997), and auditors themselves. As the local auditor is not a formal part of the administration, it stands ‘officially’ outside bureaus chosen by the KGSt to play an integral role in the NSM (KGSt, 1997, p.12). Nevertheless, auditors have since its beginning been amongst the firmest critics of the NSM. So far no substantial research has been undertaking on their specific role in the reform process. The KGSt never foresaw changes with regard to the legal status, e.g., independence, of auditors but formulated reforms with regard to the functions of auditors within the NSM. The KGSt envisioned reforms around three aspects. The auditors are part of the internal control system, give advice to the other bureaus (taking on a consulting role), and draft expert reports for the council and administration head (KGSt, 1997, p.13). With regard to these specific reform visions, we see no substantial changes to local auditors’ everyday function.

Managers, politicians, citizens, etc.: who gets what?

The fourth and last research question looks at the receivers of the auditing process. One reform thread throughout many countries, especially in Scandinavia, is to increase transparency for citizens. Critics of NPM say that the role of a person in a democracy involves more than shopping for services; the concept of a citizen thus involves more than just being a customer. Opponents argue that such a reduced version of a citizen neglects the fundamental role of a citoyen as holder of specific rights and duties. Besides this very dichotomist view on old and new roles of people in the NPM world, a nuanced view should not neglect new forms of participation for stakeholders, which have actually strengthened peoples’ influence over public organizations (Peters, 2006, p.298). Not only have several countries introduced so-called Freedom of Information Acts, allowing people access to government programs and files, but they are also having public hearings and advisory institutions where stakeholders can express views on policy issues, especially in Scandinavian countries. This shift towards direct participation and direct accountability of public organizations will influence the definition of the role of the citizen. The quest for new forms of accountability (Bovens, 2005) goes in tandem with initiatives to make production of public goods more visible to the public and provide managers with better information about employees’ behaviour. Provision of new and better audit information is not restricted to purposes of democracy, transparency, or management but might be transferred to other levels of auditing, such as the SAI. Therefore, citizens can be the new recipients of audits as well as other oversight bodies, councillors, and specific management units. To understand whether the NPM approach has had an impact we ask, who gets what type of audit information? (Sloan, 1996).

In Italy, the City Council, which represents the citizenry of the municipality, is the main recipient of information coming from the audit activities of the three bodies in charge. In
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2006 a new regulation gave OdR the duty to report auditing results to the SAI as well as the City Council at the end of every fiscal year. Being an internal auditor, SC provides the City Council with information concerning the activity of the Board. Although a Freedom of Information Act has been issued, no audit results are currently disclosed directly to citizens.

Auditors in German municipalities address their audit reports to the council and the mayor, not the citizenry. Though citizens have access to the audit report – it is not labelled ‘confidential’ – it is not intended for them (e.g. Go NRW § 101(3)). This is very much in accordance with general principles of a representative democracy and normally does not lead to any conflicts with the constituents. Nevertheless, recent years have revealed conflicts between organized interest groups and councils with regard to accessing audit information. This has been the case in some municipalities where the administration intended to introduce ‘new’ financial instruments such as Cross-Border-Leasing (e.g., city of Cologne) or tried to privatise the local public utility company (e.g., Bergisch Gladbach). Despite these ongoing and sporadic uprisings we do not see a tendency to change how audit information is handled.

Conclusion

Germany and Italy both faced intense reform seasons that changed the audit systems at the municipal level. Italy stands for a clear, coherent, visible link between central state reforms and changes to the audit system; Germany, despite 15 years of public management reform at the local level, shows quite the opposite picture of a highly fragmented, dissolved reform landscape with – prima facie - no direct links between institutional change and the adaptation of new auditing instruments. But on closer inspection the German reforms somewhat mimic the Italian reform doctrine, which advocates a new role for the auditors as ‘consultants’ or internal advisors to make processes and structures more efficient in other departments. From this viewpoint auditors have to be trained in law as well as accounting. This stands in sharp contrast to the traditional repressive and non-cooperative character of auditors in German local governments, or, in more general terms, the idea of auditor independence in every audit framework. In Italy reformers succeeded. German reform advocates often found auditors too unbending.

While the question of how the audit system survived the reform season in the two countries has been addressed, it is necessary and also comparatively interesting to talk about why. The first consideration concerns the different organization of the countries’ political systems. Federalism plays an important role in Germany; in Italy, though widely debated, it seems to be still on its way, not yet changing a fundamentally centralistic state. This could explain why Italy has a single municipal audit model while in Germany it is more difficult to describe a common approach. Similarly, a centralistic state probably tends to maintain a tighter grip on municipal activities, this may restrict moves to more local autonomy. In contrast, a federal state already accepts giving discretionary decision-making powers to other government levels. This consideration could be part of the explanation but we should also need to consider why, historically, Germany has only one (main) body in charge of auditing at the municipal level and in Italy three different bodies perform similar and intertwined activities.
Are such explanations enough to justify all the differences? Similarly, can the NPM reform paradigm sufficiently explain the similarities, i.e., the move to performance audits and the loss of audit responsibilities in public enterprises? “No” is the likely answer to both questions. This research suggests that at least one other factor has to be considered to offer a clear comparison: the strength of audit bodies themselves and their “institutional protection” regulations. Both countries have such regulations, common and widespread everywhere auditing activities are carried out. In Germany, pre-reform “institutional protection” regulation offered municipal auditors an independent status and prerogatives to defend. But the reform wave was not strong enough to modify the previous situation to make auditors work as internal consultants with the aim of fostering managerialism in municipalities; auditors stoically resisted the new duties though in the end losing their former power. In Italy “institutional protection” regulations for OdR were themselves a product of the reform. It formally established a professional and independent OdR, but immediately used this body to facilitate managerialism at the municipal level, practically curtailing its independence. Then, in order to keep control on municipal activities, regulation widened the auditing responsibility assigned to the SAI whose “institutional protection” regulation is stated in the Constitution and therefore difficult to change. OdR was not strong enough to resist such a warped implementation and it is progressively more consultant than auditor. A stronger sense of role identity and how “institutional protection” regulations have been put in place in Germany can explain some of the dissimilarities between the two countries.

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Internal Auditing in the Public Sector: Promoting Good Governance and Performance Improvement

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Abstract

In the past, managers in the public sector had a narrower range of expectations for the role of internal audit than managers in the private sector. This explains why the internal audit function in the public sector was dominated by pre-payment audits. Thus internal auditors devoted most of their time to the checking on individual transactions before the payments were made. However, in recent years internal auditing has assumed a strategic dimension and that underscores why it has become an essential component of public sector governance and financial management reforms in many developing countries. The intent of this paper is to present a position that internal auditing in the public sector, when well structured and given the required mandate to perform, improves performance and serves as a valuable resource in promoting good governance. It generates thoughts on the importance and challenges of public sector internal auditing.

Keywords: Internal auditing, public sector, value addition, performance improvement

Introduction

Internal auditing is a profession and activity involved in advising organizations regarding how to better achieve their objectives through managing risks and improving internal control. Internal auditing involves the utilisation of a systematic methodology for analyzing business processes or organisational problems and recommending solutions. The scope of internal auditing within an organization is broad and may include various internal control related activities such as the review of the effectiveness and efficiency of operations, the reliability of financial reporting, investigation fraud, risk assessment, safeguarding of assets, and compliance with laws and regulations. Internal audit activities therefore provide assurance on the effectiveness of public sector entities’ internal control environment and may identify opportunities for performance improvement.

Definition of Internal Auditing

Historically, internal auditing was perceived as being confined to merely ensuring that the accounting and underlying records of an organization’s transactions were properly maintained, that the assets management system was in place in order to safeguard the assets and also to see whether policies and procedures were in place and were duly complied with. With changing times, the concept of internal auditing has undergone significant changes with regard to its definition, scope of coverage and approach. In some organisations, the scope of modern internal auditing has been broadened from financial issues to include value for money, evaluation of risk, managerial effectiveness and governance processes.

In 1978, the Institute of Internal Auditors (IIA) defined internal auditing as:

“An independent appraisal activity established within an organization as a service to the organization. It is a control, which functions by examining and
evaluating the adequacy and effectiveness of other controls. The objective of internal auditing is to assist members of the organization in the effective discharge of their responsibilities. To this end, internal auditing furnishes them with analyses, appraisals, recommendations, counsel and information concerning the activities reviewed” (Ali and others, 2007, pp 25-26).

The modern scope and focus of internal auditing are reflected in the current definition that was formally adopted by the IIA in 1999:

“An independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes”.

The notable difference between the definitions of 1978 and 1999 (as repeated in IIA 2008) is the prominence of objectivity in internal audit activities and also the emphasis on the evaluation and improvement of the effectiveness in risk management and governance processes. The current definition also contemplates two main internal audit services: assurance and consulting services.

Assurance services, according to IIA (2008, p.2):

*Involve the internal auditor’s objective assessment of evidence to provide an independent opinion or conclusions regarding an entity, an operation, a function, a process, system, or other subject matter. The nature and scope of the assurance engagement are determined by the internal auditor. There are generally three parties involved in assurance services: (1) the person or group directly involved with the entity, operation, function, process, system, or other subject matter - the process owner, (2) the person or group making the assessment - the internal auditor, and (3) the person or group using the assessment - the user.*

And consulting services, according to the same source:

*Are advisory in nature, and are generally performed at the specific request of an engagement client. The nature and scope of the consulting engagement are subject to agreement with the engagement client. Consulting services generally involve two parties: (1) the person or group offering the advice - the internal auditor, and (2) the person or group seeking and receiving the advice - the engagement client. When performing consulting services the internal auditor should maintain objectivity and not assume management responsibility (IIA 2008, p. 2).*

Internal auditing is conducted by persons within or outside the organization and in diverse legal and cultural environments; within organizations that vary in purpose, size, complexity, and structure. Even though the above differences may affect the practice of internal auditing in each environment, conformance with The IIA International Standards for the Professional Practice of Internal Auditing (Standards) is essential in meeting the responsibilities of internal auditors and the internal audit activity (IIA 2008, p.1).
Evolution of Modern Internal Auditing Practice

Until the mid-20th century, internal auditors were primarily concerned with checking accounting records and detection of financial errors and irregularities. Internal auditing emerged as a profession in 1941, when the Institute of Internal Auditors (IIA) was founded in New York by a group of practicing internal auditors. The need for a common body of knowledge and standardization of practices was then recognized despite the fact that internal auditors worked in different businesses and industries. This was the beginning of the process of achieving an identity for internal auditing as a distinct profession concerned with providing independent appraisals for all activities within an organization and making recommendations to management.

Before the issuance of the first version of the Statement of Responsibilities by the IIA in 1947 most internal auditors focused on routine tasks. Meigs (1951, p.518), describing internal audit practice in the era of 1941, stated:

“To most businessmen in that era, internal auditors were either clerks assigned to the routine task of a perpetual search for clerical errors in accounting documents, or they were traveling representatives of corporations having branches in widely scattered locations”.

According to the IIA historical timeline, the first textbook for the practice, Brinks Internal Auditing was published in 1941. The IIA technical journal, Internal Auditor, was first distributed in 1943. The Code of Ethics was issued in 1968 and in 1978 the IIA published the Standards for Professional Practice to serve as the primary source of reference for directing an internal audit function. The first Certified Internal Auditor (CIA) examinations were written in 1974 to test the knowledge of individuals against a recognized body of knowledge before they become internal audit professionals.

Today, the IIA has transformed into the internal audit profession's global voice, chief advocate, recognized authority, acknowledged leader, and principal educator. It is internationally recognized as a trustworthy standard-setting body for internal auditing and currently has membership across 165 countries.

Organizational Arrangements of Internal Audit in the Public Sector

The nature of internal audit organizational arrangement determines its independence and effectiveness. The size and complexity of the public sector have influenced the diverse forms of internal audit organisational arrangements and service delivery approaches. Internal audit structure in the public sector can broadly be classified as following either a centralized or a decentralized model.

Describing these two models, Diamond (2002, p.10) states that “in the centralized model the Ministry of Finance (MOF) not only plays a key role in budgeting and allocating funds to line ministries, but also directly intervenes in ex-ante controls, placing its own staff in the line ministries. In the more decentralized approach, each line ministry takes full responsibility for spending its own budget and for ensuring appropriate checks and safeguards on the way this is spent”. The author here specifies that as pertains in the United Kingdom as well as some “mixed” model in other practice: “The United Kingdom, the origin of the Anglophone countries’ systems, has basically decentralized
the internal audit function. However, there are other models based on unique approaches
to internal audit, some of which appear to be a mix of internal and external audit
functions” (Diamond 2002, p.11).

Based on a critical assessment of current international practice, there appear to be five
main means by which internal audit function in the public sector can be configured and
these are outlined below with reference to current practices in selected countries.

**Internal Audit as part of the Accountant-General’s Office**

This is the case where internal audit function is placed under the supervision of
Accountant-General’s Office. A risk usually associated with this arrangement is the
possibility that an officer performing accounting duties may subsequently be required to
perform internal audit duties soon after performing accounting duties in the same or
related department. Swaziland and Tanzania are examples in Africa where the central
internal audit function of government rests with the Accountant-General's Department.
This was also the practice in Ghana before the passage of the Internal Audit Agency Act
in 2003.

**Internal Audit Function under the Ministry of Finance**

In some countries the internal audit function is supervised by a Director or a person of an
equivalent rank at the Ministry responsible for Finance. In these situations, the internal
auditors are either stationed at the Ministry of Finance from where they are sent to
Departments to carry out their functions; or they are assigned to specific Departments
where they remain at post until they are re-assigned. This arrangement has the
characteristics of separating the internal audit function from the accounting and external
audit functions. However, the internal audit function runs the risk of being seen as an
extension of external audit because the internal auditors are not employees of the
Departments as expected of internal audit staff according to the ethics of the professional
practice. However, this model can provide a good level of independence for internal
audit.

The above arrangement is similar to that of Kenya where there is an Internal Audit
Service as a department within the Treasury, the Service being responsible for providing
internal audit services for all government departments and is headed by the Internal
Auditor-General. The Internal Auditor-General is responsible for effective review of all
aspects of risk management and control throughout the Civil Service of the Republic of
Kenya. In Botswana, Uganda and Zambia internal audit staff in the Ministries are
seconded from the internal audit department in the Ministry of Finance. The head of this
internal audit department is a senior official in the Ministry of Finance with status
equivalent to the Accountant-General.

**Decentralized Internal Audit function situated at the entity level**

In another scenario, internal audit has been made an integral part of Government
Departments in some countries. In these situations, the internal auditors are part of the
organisations they work for and report to a level appropriate for taking action on internal
audit recommendations. The United States has Inspector-Generals for government
Departments and Agencies. The United Kingdom, the origin of the Anglophone
countries’ systems, has basically a decentralised internal audit function. In Africa, South Africa and Ghana are examples where the internal audit units are managed without guidance or control from the central Finance Ministry. The units form part of the departments’ own structures. However, in the case of Ghana there exists an Internal Audit Agency that is established as an oversight agency and charged with responsibility of facilitating, coordinating and providing quality assurance for internal audit practices and technical performance. The oversight agency reports to the President.

**Internal Audit as part of the Auditor-General’s Office**

In some countries internal audit is a function of the Supreme Audit Institution (SAI). This configuration has not been popular in recent times as most countries are shifting away from the practice of combining internal and external audit functions under the same institution. Where such a practice exists, internal auditors report only to the Auditor-General and are subject to professional, technical guidance and supervision from only the SAI. Staffs in such cases perform mainly pre-audits rather than a professional internal auditing function. Germany is a case in point where internal auditors operate within agencies, but are subject to technical and professional guidance, as well as supervision by the SAI, the Federal Court of Audit. This was also the practice in Ghana before the transfer of internal audit responsibility to the Controller and Accountant-General’s Department.

**Centralized Internal Audit Function under Cabinet**

Under this arrangement, internal audit function acts as a centralised independent agency operating under the responsibility of the Cabinet Office and provides assurances of proper internal controls and procedures in departments and agencies. An example is the case of Malta, where Internal Audit and Financial Investigations Directorate carries out internal audit and financial investigative functions across government departments and agencies. The Directorate functions under the Office of The Prime Minister and has a Board that is chaired by Secretary to Cabinet. After the Directorate has completed an internal audit assignment, it transmits its report to the Permanent Secretary of the Ministry under whose supervision the auditee falls. The Directorate may also transmit a copy of such report to the auditee.

**Role of Internal Auditing**

The role of internal auditing can be identified as involving three main elements, namely the evaluation and improvement of risk management, control and governance processes. These elements are sometimes referred to as the “three pillars” of internal auditing (Figure 1 below). The three elements are further discussed below as reinforcements of the fundamentals of an internal audit function in the public sector. Risk management, control and governance encompass the policies and procedures established to ensure the achievement of objectives and include the appropriate assessment of risk, the reliability of internal and external reporting and accountability processes, compliance with applicable laws and regulations, and compliance with the behavioural and ethical standards set for public organizations and employees.
The Role of Internal Auditing in the Public Sector - Governance

Public sector governance relates to the means by which goals are established and accomplished. It also includes activities that ensure a government’s credibility, establish equitable provision of services, and assure appropriate behaviour of government officials whilst reducing the risk of public corruption (IIA 2006a, p.3).

According to ANAO (2003, p.6) “Public sector governance has a very broad coverage, including how an organisation is managed, its corporate and other structures, its culture, its policies and strategies and the way it deals with its various stakeholders. The concept encompasses the manner in which public sector organisations acquit their responsibilities of stewardship by being open, accountable and prudent in decision-making, in providing policy advice, and in managing and delivering programs”.

The broader nature of public sector governance necessitates an effective internal auditing function in order to meet the demanding responsibilities imposed by stakeholders. Internal audit can help to improve governance processes by focusing on how values are established to ensure effective and efficient control and management of public sector entities. Such a value system requires an open government that is transparent in its dealings with a high sense of ethical behaviour and fairness. The complexity of the public sector operating environment requires that the internal audit structural design, approach, practice and scope are reformed to ensure open, accountable and prudent decision-making within all public sector organizations.

Specific Governance roles of internal audit function

Internal auditors’ roles in governance are broadly identified to be twofold. Firstly, internal auditors provide independent, objective assessments on the appropriateness of the organization's governance structure and the operating effectiveness of specific governance activities. Secondly, they act as catalysts for change, advising or advocating improvements to enhance the organization's governance structure and practices (IIA 2006b, p.4).
According to standard 2130, internal audit activity should assess and make appropriate recommendations for improving the governance process to accomplish the following objectives:

- promoting appropriate ethics and values within the organization.
- ensuring effective organizational performance management and accountability.
- effectively coordinating the activities of and communicating information among the Board, external and internal auditors and management.

**The Role of Internal Audit in the Public Sector - Control**

Management control in the public sector includes all the policies and procedures put in place by a government and the management of public sector entities aimed at promoting accountability of resources. Another term for management control is internal control. In the public sector, controls are mainly in-built in the public financial management system.

Public financial management includes the legal and organisational framework for supervising all phases of the budget cycle, including the preparation of the budget, internal control and audit, procurement, monitoring and reporting arrangements, and external audit. The broad objectives of public financial management are to achieve overall fiscal discipline, allocation of resources to priority needs, and efficient and effective allocation of public services. Internal audit, in turn, has the key function of reporting to the senior management of public sector entities on the functioning of the management control systems, and recommending improvement where applicable.

Control structures and the accountability framework covers a broader spectrum of Public Financial Management issues as shown in figure 2 below, which include strategic planning (including budgeting), managerial activities (procurement, public debt and asset management), accounting and reporting, internal and external audit; and legislative oversight.

**Figure 2: Public Financial Management Cycle**

![Figure 2: Public Financial Management Cycle](source: Baltaci & Yilmaz, 2006, p.11)
According to Baltaci & Yilmaz (2006, p.15), the effort to reform a fiscal system should include internal control and audit due to the crucial role they play in enhancing accountability and effectiveness. Internal audit provides both governments and related parties with a powerful tool for understanding the extent to which the public institution in question has delivered on budget and effective services. Internal audit activity has become an essential internal assurance mechanism in public financial controls and tool for monitoring and evaluating managerial activities prior to external evaluation by external auditors. Internal auditors in the public sector work with management to improve service delivery, secure their commitment to improve internal controls and to ensure compliance with applicable laws.

Public procurement constitutes a huge portion of government expenditure and is an area that is often vulnerable to conflicts of interest and corruption of public officials. Internal audit activities will further enhance transparency, fairness, reduce corruption and ensure value for money in public procurement. According to Szymanski (2007, p.8), “control systems play an important role in enhancing the accountability and transparency of a public procurement system and hence in detecting and preventing corruption. Such systems should include adequate independent internal control and audit with a clear coordination of all control mechanisms”.

However, internal auditing as a control measure does not only minimize the opportunities for corruption through the verification of procurement processes but also ensures effective physical monitoring of capital items procured and actual utilisation to avoid fraud and abuse.

**The Role of Internal Auditing in the Public Sector - Risk Management**

The demand for proper risk management strategies in the public sector emanates from the complexity and dynamism of the operating environment, ever-increasing needs of society coupled with general unpredictability pattern and dwindling of resources for national development. Risk management should constitute an essential part of the strategic management process of any entity involved in the implementation national development strategies.

According to the Australian Department of Finance and Deregulation, risk management is an important responsibility for any public sector entity for effective and efficient use of resources. It defines risk management as follows:

*Risk is the possibility of an event or activity impacting adversely on an organisation, preventing it from achieving organisational outcomes. Risk management comprises the activities and actions taken to ensure that an organisation is conscious of the risks it faces, makes informed decisions in managing these risks, and identifies and harnesses potential opportunities. Managing risk well requires careful consideration of the key concepts of minimising loss, maximizing opportunity and preparing for uncertainty* (Commonwealth of Australia 2008, p.5)

The internal auditor’s role in risk management involves assessing and monitoring the risks that the organization faces, recommending the controls required to mitigate those risks, and evaluating the trade-offs necessary for the organization to accomplish its
strategic and operational objectives. Griffiths (2006, p.4) “internal auditing provides independent and objective assurance to an organisation’s management that its risks are being mitigated to an acceptable level, and reports where they are not”.

Fraud and corruption are key risks that need to be managed in the public sector. Management has the responsibility to put in place systems and processes that will prevent and detect fraud within an organisation. However, it is internal audit that gathers sufficient objective information for management to carry out its stewardship function and to be well informed on the risks of fraud and effectiveness of fraud control procedures and to enable them to understand the complexities of fraudulent activities.

Internal audit adds value through improving the control and monitoring environment within organizations to detect fraud (Coram and others, 2007, p.1). The very presence of internal audit review in an institution serves as a deterrent measure on the assumption that any fraud perpetuated may be uncovered. Good governance principles require that audit committees or similar oversight bodies, work closely with internal auditors in fraud risk evaluation and investigations especially when recent trends suggest perpetration by senior management in collusion with other employees.

Khan (2006, p.9) identified the useful role internal audit could play in the investigation process and made the following suggestion:

“Internal auditors can play a vital role assisting the agencies responsible for investigation of alleged cases of corruption in public sector organisations by way of interpretation of various rules, explanation of various practices, and the sharing some of the confidential information that they may possess as they usually have more diversified and detailed knowledge of the operations in different parts of the organization than the investigating agency staff that are deployed only for a particular case”.

The challenge of public sector internal audit, however, is to avoid becoming compliance-based due to the presence of a strict legal framework that sets out the public financial controls and internal auditing processes. Moving towards risk-based internal audit will require a foresight function of monitoring and advising on the improvement of program efficiency and effectiveness and mitigating risks that hinder the achievement of organisational objectives.

**Importance of Internal Auditing in the Public sector**

The audit function has become an integral part of government financial management and an instrument for improving performance in the public sector. The need for good governance and accountability has compelled governments to demonstrate a stronger sense of responsibility in the use of public funds and efficiency in the delivery of services. Management of national economies today is more complex and demands greater competency and professionalism from internal auditors if they are to be able to assist government in ensuring that scarce resources are deployed more efficiently and to also effectively deal with the associated risks.

Effective internal oversight and monitoring are crucial to good governance and effective Public Financial Management (PFM). Internal oversight includes the internal audit function that must be effective and should comply with generally accepted auditing
standards with regards to practice and approach. The focus of internal auditing is to determine whether public funds have been spent for the purposes for which they were appropriated and thereby promoting accountability. Internal audit undertakes reviews of individual systems and processes and consequently makes recommendations to heads of public sector entities on how internal controls could be improved.

An internal audit function is an essential part of any public expenditure management system and should ensure that public spending is within budgetary provisions; disbursements comply with specified procedures, provides for the timely reconciliation of accounts and effective systems for managing and accounting for physical and financial assets (Commonwealth Secretariat 2005, p.17).

Van Gansberghe (2005) puts forward the case that “Management must recognize the value added role of internal audit and contribute towards its effectiveness.”, and that “As internal auditing in the public sector assumes a status of professional practice, management would benefit from its recommendations in improving its decision-making and thus would be playing a more proactive and foresight role.”

Internal audit function provides internal consulting service to the management in public sector institutions and hence the executive arm of government for smooth and efficient functioning and for reviewing and improving its performance. It also ensures that there are efficient controls and greater transparency in the decision and policy-making processes of government functionaries and institutions in delivering services successfully and in carrying out development programs in an efficient and appropriate manner. Public Sector controls cover all aspects of activities including financial, managerial and operational policies and are intended to safeguard assets, ensure the accuracy and reliability of financial information and promote operational efficiency.

The internal audit function is in a good position to help senior management of public institutions to identify risks, suggest risk management strategies and, ultimately, provide assurance that the risks are being appropriately managed. Thus, the internal auditing function evaluates the effectiveness of public institutions in achieving agreed objectives and thereby promoting strong governance and accountability regime. Internal audit function also applies professional skills through the evaluation of the policies, procedures and operations that management put in place to ensure the achievement of the organisation’s objectives. The recommendations made by internal audit for improvement helps management in public sector entities to improve their risk management, control and governance processes.

With the emergence of the Public Expenditure and Financial Accountability (PEFA) framework in developing countries (PEFA, 2005), performance measurement framework and results indicators have become key concepts in managerial practices and in the formulation and execution of budgets. Indicators recently introduced in some countries measure nationwide socio-economic progresses, stimulate public debate, and thus help Government decide on important issues. “National Performance Indicators” are vital for fulfilling public accountability that emphasises results and outcomes. Internal audit forms part of the evaluation process in monitoring performance and verification of data quality to ensure credibility of reported achievements. Also internal auditors could play instrumental role in performing value-for-money (VFM) audits otherwise called “Performance Audit”. Performance audits are concerned with the audit of economy,
efficiency and effectiveness of government expenditures or spending plans. In practice, performance auditing is focused on assessing whether organisations are doing the right things and in the smartest way.

According to the INTOSAI, performance auditing is an independent examination of the efficiency and effectiveness of government undertakings, programs or organizations, with due regard to economy, and the aim of leading to improvements (INTOSAI, 2004, p.11)

Performance audits may serve as a good mechanism in evaluating operating performance in the budget execution process. It is based around the following questions and function:

- How much do programs cost?
- How were they financed?
- What was achieved?
- What were the processes followed in achieving the outcome?, and
- Assessing impacts that may provide a useful feedback and corrective mechanism in subsequent planning cycles.

**Challenges to Public Sector Internal Audit**

**Relationship between Internal and External Audit in the Public Sector**

Professionally, internal auditors strive to create an effective function whose results can be relied upon by the external auditors as evidence of the overall strength of internal financial control. The detailed background knowledge which internal audit has of the organisation may be of particular value in allowing their external counterparts to understand the background and circumstances of the activity they are reviewing.

However, publicity about the role of external auditors in high profile private sector cases such as Enron has increased public and parliamentary expectations of external auditors, and has rightly or wrongly made public sector external auditors more cautious about the degree of reliance they place on internal audit (Glass 2005, p.8).

Establishing a professional working relationship between the internal auditor and the external auditor should deliver benefits to both parties. Such relationship allows potential overlaps and gaps in the overall audit activity to be identified and addressed, and assists in maximizing the extent to which external audit is able to rely on the work of internal audit in undertaking its work. Internal auditors also need to be aware of planned and actual external audit coverage in order to assist in identifying their information needs (ANAO, 2007, p.28).

An effective co-operation between internal and external audit helps both parties achieve their objectives and also helps them provide a better service to the bodies they work with and ultimately to Parliament and the public. However, such cooperation can only thrive in an environment where there is mutual confidence and the recognition that internal and external audits are both conducted within relevant professional standards and information exchanged is treated professionally and with integrity (NAO, 2000, p.11).
Quality of Service Delivery
Internal control evaluation and risk assessment are the main value services that internal audit in the public sector could provide. Advisory services are another area where internal audit can add value. Providing advisory services in the public sector is a defining challenge especially in developing countries. In many cases internal auditors stick to the routine task of a perpetual search for clerical errors in accounting documents and the function is dominated by pre-payment audits. In most cases, no performance measurement criteria are used to assess the performance of internal audit functions.

Audit Committee Oversight
Audit committees should maintain direct oversight on the internal audit function in order to ensure that management is addressing issues on control and risk management raised. However, most public entities have not recognized its importance and effectiveness in the control, risk management and governance processes. Audit committees could play key role in helping audit to carry out its legal and fiduciary responsibilities, and contribute towards the integrity of the government’s financial information, system of internal control and legal and ethical conduct of management and employees.

The public sector also faces an enormous challenge of finding people from outside public organisations, who are willing to serve as audit committee members and have sufficient knowledge of the public sector operations and risks to make an effective contribution to the risk management.

Attraction and Retention of Competent Staff
The attraction and retention of competent internal audit staff remains a serious challenge in the public sector due to unattractive remuneration packages compared to those in the private sector. Internal audit staffs are expected to have a greater knowledge of the entity’s business objectives, systems, risks and culture. Thus private sector audit staff may not have the necessary skills and knowledge relevant to the public sector. The inability to attract staff that can respond to the competence requirements and changing needs of the public sector could affect the operational effectiveness and efficiency of the internal audit function.

Conclusion
A well configured internal audit function can play a vital role in the governance and accountability process of public sector institutions through their assessments on the effectiveness of key organisational controls, governance and risk management processes. Governing bodies and senior management in the public sector need the services of internal audit to be effective and efficient. At the same time the legitimacy of internal audit activity and its mission should be understood and supported by senior management of government entities to enhance its effectiveness in promoting good public sector governance, control and risk management systems.

Modern internal audit practice has transformed into a professional discipline of its own and as a partner to governance bodies with strategic focus of contributing towards the improvement of organisational governance and risk management strategies. Internal audit has now found itself in the corporate spotlight and it is no longer seen as a less important
financial function and a nursery school for careers in finance. A career in internal auditing has assumed a strategic significance and requires exposure to thorough organisational processes and through interaction with executive management. One needs to go through a broader base of experiences both technical and behavioural to be effective in this function especially in the public sector where controls are still weak and public expectations are enormous.

It is generally expected that individual internal audit staff will be members of the IIA and other relevant professional accountancy bodies. Internal audit staffs are expected to use their membership of such professional bodies to keep abreast with the emerging professional and industry developments and use networking opportunities to assist in resolving challenges they may encounter in the course of their work.

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A Comparison of Government Accounting and Business Accounting

James L. Chan

Introduction

Business accounting has always been considered by some people to be the model for government accounting. In 1802, Thomas Jefferson, the author of the American Declaration of Independence, wished to “see the finances of the Union as clear and intelligible as a merchant’s book,…” In the 1970s, Arthur Andersen & Co., an innovative accounting firm, tried to realize Jefferson’s dream by challenging the U.S. Government itself to render its accounts according to Generally Accepted Accounting Principles (GAAP), since it required business firms to follow GAAP, apparently believing that business GAAP was applicable to the U.S. Government. In the 1980s, the late Professor Robert Anthony of Harvard University was similarly convinced that American state and local governments should use business accounting principles, so that it would not be necessary to have a separate Governmental Accounting Standards Board. (It fell on the author as a young academic in 1980 to inform the Financial Accounting Standards Board how government differed from business.) In the 1990s, opinion leaders from several countries adhering to the “business accounting for government” approach successfully elevated this viewpoint to the international level. International Public Sector Accounting Standards (IPSAS) patterned after international (business) accounting standards were developed, with exceptions only when government differed from business.

The purpose of this brief essay is to answer three questions: What is so appealing about business accounting that it is urged upon government? How is government viewed differently by public budgeting specialists? When these two groups hold conflicting views on government financial presentation, how should those conflicts be resolved? These questions are answered in the context of the United States. The author acknowledges that business accounting and government accounting in other countries may be very different from American practices. Therefore, international comparative research is encouraged.

Positive Features of Business Accounting

Due to the requirements of generally accepted accounting principles (GAAP), business accounting has several features:

- There is a clear separation between financial accounting and managerial accounting.
- The double-entry recording system is commonly used in financial accounting.
- The accrual basis of accounting is always required in financial accounting.
- Consolidated financial statements are annually published for external users.

The following section explains why these features are positive.
The Separation of Financial and Managerial Accounting

The separation of financial accounting and managerial accounting makes it possible to regulate them differently. In general, a firm’s management has complete discretion over designing its budgeting and cost accounting in support of management planning and control. The exceptions are firms whose products or services are sold in non-competitive markets. In these situations, such as public utilities and defense contractors, cost-based pricing leads customers to be concerned about how costs are defined and measured. As long as a firm operates within the law and customary practices, it is free to conduct its financial management as it sees fit. In contrast, its reporting to the public in general, as well as to investors and creditors, has been highly regulated for at least the last few decades.

The regulation of external financial reporting takes the form of government oversight and market discipline.

The accounting and reporting requirements of the Securities and Exchange Commission (SEC) for corporations whose stocks are publicly traded are a type of government oversight. The regulator specifies the form and content of the reports it requires. Market discipline is exercised by the implicit threat that if a firm does not provide credible financial information to market participants, its access to sources of equity and debt financing would be more costly, limited, or even denied. Audited financial statements prepared in accordance with Generally Accepted Accounting Principles set by the FASB are one such source of information.

These GAAP-based statements are the product of a firm’s “general-purpose external financial reporting.” This label is intended to distinguish these statements from internal reports to management and the board of directors, as well as from external reports to government regulators, who can require “special-purpose” reports. Thanks in part to the SEC blessing, the FASB enjoys so much prestige and power that it is considered independent and authoritative, at least with respect to the firms whose financial statements have to follow GAAP and have to be audited by Certified Public Accountants (CPAs).

In short, GAAP, set by an independent authoritative body and enforced by external auditors, enhance the credibility of the financial statements that a firm issues to investors and creditors.

Double-entry Recording System

The double-entry recording system obliges accountants to carefully analyze transactions and activities of an entity before data can be entered into the accounting system. The analysis determines how a transaction or activity affects the entity’s financial position as described by the accounting equation: assets = liabilities + net assets. In the case of a business firm, the net assets are the owners’ equity. Thus the accountant as a financial analyst has to make a basic, but crucial, distinction between debt and equity, so that borrowed cash is not allowed to be recognized as revenue.

Financial accountants use the accounting equation as the conceptual foundation for the balance sheet or statement of financial position on a particular date, such as the end of a fiscal year. A corollary of this perspective is that a firm’s financial performance in a
period is evaluated on the basis of the amount of change in owners’ equity (apart from owners’ capital contribution and distributions to owners). The “bottom line” of a period’s financial performance is net income or net loss, which results from matching the period’s revenues and expenses. As Exhibit 1 shows, in the double-entry recording system, revenue is portrayed as an increase in assets (e.g. cash or accounts receivable) or decrease in liabilities (e.g. services to render for payments already received). In contrast, an expense incurred to generate the revenue is portrayed as a decrease in assets (e.g. inventory) or increase in liability (e.g. employee salaries and pension payable). Assets are economic resources with service potential owned or controlled by the entity as a result of past transactions or activities, and are therefore not limited to cash and other financial resources. Liabilities are obligations created by past transactions or activities that will result in cash payments or services in the future without time limitation.

Exhibit 1. Accountant’s Representation of Financial Position and Performance

<table>
<thead>
<tr>
<th>Financial Position and Performance</th>
<th>Accounting Equation and Changes Therein</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial position, end of period t</td>
<td>Assets - Liabilities = Net Assets</td>
</tr>
<tr>
<td>Owners’ investment in the business</td>
<td>Increase - No effect = Increase</td>
</tr>
<tr>
<td>Creditors’ lending to the business</td>
<td>Increase - Increase = No effect</td>
</tr>
<tr>
<td>Repayment of loans to creditors</td>
<td>Decrease - Decrease = No effect</td>
</tr>
<tr>
<td>Performance in period t+1:</td>
<td></td>
</tr>
<tr>
<td>Revenues from customers</td>
<td>Increase - No effect = Increase</td>
</tr>
<tr>
<td>Expenses for goods used or services received in</td>
<td>Decrease - No effect = Decrease</td>
</tr>
<tr>
<td>generating revenues</td>
<td>No effect - Increase = Decrease</td>
</tr>
<tr>
<td>Financial position, end of period t+1</td>
<td>Assets - Liabilities = Net Assets</td>
</tr>
</tbody>
</table>

In summary, double-entry bookkeeping requires sophisticated financial analysis. The analysis is based on a theory of the firm that distinguishes creditors’ equity and owners’ equity. A period’s financial performance is judged by whether the owners are made better off or worse off as a result of the operations during the period.

**The Accrual Basis of Accounting**

GAAP requires the accrual basis for measuring financial performance in terms of revenues and expenses, which are increases and decreases in net assets, respectively. In recognition of the importance of liquidity, a statement of cash flow is also prepared. Since a firm’s primary goal is to provide goods and services, it is permitted to recognized sales revenues—increased assets or decreased liabilities—only to the extent it has done so. This service effort and accomplishment (SEA) based method of measuring financial performance is often called “full accrual.” Expenses are matched against the revenue to arrive at the period’s net income or loss. Gains and losses are similarly determined in transactions involving individual assets.

Business revenue recognition is outcome-based, and expense recognition follows revenue recognition. This accounting method rewards firms not for production but for making sales. (The percentage of completion method used in the construction business is a rare exception.) In financial accounting, the production of goods merely changes the
composition of inventory and gives rise to more liabilities. Accounting for the cost of
goods involves accrual because the cost of goods produced (including liabilities incurred)
is treated as assets until a sale transaction turns such assets into an expense (the cost of
goods sold). However, GAAP is usually silent on the issue of the allocation and
attribution of indirect costs to products or service, perhaps because the allocation methods
are too numerous and the final analysis arbitrary.

In conclusion, full accrual severely limits the ability of management to claim credit for
performance unless such performance results in more net assets.

Annual Consolidated Financial Statements
Annual consolidated financial statements cover an economic entity consisting of a parent
corporation and the subsidiaries in which it has a majority ownership interest. The
definition of the reporting entity is based on several ideas: Investors and creditors are
more concerned with economic substance than legal form. Managers of the reporting
entity have control over all the entity’s assets and are responsible for meeting all its
liabilities. A high level of aggregation of financial data reduces information overload for
users of financial statements. Interested users can refer to additional disclosures
elsewhere in the financial reports for details, such as different lines of business.

In summary, a firm and its management are rewarded more for results than for effort. In
keeping with this philosophy, business accounting uses the full accrual basis to measure
financial performance and relates such performance to changes in financial position.
Consolidated statements of financial position, performance, and cash flow constitute an
integrated package of general purpose financial statements primarily for investors and
creditors. These statements are prepared using Generally Accepted Accounting Principles
(GAAP) set by a neutral organization recognized by independent auditors, who use those
principles to assess the fairness of financial presentation.

Business accountants and auditors believe that the business accounting principles
summarized above are the best way of presenting a business’s financial picture to capital
market participants. Since some aspects of government as an economic entity (at least)
has much in common with business firms, it stands to reason that it should use similar
principles.

Another View of Government Financial Presentation
Politicians and senior government officials typically are not accountants. In addition to
accountants and auditors trained in the business school, lawyers, economists, political
scientists, public administrators, budgeting specialists, public policy analysts and possibly
other professionals are also involved in public financial management. Furthermore,
public financial management is part of the general management overseen by senior public
managers and legislators. Despite their diverse roles, public officials have one thing in
common: few of them have had formal training as accountants, nor are many of them
members of the accounting or auditing profession, which is dominated by members in
commerce and industry. Consequently, the business accountant’s view is not necessarily
shared and may not sound convincing to many government officials. Indeed, to the extent
that economists, political scientists, and lawyers concern themselves with public financial
management, they tend to hold a different view. Since budgeting is the financial
management function most related to accounting, the perspective of the public budget specialist is described below.

In the public budgeting literature and practice, the following views are expressed:

- Financial performance is part of budget execution; accounting is therefore an extension of budgeting.
- Budget deficit or hopefully surplus—the result of comparing revenues and expenditures—is probably the most important indicator about government’s fiscal performance.
- Projecting cash receipts and outlays is necessary for determining the need for deficit financing, and monitoring commitments is critical for budgetary control.
- Timely interim reports covering the span of units or programs under a government officials’ control or purview are essential.

**Financial Performance as Budget Execution**

Budget specialists tend to view accounting as part of financial management, and financial management as part of budget execution. The annual budget is not only a planning document, it also includes projections of revenue collection as authorized by law, as well as appropriations proposed by the executive and approved by the legislature. Therefore, the budget serves as the basis of management control and legislative oversight. Transactions and activities can be undertaken only according to the approved budget. An important accounting function is to “follow the money” as directed by the budget. Accountants play the operational supporting role (versus the decision-making role) with respect to the budget. This kind of accounting is called “management accounting” in business, and “budgetary accounting” in the public sector.

Budget specialists view supporting budget execution as a necessary and sufficient function of accounting. Accountants, on the other hand, regard their function as more than just supporting budget execution. Certainly budget execution reports are needed to see whether budgetary intentions are carried out. But government annual budgets often have different scope from the accounts, and use different concepts and measurement rules. Accountants readily concede that the budget is powerful (since it allocates resources) and relevant (since it is about the future). But they believe that their “multi-lens” way of viewing government finances is in some ways superior to the budget’s single focus on the deficit. However, the budget department ranks higher than the accounting department in the government bureaucracy, so the budget director’s views are more likely to prevail.

**Budget Deficit as the Primary Financial Indicator**

In contrast to the accountant’s “stock and flow” approach (see Exhibit 1), budget specialists see the deficit of the budget year as the most important financial indicator of government fiscal performance. When measured in terms of cash, the deficit is the excess of cash outlays over cash receipts in a period. As such, the deficit number reveals the amount a government needs to borrow to finance the cash shortage. Important as this number is, the significance of the cash budget is diminished by government’s other means of financing: postponing cash payments to the future through liabilities. These liabilities include short-term payables to contractors and long-term pension benefits to
employees. On the other hand, to its detriment, the cash deficit cannot count increases in receivables as revenue. In either way, the “receipt minus outlay” formulation implemented on the single-entry recording system is incapable of handling the cumulative nature of assets and liabilities. It would take a revolution for public budgeting to adopt the accrual budget concept by means of a projected balance sheet. There is no evidence this is happening anytime soon.

**Budgetary Basis of Measurement**

Projecting cash receipts and cash outlays is important for determining the need for borrowing to finance cash deficit. For this reason, the cash basis is used in budgeting. Monitoring and reporting cash flows and cash balances is a necessary function of a government’s accounting system in support of treasury management.

Another important task of financial control is to prevent government officials from spending in excess of their appropriations. In this regard, purchase orders and other contractual obligations are considered to be spending, and are deducted from the available balance of an appropriation. The budgetary basis of spending is various defined as: cash outlay, expenditure, or commitment or obligation.

Budget officials may wish there was a better way to measure tax revenue, but tax revenues cannot possibly be accrued on the basis of goods and services rendered because of their collective nature. Recognizing tax revenue requires the “enforceable legal claim” concept be made operational for a large variety of taxes.

The tasks of financial control are sufficiently demanding that budget offices may not have the time and resources to concern themselves with resources that are not expendable (such as taxes receivable and fixed assets) and multi-period consequences (such as payables left to the future). Furthermore, public officials and their budgeting staff hardly have the incentive of calling attention to their financial maneuvering to reduce the current deficit. They may even resent the release of liability information that puts them in an unfavorable light. As a result, government budget specialists greet the introduction of accrual into budgeting with considerable skepticism.

**Interim Departmental Reports**

Policymakers and managers are mostly concerned with specific departments and programs, rather than the government as a whole. Even if a so-called “unified budget” is proposed and approved, its implementation will be decentralized. Government is typically organized in terms of units, program areas, or funds (pools of financial resources). Policymakers and managers tend to protect their turfs and mind their own business. Performance or budget execution reports pertain to specific responsibility centers.
Exhibit 2. Contrasting Views of Two Financial Specialties

<table>
<thead>
<tr>
<th>Dimensions of Comparison</th>
<th>Accountant</th>
<th>Budget Specialist</th>
</tr>
</thead>
<tbody>
<tr>
<td>Time orientation</td>
<td>The past but cognizant with present and future</td>
<td>The future but constrained by the past and present</td>
</tr>
<tr>
<td>Conceptual model</td>
<td>Assets - liabilities = net assets</td>
<td>Appropriations – (commitments + expenditures) = available balance</td>
</tr>
<tr>
<td>Recording system</td>
<td>Double entry</td>
<td>Single entry</td>
</tr>
<tr>
<td>Measurement method</td>
<td>Full accrual basis</td>
<td>Budgetary (commitment) basis</td>
</tr>
<tr>
<td>Primary financial documents</td>
<td>Statements of financial position, performance, cash flow</td>
<td>Budget execution</td>
</tr>
<tr>
<td>Primary users of financial information</td>
<td>External users: investors and creditors</td>
<td>Internal users: legislative overseers, policy makers, and managers</td>
</tr>
<tr>
<td>Frequency of reporting</td>
<td>Annual to the public</td>
<td>Quarterly, monthly, or even more frequent as needed</td>
</tr>
<tr>
<td>Coverage of financial documents</td>
<td>Whole government</td>
<td>Parts of government</td>
</tr>
</tbody>
</table>

In summary, the influential group of budgeting specialists looks at government finance and accounting from a perspective very different from that of a business accountant. The budget department regards accounting as an extension of budgeting in the execution phase. Budget analysts focus on the availability and use of short-term financial resources, particularly cash. Preventing cash shortage and overspending is an overriding objective of budget management, which is carried out in specific programs or departments. The views of financial accountants and budgeting specialists stand in remarkable contrast to each other (Exhibit 2).

**Modalities of Conflict Resolution**

The previous sections presented the perspectives of business financial accounting and public budgeting. When viewed separately in their own right, both perspectives sound plausible and rational. If government accounting is regarded as strictly the jurisdiction of government, which is the case in many countries, the differences may be interesting in theory but inconsequential in practice. However, if business accountants and auditors believe their superior ideas should be adopted by government, officials in charge of government may (a) readily accept, (b) instinctively oppose, and (c) evaluate the merits of both perspectives and decide how best to resolve the conflicts. The author declines option (a) because the public sector is unique in some respects and option (b) because business accounting has some useful lessons for government. This section therefore explores several modalities of conflict resolution:

- Harmonize when the same accounting concepts or methods apply equally well to government and business
- Converge when government accounting and business accounting are headed in the same general direction, or when it is possible to make the case that one type of accounting is better than the other type
Reconcile when legitimate differences exist and it is necessary or useful to explain those differences, and
Co-exist when the differences are genuine and cannot be reconciled

**Harmonization**

Even in a market economy, governments own or operate business enterprises that sell essential goods and services to the public by taking advantage of economies of scale, making it possible to lower prices. Except for public ownership, government business enterprises are almost the same as their private-sector counterparts. The premises of private-sector business financial accounting are valid for government business enterprises as well. These similarities make it possible for government and private business enterprises to have the same set of accounting standards.

**Convergence**

Convergence is a sensible approach when government accounting and business accounting are headed in the same general direction. For example, both business and government are urged to be more transparent to the public. Accountants for both sectors go beyond technical measurement issues to stress communication to users of financial information. In government as in business, there is a renewed emphasis on accountability to the public, thus providing the rationale for more and better external financial reporting.

Convergence can be recommended when it is possible to prefer one type of accounting over another. Many governments still use the single-entry system in their accounting. For reasons explained earlier, the double-entry system almost universally used in business is clearly better for businesses than the single-entry system. In this respect, all government accounting systems should be required to adopt this business accounting method.

Similarly, accrual accounting offers many advantages over cash accounting. It should also be required of all governments. The caveat here is that governments should be urged to gradually raise the degree of accrual from mild to moderate and eventually to strong accrual in their non-commercial activities. The convergence to accrual, however, would stop short of the full accrual basis, which is not applicable to these activities.

**Reconciliation**

Reconciliation is the preferred strategy when legitimate differences exist between business-type accounting and government accounting, and it is necessary or useful to explain those differences. The reconciliation approach concedes that it is impossible to make a persuasive case for changing from one method to another, and essentially recognizes the merit of both methods. For example, budgetary comparisons in financial statements use the budgetary basis required by law, and explains the differences between the revenue and expenditure numbers due to the use of two different measurement methods. Similarly, when a government puts out a cash deficit number and an accrual deficit number, the “bridging” or explaining of the causes of these numbers are necessary to avoid confusion or misunderstanding.

Harmonization, convergence, and reconciliation represent three constructive approaches to resolving the conflicts between government accounting and the ideas urged on it by people who are convinced about the superiority of business financial accounting.
Unfortunately, there remain some issues on which reasonable people who different opinions.

**Co-existence**

When differences are genuine and cannot be reconciled, co-existence is the only way to avoid constant battles. This course of action—or inaction—is used in the following situations.

In order to avoid conflicts with legal authorities that regulate government accounting by laws and regulations, accounting standard-setting organizations limit their purview to financial reporting, particularly general-purpose external financial reporting. Specifically, the budgetary basis of measuring revenues and expenditures is permitted for use in making budgetary comparisons. This conflict avoidance strategy is used by the International Public Sector Accounting Standards Board, as well as the Federal Accounting Standards Advisory Board and the Governmental Accounting Standards Board in the United States.

To avoid conflict with legal authorities, uniform Generally Accepted Accounting Principles (GAAP) across jurisdictions is used by external auditors to evaluate general-purpose financial statements. Legislatures and government officials with competent authority have complete freedom to pass laws and regulation on the form and content of internal reports.

This mutual respect avoids placing the government officials, who are in charge of the accounting function, in the predicament of violating the law and disobeying professional standards. It also acknowledges the legitimacy of multiple objectives of government accounting in (a) meeting legal compliance requirements, (b) supporting financial management, and (c) demonstrating government’s public accountability.

Accrual is one of the most important and controversial debates in government accounting. Conceptual ambiguity and definitional flexibility have enabled many governments to claim that they practice accrual accounting. Governments are urged to use the accrual basis as business enterprises do, even though accrual in business accounting means recognizing sales revenue to the extent goods and services are provided. This allows a variety of accrual bases to exist in practice.

In summary, several methods have been proposed to deal with conflicts between government accounting and the influences of business accounting. These methods range from genuine harmonization, to convergence and reconciliation, and candid acknowledgement of legitimate differences.

**Conclusion**

Even if a merchant’s book were as clear and intelligible as Jefferson claimed two hundred years ago, modern multinational corporations’ financial statements probably could not live up to this billing. Nevertheless, a view has persisted that government should emulate business in accounting. Having received formal training in business accounting and worked on government accounting for over thirty years, the author has endeavored to provide a balanced analysis of the recommendation. The recommendation is largely a sound one: accrual accounting captures long-term consequences and directs attention to
the balance sheet, and consolidated financial statements reduce users’ information overload. However, the public sector is too large, too economically important, and too politically powerful to be considered as just a “special industry.” Furthermore, business accounting lacks the concepts and tool to deal with such issues as the accrual of tax revenues, and the recognition and measurement of public property and government responsibilities on the balance sheet. Only through thoughtful dialogue between business accountants and public finance specialists will there emerge generally applicable accounting principles for both the private and public sectors.

**Note**

Unlike most academic papers, this essay does not have any references, because it was written without the benefit of access to library collections due to global travel. Another reason is that it contains more opinions than facts. Hopefully these opinions are judged to be based on serious reflections and a balanced analysis.

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**Brief Biography**

James L. Chan became Professor of Emeritus of Accounting, University of Illinois at Chicago, U.S.A. on January 1, 2008, after a 32-year career in government accounting teaching, research and public service. As Professor by Special Appointment at the Research Institute of Fiscal Science (Beijing), he currently also holds visiting appointments in China at Sun Yat-sen University, Central University of Finance and Economics, and Zhongnan University of Economics and Law.
Enterprise Cameralistics
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Norvald.Monsen@NHH.NO

It is the merit of Walb first to have proved, that by help of the bookkeeping method of classical cameral accounting it is possible to prepare a performance (accrual) result and balance accounts (i.e., enterprise cameralistics) corresponding to the ones that are prepared by using the merchant’s double-entry bookkeeping method (i.e., commercial accrual accounting), without using the latter method.

(Wysocki, 1965, p.15, translated from German)

Introduction
Cameral accounting (CAM, see Monsen, 2008a) was developed for use in government organizations in the German speaking countries in continental Europe. It consists of two main versions, namely administrative cameralistics (ACAM, see Monsen, 2008b) and enterprise cameralistics (ECAM). The purpose of the latter version is to allow for reporting precisely the same type of information as the one reported within commercial accrual accounting. While the merchant’s double-entry bookkeeping method is used in commercial accounting, a developed version of systematic single-entry bookkeeping is used in enterprise cameralistics. In this way, it is possible to continue to use cameral single-entry bookkeeping for all parts of a government organization, namely the single-entry bookkeeping method of administrative cameralistics (see Monsen, 2008b, for further details, including numerical examples) and the systematic single-entry bookkeeping method of enterprise cameralistics for government enterprises. The purpose of this paper is to explain the latter bookkeeping method to a non-German speaking audience.

Bookkeeping within enterprise cameralistics
Like administrative cameralistics, enterprise cameralistics use the cameral account, consisting of two sides: Receipts and Payments (see Table 1). Both administrative cameralistics and enterprise cameralistics use the principle of single-entry bookkeeping, but this principle has been developed in a systematic way within enterprise cameralistics. In this section, the systematic single-entry bookkeeping method of enterprise cameralistics is explained, before a numerical example is used in the next section to illustrate this approach.
Table 1: The cameral account.

<table>
<thead>
<tr>
<th></th>
<th>Receipts</th>
<th>Payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>BD</td>
<td>Current</td>
<td>Actuals</td>
</tr>
<tr>
<td>(CD)</td>
<td>(A)</td>
<td>(B)</td>
</tr>
</tbody>
</table>

When cameral bookkeeping was developed from single-entry bookkeeping as used within administrative cameralistics to systematic single-entry bookkeeping as used within enterprise cameralistics, the content of the various columns on the cameral account (see Table 1) was extended as follows: (1) all revenues (receipts) and expenditures (payments) which had occurred were entered in the balance columns, and not only those revenues (receipts) and expenditures (payments), for which payment instructions had been issued, but which were not paid, such as the case is within administrative cameralistics, and (2) assets and liabilities, which are not entered on the cameral account within administrative cameralistics (e.g., fixed assets and long-term debt), as a result of the fact that no payment instructions have been issued, are also entered in the balance columns within enterprise cameralistics. By extending the interpretation of the balance columns in these two ways, it becomes possible to prepare performance (accrual) accounts in the form of profit and loss accounts and integrated complete balance accounts. These accounts have precisely the same content as the corresponding accounts reported when using the merchant’s double-entry bookkeeping method for preparing commercial accrual accounts.

Table 2 shows the basic version of the cameral account as it is used within enterprise cameralistics. This particular account represents a developed version of the cameral account as it is used within administrative cameralistics (see Table 1).

There are two specific cameral bookkeeping rules, which apply separately to the receipts and payments sides of the cameral account:

1) No A-entry without an earlier or simultaneous CD-entry

2) B = BD + CD - A

These two rules technically apply both within administrative cameralistics and enterprise cameralistics. The interpretation of these rules, however, differs between the two versions of cameral accounting. Monsen (2008b) uses numerical examples for explaining these rules within administrative cameralistics. The following section provides a numerical example to explain the rules of enterprise cameralistics.
Table 2: Basic version of the cameral account within enterprise cameralistics

<table>
<thead>
<tr>
<th>Receipts</th>
<th>Payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balances or residual dues b/f (BD)</td>
<td>Current dues (CD)</td>
</tr>
<tr>
<td>Balance account</td>
<td>Opening balances</td>
</tr>
<tr>
<td>Profit and loss account</td>
<td>Revenue earned</td>
</tr>
<tr>
<td>Cash account</td>
<td>Cash inflows</td>
</tr>
<tr>
<td>‘Accounting entries’, transfers within the balance accounts and between the balance and profit and loss accounts</td>
<td>'Accounting revenues'</td>
</tr>
</tbody>
</table>

**Numerical example**

Beginning of the period:
- Cash account 2000
- Long-term debt 1600
- Equity 400

During the period:
1. Various operating revenues 12000
   - (1a) of which immediate cash inflow 10500
   - (1b) of which later cash inflow 1500
2. Various operating expenditures 11000
   - (2a) of which immediate cash outflow 9900
   - (2b) of which later cash outflow 1100
3. Interest revenues (immediate cash inflow) 50
4. Interest expenditures (immediate cash outflow) 100
5. Loan instalment (immediate cash outflow) 300
6. New loan (immediate cash inflow) 2000
7. Investment expenditure for fixed asset (immediate cash outflow) on the first day of the period 3000

End of the period:
8. Depreciation of fixed assets: 0.5%

Revenues and expenditures referred to by the numbers (1)-(4) also have a performance (accrual or profit/loss) effect during the accounting period.

It is common to group the accounts into different ‘Accounting Sections’ (AS) within enterprise cameralistics:

- **Accounting section I**: Performance result accounts (profit and loss account).
- **Accounting section II**: Assets.
- **Accounting section III**: Money and capital accounts.
This section contains the accounts for the non-performance result effective loan and capital transactions as well as accounts receivable and debt.

Accounting section IV: Closing.
This account contains the closing entries, first of all bookkeeping of the performance result and the cash account.

By the term “result effect” enterprise cameralistics refers to the performance (accrual or profit/loss) effect of the revenues (receipts) and expenditures (payments), as opposed to their financial (money) effect, which is in focus in administrative cameralistics (see Monsen, 2008b).

The following three points should be emphasized:

1. the performance result will appear as the net difference between the revenues (receipts) and the expenditures (payments) entered in the CD-columns on the receipts and payments sides of the cameral account, respectively,

2. the net cash change will appear as the net difference between the revenues (receipts) and the expenditures (payments) entered in the A-columns on the receipts and payments sides of the cameral account, respectively and

3. the BD- and B-columns represent opening and ending balance accounts, respectively. Specifically, the BD- and B-columns on the receipts side of the cameral account report the assets at the beginning and end of the accounting period, respectively. Similarly, the BD- and B-columns on the payments side of the cameral account report the liabilities and equity at the beginning and end of the accounting period, respectively.

Operating revenues (1) of 12000 with a performance effect have been earned during the period. Of this amount, 10500 have been received in cash (1a) and 1500 will be received in cash in a later period (1b). First, we enter 10500 in the CD-column on the receipts side (performance effect) in ASI (Receipts-CD=10500) and 10500 in the A-column on the receipts side (cash inflows) in ASI (Receipts-A=10500) (cp. rule 1). Thereafter, we put 1500 in the CD-column on the receipts side in ASIII (Receipts-CD=1500), and this entry increases the accounts receivable (B=BD+CD-A=0+1500-0=1500). If we do not carry out more entries now, the performance effect of this transaction will appear in the CD-column in ASIII (balance account for accounts receivable) and not in the CD-column in ASI (the performance result accounts). Since we want to report the performance effect in ASI (which corresponds to the performance result accounts/profit and loss accounts when using the merchant’s double-entry bookkeeping method), we need to transfer the performance effect from ASIII to ASI. We do this by using the two basic rules of cameral bookkeeping (see above).

First, we enter 1500 in the CD-column on the payments side in ASIII (Payments-CD=1500); thereby we cancel the performance effect in ASIII (Receipts-CD minus Payments-CD=1500-1500=0). This CD-entry on the payments side in ASIII is followed by an A-entry with the same amount on the payments side in ASIII (Payments-A=1500),
Table 3: Enterprise cameralistics: numerical example.

<table>
<thead>
<tr>
<th></th>
<th>Receipts</th>
<th></th>
<th>Payments</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Balances or residual dues b/f (BD)</td>
<td>Current dues (CD)</td>
<td>Actuals (A)</td>
<td>Balances or residual dues c/f (B)</td>
</tr>
<tr>
<td>ASI:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Op. rev. (1a)</td>
<td>10500</td>
<td>10500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Op. rev. (1b)</td>
<td>1500</td>
<td>1500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest rev. (3)</td>
<td>50</td>
<td>50</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Op. exp. (2a)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Op. exp. (2b)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest exp. (4)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation (8)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total ASI</td>
<td>12050</td>
<td>12050</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ASII: Building (7/8)</td>
<td>0</td>
<td>3000</td>
<td>15</td>
<td>2985</td>
</tr>
<tr>
<td>Total ASII</td>
<td>0</td>
<td>3000</td>
<td>15</td>
<td>2985</td>
</tr>
<tr>
<td>ASIII:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts rec. (1b)</td>
<td>0</td>
<td>1500</td>
<td>0</td>
<td>1500</td>
</tr>
<tr>
<td>Sh.-term debt (2b)</td>
<td></td>
<td>1100</td>
<td>1100</td>
<td>0</td>
</tr>
<tr>
<td>Long-term debt (5/6)</td>
<td></td>
<td>2000</td>
<td>2000</td>
<td>1600</td>
</tr>
<tr>
<td>Equity</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total ASIII</td>
<td>0</td>
<td>4600</td>
<td>3100</td>
<td>1500</td>
</tr>
<tr>
<td>ASIV:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total ASI-III</td>
<td>0</td>
<td>19650</td>
<td>15165</td>
<td>4485</td>
</tr>
<tr>
<td>Cash account</td>
<td>2000</td>
<td>19650</td>
<td>15915</td>
<td>5735</td>
</tr>
<tr>
<td>Performance result</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total ASI-IV</td>
<td>2000</td>
<td>19650</td>
<td>15915</td>
<td>5735</td>
</tr>
</tbody>
</table>

in order to avoid reporting an ending balance amount here (B=BD+CD-A=0+1500-1500=0). The latter bookkeeping is followed by an A-entry with the same amount (in ASI) on the receipts side (Receipts-A=1500), in order to avoid an influence on the cash account (Receipts-A minus Payments-A=1500-1500=0). According to rule (1), however, we cannot enter an amount in the A-column without an earlier or simultaneous entry in the CD-column on the same side of the cameral account. At the same time as we enter 1500 in the A-column on the receipts side in ASI, we therefore enter the same amount also in the CD-column on the receipts side in ASI (Receipts-CD=1500). The latter bookkeeping makes sure that the performance effect of this transaction is reported in the CD-column in ASI (the performance result accounts), as opposed to in the CD-column in ASIII (balance account), and we have avoided the reporting of an ending balance amount in ASI (B=BD+CD-A=0+1500-1500=0).

Bookkeeping of the operating expenditures is carried out in an analogous way to bookkeeping of the operating revenues. Various operating expenditures of 11000 with a performance effect have occurred during the period (2). Of this amount, 9900 have been paid out (2a) and 1100 will be paid out in a later period (2b). First, we enter 9900 in the CD-column on the payments side (performance effect) in ASI (Payments-CD=9900) and
9900 in the A-column on the payments side (cash outflow) in ASI (Payments-A=9900) (cp. rule 1). Thereafter, we enter 1100 in the CD-column on the payments side in ASIII (Payments-CD=1100), and this entry will increase the short-term debt (B=BD+CD-A=0+1100-0=1100). If we do not carry out more bookkeeping entries now, the performance effect of this transaction will appear in the CD-column in ASIII (balance account for short-term debt) and not in the CD-column in ASI (performance result accounts). Since we want to report the performance effect in ASI (which corresponds to the performance result accounts/profit and loss account when using the merchant’s double-entry bookkeeping method), we must transfer the performance effect from ASIII to ASI. We do this by using the two basic cameral bookkeeping rules (see above).

First, we enter 1100 in the CD-column on the receipts side in ASIII (Receipts-CD=1100); by so doing, we cancel the performance effect in ASIII (Receipts-CD minus Payments-CD=1100-1100=0). This CD-entry on the receipts side in ASIII is followed by a corresponding entry in the A-column on the receipts side in ASIII (Receipts-A=1100), in order to avoid the reporting of an ending balance amount here (B=BD+CD-A=0+1100-1100=0). The latter bookkeeping is followed by an A-entry of the same amount (in ASI) on the payments side (Payments-A=1100), in order to avoid reporting an influence on the cash account (Receipts-A minus Payments-A=1100-1100=0). According to rule (1), however, we cannot carry out an A-entry without an earlier or simultaneous CD-entry on the same side of the cameral account. At the same time as we enter 1100 in the A-column on the payments side in ASI, we therefore enter the same amount also in the CD-column on the payments side in this accounting section (Payments-CD=1100). By help of the latter entry in ASI, we have made sure we report the performance effect of this transaction in the CD-column in ASI (the performance result accounts), as opposed to report it in the CD-column in ASIII (balance account), and we have made sure that an ending balance amount is not reported in ASI (B=BD+CD-A=0+1100-1100=0).

Furthermore, interest revenues (3) of 50 have been received and interest expenditures (4) of 100 have been paid; both the interest revenues and the interest expenditures have a performance effect. We therefore undertake the following bookkeeping in ASI: Receipts-CD=50 (revenue earned), Receipts-A=50 (cash inflow), Payments-CD=100 (expense incurred), Payments-A=100 (cash outflow). Moreover, a loan instalment (5) has been paid with 300 and a new loan of 2000 has been received (6). We undertake the following bookkeeping in ASIII: Payments-A=300 (cash outflow). We do not also carry out a CD-entry here, because a CD-entry has been carried out earlier, namely when the loan for which an instalment now being paid, was received (cp. Payments-BD=1600). This A-bookkeeping of the loan instalment on the payments side has the two following effects: First, it reports the cash outflow (when studying the A-column on the payments side vertically, the cash outflows will appear). Second, it reports the reduction of the loan liability when studying the cameral account horizontally (B=BD+CD-A=1600+0-300=1300). The receipt of the new loan is entered on the cameral account as follows: the loan cash inflow is entered in the A-column on the receipts side (Receipts-A=2000), at the same time as we enter this amount in the CD-column on the same side (Receipts-CD=2000) (cp. rule 1). Furthermore, we enter this amount also in the CD-column on the payments side (Payments-CD=2000). The latter entry has a dual effect: First, it makes sure that a performance effect of the new loan is not reported (Receipts-CD minus Payments-CD=2000-2000=0). Second, it increases the long-term debt in the balance.
accounts (B=BD+CD-A=1600+2000=3600). The long-term debt at the end of the period, after paying the loan instalment with 300 and receiving the new loan of 2000, is thus 3300 (B=BD+CD-A=1600+2000-300=3300).

Further, expenditures of 3000 for a fixed asset have been paid on the first day of the period (7). The following entries are undertaken in this connection in ASII: At the same time as a cash outflow of 3000 is undertaken and entered on the cameral account on the payments side (Payments-A=3000), we enter this investment expenditure in the CD-column on the same side (Payments-CD=3000) in accordance with rule (1). We also enter 3000 in the CD-column in the receipts side (Receipts-CD=3000), and this entry has two effects. First, it makes sure that no performance effect will appear from this investment expenditure (Receipts-CD minus Payments-CD=3000-3000=0). Second, it results in the capitalizing of this investment expenditure on the receipts side of the balance accounts (B=BD+CD-A=0+3000-0=3000).

Depreciation of fixed assets (8) with a performance effect is 15 (3000x0.005). First we enter 15 in the A-column on the receipts side of ASII (Receipts-A=15). By so doing we have reported a reduction of the book value for the fixed asset with this depreciation amount (B=BD+CD-A=0+3000-15=2985). Now we must carry out one more A-entry, namely on the payments side, in order to avoid an influence on the cash account from this non-cash depreciation expense (Receipts-A minus Payments-A=15-15=0). This A-entry (Payments-A=15) is carried out in ASI. At the same time as this A-entry is carried out on the payments side of ASI, we enter the same amount in the CD-column on the payments side in ASI in accordance with rule (1) (Payments-CD=15). By so doing we have achieved to report the performance effect of the depreciation (i.e., the expense incurred) in the CD-column in ASI (profit and loss accounts).

The net cash change will appear as the difference between total Receipts-A and total Payments-A:

| Total Receipts-A (12050+15+3100) | 15165 |
| Total Payments-A (11115+3000+1800) | -15915 |
| Net cash change                     | -750  |

We enter this cash reduction in the A-column on the receipts side in ASIV (Receipts-A=750). No CD-entry is to be undertaken here, because the cash reduction of 750 represents a reduction of an earlier CD-entry, or in other words, a reduction of the opening amount for the cash account (cp. Receipts-BD=2000). Hence, the cash account at the end of the period will appear as the cash account at the beginning of the period, reduced with this negative cash change (B=BD+CD-A=2000+0-750=1250).

All revenues (receipts) and expenditures (payments) with a performance effect appear in ASI. The performance result of the period will therefore appear as the net difference between Receipts-CD and Payments-CD in ASI:

| Receipts-CD in ASI | 12050 |
| Payments-CD in ASI  | -11115 |
| Performance result (profit) | 935   |

Since the Receipts-CD and the Payments-CD in the other accounting sections will balance, we can alternatively bring out the performance result as follows:

| Total Receipts-CD in AS I-III (12050+3000+4600) | 19650 |
| Total Payments-CD in ASI-III (11115+3000+4600) | -18715 |
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Performance result (profit)  935
We enter this positive performance result (profit) in the CD-column on the payments side in ASIV (Payments-CD=935), and by using the cameral balancing equation (i.e., rule (2)), this profit is transferred to the balance accounts (B=BD+CD-A=0+935-0=935).

Comment

ECAM

Departing from the systematic single-entry bookkeeping method of enterprise cameralistics above, we can prepare an overview of assets, liability and equity, as well as an overview of the performance result. Let us start with the former overview in form of balance accounts (balance sheet). Since the BD- and B-columns represent balance accounts at the beginning and end of the period, respectively, we depart from these columns, when preparing the following balance account (balance sheet):

<table>
<thead>
<tr>
<th>Balance account</th>
<th>Opening balance (BD)</th>
<th>Ending balance (B)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash account</td>
<td>2000</td>
<td>(2000-750)</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>0</td>
<td>(0+1500-0)</td>
</tr>
<tr>
<td>Fixed assets</td>
<td>0</td>
<td>(0+3000-15)</td>
</tr>
<tr>
<td></td>
<td>2000</td>
<td></td>
</tr>
<tr>
<td><strong>Liability and equity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short-term debt</td>
<td>0</td>
<td>(0+1100-0)</td>
</tr>
<tr>
<td>Long-term debt</td>
<td>1600</td>
<td>(1600+2000-300)</td>
</tr>
<tr>
<td>Equity</td>
<td>400</td>
<td>(400+0-0)</td>
</tr>
<tr>
<td>Performance result (*)</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2000</td>
<td></td>
</tr>
</tbody>
</table>

The performance result (935 in the example) has already been calculated above, as a part of the cameral bookkeeping. There it was calculated as the difference between CD-revenues and CD-expenditures (cp. 12050-11115=935 in ASI or alternatively 19650-18715=935 in ASIV). The performance result also appears when we study the change during the period on the BD- and B-columns. Referring to the balance account above, it clearly appears that the performance result (935) here appears as the net change on the other balance accounts during the period (see (*) in the table above). Hence, when using the systematic single-entry bookkeeping method of enterprise cameralistics, carried out on the cameral account, the performance result is reported both as the difference between the CD-revenues and the CD-expenditures (representing the activity side of the transactions) and as the change on the balance columns during the year (i.e., from the BD-columns to the B-columns, representing the payment side of the transactions). In addition, integrated balance accounts (balance sheet) reporting assets, liability and equity at the balance account date are also reported within enterprise cameralistics.
ECAM as an alternative to ‘accrual accounting’

If we take a closer look at the numerical example above, and use the merchant’s double-entry bookkeeping method undertaken with commercial ‘T’ accounts (with debit and credit sides), we will calculate a performance result of 935 (like it is within ECAM, see Monsen, 2008c, where this is illustrated in detail). Also, we will see that this performance result is reported twice, as it is with ECAM, namely in the balance accounts (representing the payment side of the transactions; showing net equity change) and in the profit and loss accounts (representing the activity side of the transactions; showing revenues earned minus expenses incurred). In addition, we will see that integrated complete balance accounts (an integrated complete balance sheet) are prepared; containing precisely the same information as that prepared with the balance accounts above (prepared by using enterprise cameralistics).

This similarity between commercial accounting (COM) (in the form of ‘accrual accounting’) and enterprise cameralistics (ECAM) is no coincidence. On the other hand, the purpose of developing enterprise cameralistics was to make it possible for government enterprises to prepare precisely the same type of information as the one prepared when using commercial accounting (i.e., accrual accounting information), but without having to use the merchant’s double-entry bookkeeping method and commercial style ‘T’ accounts (with debit and credit sides).

Within COM, activity accounts (i.e., profit and loss accounts) have been added to the payment accounts (i.e., the balance accounts), allowing for reporting the performance result twice: both via the payment side (showing the net equity change in the balance accounts) and via the activity side (showing the profit or loss in the profit and loss accounts). At the same time, the principle of single-entry bookkeeping (using balance accounts only) was replaced by the principle of double-entry bookkeeping (using balance accounts as well as profit and loss accounts) (see e.g., Monsen, 2008c).

Within cameral accounting we also find that activity accounts have been added to the payment accounts, namely through extending the content of the various columns in the cameral account (as explained earlier in the paper, when ACAM was developed to ECAM). Specifically, after this extension the CD-columns represent the activity accounts (or profit and loss accounts), and the BD- and B-columns represent the payment accounts (or the balance accounts). By this procedure, the performance result is reported similarly as it is reported within COM (i.e., both via the payment and activity sides, represented by the balance accounts and profit and loss accounts, respectively). According to Walb (1926), the grouping of the accounts into payment accounts and activity accounts is the common root of ECAM and COM (accrual accounting). This common root is the reason why ECAM reports precisely the same accrual accounting information as COM.

One difference between COM and ECAM, however, is the fact that the former accounting model uses the principle of double-entry bookkeeping, while the latter model uses the principle of systematic single-entry bookkeeping. However, the performance result (935 in the example) can be prepared within COM by using the principle of systematic single-entry bookkeeping and balance accounts only (i.e., without also using profit and loss accounts, see Monsen, 2008c, where this is illustrated in detail). Hence, it is not necessary to replace this bookkeeping principle with the principle of double-entry bookkeeping in order to report the performance result. This observation has been used by
ECAM, where systematic single-entry bookkeeping was developed (by the extension of the content of the B- and CD-columns, implying that payment accounts were supplemented with activity accounts), compared with systematic single-entry bookkeeping within commercial accounting (where only balance accounts are used).

In summary, it is not necessary to replace cameral accounting with commercial accounting (COM) in order to prepare accrual accounting information. One can alternatively use a specific version of cameral accounting, namely enterprise cameralistics. In particular, administrative cameralistics (ACAM) was developed to form enterprise cameralistics (ECAM), precisely for the purpose of preparing accrual accounting information by use of cameral single-entry bookkeeping on the cameral account, avoiding the necessity of having to use commercial double-entry bookkeeping for this purpose.

**ECAM as a supplement to ACAM**

It is important to keep in mind that ECAM was developed as an alternative to COM for use as a supplement to ACAM. Therefore, ECAM should not be studied in isolation (as an alternative to COM), but rather as a part of CAM, supplementing ACAM. ACAM was developed for use in the core budget-financed part of government organizations, and its main objectives are money management, budgetary control and payment control (see Monsen, 2008a,b). As an increasing number of government organizations started to establish government enterprises (being market-financed instead of being budget financed), a demand for performance (accrual) accounting information occurred in government organizations. Here it is important to underline that this demand did not appear in the entire government organization, but primarily in the government enterprises. In the core government organizations, the demand for financial (money) information to be used for money management, budgetary control and payment control remained.

A review of the German language literature about cameral accounting reveals the following two main reasons for developing ECAM to provide accrual accounting information, as opposed to using COM for preparing this type of information. First, one could use the same accounting model (i.e., cameral accounting with single-entry bookkeeping and the cameral account) for all parts of a government organization (see Walb, 1926). Specifically, CAM in the form of ACAM could be used for the core part of a government organization and CAM in the form of ECAM could be used for government enterprises. Using COM (double-entry bookkeeping and the merchant’s debit and credit accounts) for government enterprises and using ACAM (single-entry bookkeeping and the cameral revenue and expenditure accounts) for the core part of the government organization, would imply using two principally different accounting models in the same organization, resulting in very complex bookkeeping. Second, according to Oettle (1990) the main advantage of using one accounting model in all parts of a government organization is to make it easier for employees to be transferred from one part of government to another.
Comparing CAM with IPSASs

Internationally, we find that some countries have introduced, or are in the process of introducing, accrual accounting (within the framework of COM) in the governmental sector. In particular, the International Accounting Standards Board (IPSASB) is influencing this development by issuing International Public Sector Accounting Standards (IPSASs), based on commercial style accrual accounting as described in International Financial Reporting Standards. It is true that the IPSASB has also issued a comprehensive IPSAS for the cash basis of accounting, but the IPSASB clearly shows preference for the accrual basis. However, it appears that accrual accounting has been adopted by the IPSASB as the basis for government accounting improvement in preference to the traditional governmental accounting models, without any thorough analysis of the relative costs and benefits. Specifically, there is no discussion of the costs and benefits of using accrual accounting in government organizations compared with using a traditional government accounting model, like cameral accounting. In particular, there is no discussion if it is necessary to replace traditional governmental accounting with accrual accounting (prepared within COM) in order to provide accrual accounting information. Neither is there any discussion of the potential disadvantages of replacing traditional government accounting with accrual accounting. In general, it could be expected that changing from one system (like traditional governmental accounting with a strong financial (money) focus in the budget and accounts) to another system (like accrual accounting) will not only result in potential benefits (from accrual accounting information); but it is highly likely there will be some disadvantages (from the reduced financial (money) focus in the budget and accounts).

In the comments to the numerical example above, however, the following points appear: First, it is not necessary to replace traditional governmental accounting in the form of cameral accounting with accrual accounting (prepared within COM), in order to prepare accrual accounting information. This type of information can alternatively be prepared within the framework of cameral accounting (within ECAM). Second, within cameral accounting, the preparation of accrual accounting information (within ECAM) for performance management has been added to the preparation of financial (money) information (within ACAM) for money management, budgetary control and payment control. This development has been made possible by using the principle of single-entry bookkeeping, which allows for more flexibility (by entering one, two or more single-entries on the accounts, depending on which types(s) of information one wants to report) than is the case when using the principle of double-entry bookkeeping (by always debiting one account and crediting another account) (Wysocki, 1965). Closely related to this point is also the use of an account (i.e., the cameral account) with several columns on each side (BD-, CD-, A- and B-columns) than the case is when using an account (i.e., the commercial account) with only one column on each side (debit or credit). When having more columns for registering accounting transactions, it is possible to register more types of accounting information. Specifically, money information in the form of payment instructions and actual payments, as well as potential differences (i.e., accounts receivable or liabilities), can be registered in the CD-, A- and B-columns within ACAM (see Monsen, 2008b), while performance information in the form of revenues earned and expenses incurred, as well as assets, liability and equity, can be entered in the CD- and B-columns within ECAM (and supplemented with cash flow information in the A-columns)
(see the numerical example above). Entering these various types of information would be more difficult, if it was indeed possible, when using commercial double-entry bookkeeping and the commercial (debit and credit) accounts.

In summary, by using cameral accounting (in the form of ECAM), it is possible to produce precisely the same type of information as is prepared by using IPSASs. In addition, it is possible to retain the main advantages of traditional government accounting in the form of cameral accounting, namely preparing financial (money) information for money management, budgetary control and payment control (in the form of ACAM).

**Conclusion**

Cameral accounting (CAM) can produce precisely the same accrual accounting information as that provided with accrual accounting (prepared within COM, including the IPSASs). Moreover, within cameral accounting, accrual accounting information (prepared within ECAM) has been added to financial (money) information (prepared within ACAM). Hence, cameral accounting contains a strong money focus in addition to the accrual focus, unlike accrual accounting (COM) with its strong accrual focus at the expense of the money focus (Monsen, 2001).

Given this situation where CAM (consisting of ACAM and ECAM) can give us accrual accounting information in addition to the financial (money) information of traditional government accounting, it is interesting to reflect on possible reasons for why some countries are planning to use accrual accounting (COM) (including their attempts to follow accrual-based IPSASs), without considering to use CAM. Oettle (1990), discussing the trend towards implementing commercial accrual accounting in the public sector in the German speaking countries, suggests the following reason:

> “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)

Internationally, a possible reason for not considering the use of CAM is that most of the literature about cameral accounting has been published in German. There are very few English language articles explaining German cameral accounting to an international audience. Hence, CAM, as an alternative to IPSASs, is hardly known beyond German speaking countries. But another important reason is the observation that bookkeeping as it is discussed within the English-language literature assumes, without discussion, that the principle (or axiom) of double-entry is to be used:

> “If we adopt the axiom that double-entry bookkeeping is the foundation for financial reporting, in the context of an organisation with a single, self-contained set of accounts, the financial reporting problem is to decide which debits and credits should be reported in the balance sheet and which in the operating statement. There are several reasons for financial reporting taking this form, ranging from the trivial, because we conventionally report in this way, to the seemingly unattainable to produce an objective measure of performance”. (Jones, 1982, p.287)

Since cameral accounting uses the axiom (or principle) of single-entry bookkeeping, as opposed to the axiom (or principle) of double-entry bookkeeping, acquiring knowledge...
about cameral accounting requires the ability to question the axiom of double-entry bookkeeping, or in other words, it requires ‘double-loop learning’ (Argyris and others., 1985, p.86). By this term Argyris and others refer to a situation where one questions the existing rules or principles (like double-entry bookkeeping) and learns to operate beyond these existing rules or principles (like learning to use single-entry bookkeeping instead of continuing to use double-entry bookkeeping). Achieving ‘double-loop learning’ is more difficult than achieving ‘single-loop learning’, where the learning takes place within the existing rules or principles (like learning to apply double-entry bookkeeping in a modified way in government organizations compared with the merchant’s use of double-entry bookkeeping in business enterprises).

I would argue that starting to use cameral accounting around the world (i.e., beyond the German speaking countries, where cameral accounting was developed), is not a technical challenge. Since the cameral bookkeeping method is based on two specific rules (see above: no A-entry without an earlier or simultaneous CD-entry and B=BD+CD-A), computer programs can be developed for cameral single-entry bookkeeping (like computer programs have been developed for the merchant’s double-entry bookkeeping), avoiding the necessity of doing cameral bookkeeping manually. On the other hand, starting to use cameral accounting is an intellectual challenge, because we will have to think about bookkeeping outside the framework of double-entry bookkeeping; we need double-loop learning.

Given the importance of managing and controlling public money in a democratic society, it is important to use accounting models providing relevant information for this management. Cameral accounting is such an accounting model. It has been developed precisely for use in the core budget-financed part of public sector organizations in the continental European German-speaking countries, aiming to contribute to the management of public money within the boundaries of a politically adopted budget, as well as contributing to the control of money being received and paid by such organizations (payment control) (ACAM, see Monsen, 2008b, for further details, including numerical examples). Furthermore, as the demand for performance (accrual) accounting information occurred (in government enterprises being market-financed as apposed to budget-financed), cameral accounting was extended to also provide this type of information (ECAM, see above for a numerical example).

In summary, cameral accounting (CAM) is offered for use in public sector organizations as an alternative to accrual accounting (provided by using the merchant’s double-entry bookkeeping method within COM, including adherence to IPSASs), due to the following three main reasons: First, CAM has been specifically developed for providing financial (money) information within the core budget-financed part of government organizations, where this type of information is particularly desirable. Second, CAM also allows for preparing accrual accounting information for those parts of a government organization where such information is desirable (within market-financed government enterprises). Third, CAM, using the principle of single-entry bookkeeping, is more flexible than COM, using the principle of double-entry bookkeeping. Hence, CAM can, more easily than COM, adjust to new possible future information requirements occurring due to a changing environment (the supplement of financial (money) information with accrual information, when ACAM was supplemented with ECAM). Since change in the public
sector is the rule rather than the exception (Peters, 2001, p.ix), using the most flexible bookkeeping method is of utmost importance for the public sector.

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Financial Accountability: Functioning of the Public Accounts Committee in Bangladesh
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Introduction

The term ‘accountability’ means holding public officials responsible for their activities and ‘financial accountability’ is concerned with the management of public money. The government establishes a legal framework for financial management. The government is accountable to the people through parliament for raising and using public funds. The concept of financial accountability is as old as parliament. Since the thirteenth century, the raising and use of public funds has been subject to the parliament. In modern times, one of the important functions of parliament is to hold the government accountable for its spending of public money. Parliamentary scholars argue that the parliament could and should do more to secure full financial accountability from government. All over the world parliaments have a unique constitutional role in authorizing and scrutinizing government finance (Brazier & Ram, 2006).

Parliament should keep an eye on the government expenditure through a mechanism of committees. The parliament through its standing committees looks for instances of misuse of public money and prescribes the necessary remedies. The committees are the most significant internal organizational features of a modern parliament that has the potential to oversee the public expenditure. Therefore, in much of the parliamentary studies, committees have tended to be shown as “miniature legislatures” or “microcosms” of their parent bodies that can ensure government accountability (Kaare, 1998). The Public Accounts Committee (PAC) is one of the most important standing committees that are traditionally used by parliament for scrutinizing public expenditure.

The origin of the PAC can be traced in the British Parliamentary system. The parliament, established after the British model, also appoints the PAC to oversee the financial activities of the government. The main function of the PAC is to hold the government departments accountable for proper management of resources authorized by the legislature in the Annual Budget. This is usually accomplished through the personal accountability of an Accounting Officer. Parliaments which do not have a PAC often appoint a finance or budget committee for monitoring financial matters. For example, the American Congress, the German Bundestag and other European parliaments do not have PAC. They are more concerned with pre-sanctions rather than post-facto examination of expenditures. Many parliaments established after the British model have both an Estimates Committee and a PAC for pre-sanctions and post-facto examination of expenditures respectively. The system of financial control in Bangladesh has been built following the practice of the British model. The Bangladesh parliament called the ‘Jatiya Sangsad’ (JS) has three financial committees - the PAC, the Estimates Committee and the Public Undertaking Committees. Of these three committees, the PAC has the important role of overseeing the financial management of government departments. This paper analyzes the functioning of the PAC in the Bangladesh JS by examining various examples from 1991 onwards. Much of the analysis that follows is based on the
examination of the committee proceedings and reports, *Rules of Procedure of Bangladesh Parliament* that are used for operating committees, research and study reports, books and articles published in various journals. Information is also gathered from discussions with prominent political leaders and academia.

**Financial Committees in the Bangladesh Parliament**

Bangladesh is a South Asian country which became independent on December 16, 1971. Since the independence, due to continuity and discontinuity of the functioning of parliamentary system, in a broader sense the political regime can be framed in three different time spans. The years between 1972 and 1975 were a period of beginning of parliamentary democracy with an authoritarian party rule, following the military intervention the years between 1975 and 1990 were marked as strong executive system under military regime. Again, at the beginning of 1991 political consensus brought about the reintroduction of the parliamentary system of government. Since 1972, all together eight parliaments were formed, out of them three were constituted during the military regime. Except for the seventh parliament, no other parliament could complete their tenure. The first parliament was abolished after a bloody military coup. Since the military taking power in 1975, the second, the third and the fourth parliaments functioned under presidential system of government. These three parliaments were constituted in the course of civilization of the military governments and worked to serve the regime’s interests. After the fall of the military government by a mass movement in 1990, the parliamentary system of government was adopted again with the consensus of political parties. The fifth, the sixth, the seventh and the eighth parliaments were constituted under the new civilian arrangements. Among them the sixth parliament was ended after twenty days of its commencement due to opposition resistance. Therefore the sixth parliament is not evaluated here.

The Bangladesh Jatiya Sangsad, like other parliaments, has also established committees for handling numerous functions, some of them are permanent and some of them are temporary. The committees set up in the Bangladesh parliament can be divided into four categories as follows: ministerial standing committees, non-ministerial standing committees, special committees and select committees. The JS sets up one committee for each ministry that performs identical functions in relation to the respective ministry while Non-Ministerial Standing Committees are constituted for five distinct purposes: house keeping, service, scrutiny, investigative and financial. The Non-Ministerial Standing Committees, Business Advisory Committee, Committee on Private Members' Bills and Resolutions, and Committee on Rules of Procedure fall into the category of house keeping committees. Secondly, House committee and Library committee are considered as service committees. Thirdly, Committee on Government Assurances is in nature scrutinizing committee. Fourthly, Committee on Privilege and Committee on Petitions are investigative committees. Finally, Committee on Estimates, Committee on Public Accounts and Committee on Public Undertakings fall into the category of financial committees. The financial committees have been entrusted with the onerous responsibility of ensuring that the financial activities of the executive are in consonance with the authority of parliament.
Table 1 Types and Number of the Committees of the Jatiya Sangsad

<table>
<thead>
<tr>
<th>Types of Committees</th>
<th>5th JS</th>
<th>7th JS</th>
<th>8th JS</th>
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<tbody>
<tr>
<td>Ministerial Standing Committees</td>
<td>35</td>
<td>35</td>
<td>37</td>
</tr>
<tr>
<td>Non Ministerial Standing Committees</td>
<td>11</td>
<td>11</td>
<td>11</td>
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<tr>
<td>Investigative Committees</td>
<td>2</td>
<td>2</td>
<td>2</td>
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<tr>
<td>Financial Committees</td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>House Committees</td>
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<td>3</td>
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</tr>
<tr>
<td>Service Committees</td>
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<td>2</td>
<td>2</td>
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<tr>
<td>Scrutinizing Committees</td>
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<td>1</td>
</tr>
<tr>
<td>Ad hoc Committees</td>
<td>7</td>
<td>2</td>
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</tbody>
</table>

**Source:** Calculated by the author from the Parliamentary Proceedings, the Bangladesh Parliament Secretariat, Dhaka.

Among the financial committees the Public Accounts Committee is regarded as the most powerful and important committee for sanctioning, scrutinizing and monitoring of public expenditures. The Bangladesh Constitution makes it mandatory for the JS to set up the PAC while the other two financial committees are quite new and only stipulated in the Rules of Procedure of the JS. Over the years the PAC has adopted a wide range of techniques and devices to ensure financial accountability of the executive. In this context, the PAC assumes added significance.

**Origin of the PAC**

The origin of the PAC can be traced back to the British parliamentary system. The idea of the PAC first appeared in the British Parliament with a resolution moved by Gladstone, the Chancellor of the Exchequer, on April 2nd 1861 which was soon adopted by the House. The first PAC formally came into existance in 1861 and became a permanent arrangement of the British Parliament. Although it took the British Parliament a long time to create this committee, it was transplanted quickly to the soil of India's quasi-parliamentary institutions (Jones, 1957). The Welby Commission recommended setting up the PAC to oversee the financial transactions of government of India in 1896. The Government of India Act (1919) provided for the creation of a committee on public accounts, but it was the Legislative Rules Act (1920) that first framed the PAC. Rule 51(1) stated that "As soon as may be after the commencement of each financial year¹, a Committee on Public Accounts shall be constituted for the purpose of dealing with audit and appropriation accounts of the Governor-General in council and such other matters as the Finance department may refer to the committee" (The Gazette of India Ordinary, 1920).

1 The words "each financial year" was replaced in 1926 with the words "the first session of each Assembly". (See The Gazette of India 1926, Part I, 27 November.)
In this connection PAC first started its work in 1923 and at the same time similar committees were set up in Bengal and other provinces. The PACs of the provincial legislative assemblies were also governed by the Rules of Procedure of the National Assembly.

Rule 51(1) of the Rules of Procedure of the Legislative Assembly require the PAC to be constituted for the purpose of dealing with audit and appropriation accounts of the Governor-General in Council and any other matters that the Finance Department might refer to the committee (The Gazette of India Extraordinary, 1920). The procedures of the PAC were developed over the years through changes, after the introduction of the new procedures, a committee report was formally considered by the Assembly in February 1931 for general discussion, with onward committee reports followed by a general discussion. According to normal procedure, the committee met before the beginning of the autumn session and the number of meetings was varied from ten to twenty each year. On each day of sitting, the first few minutes were devoted to consulting with the Auditor-General and necessary audit information was provided by the office of the Auditor-General. During the course of witnesses, every department was to be represented by their highest officer to explain the accounts to the PAC. The committee was authorized to call for people, papers and records from the any government department and recommend disciplinary action to be taken against officers found responsible for fraud and negligence of public money. Apart from these the PAC was deprived of the opportunity to scrutinize military expenditure. An ad hoc committee was set up in 1925 for the purpose of scrutinizing military expenditure (Promila, 1977). It was reconstituted in 1931 and continued to function until 1947 as the Military Accounts Committee with the Finance Member as chairman, the Finance Secretary and three non-official members nominated by the PAC. The main achievement of this committee was to adopt a new device for dealing with the expenditure of the government department and for the first time brought senior civil servants face to face with a responsible body of representatives of Indian citizens (Interim Report of the PAC 1921-22, p.116).

**The PAC in Bangladesh: Legal Framework**

Parliamentary committees gain their power and legitimacy from two sources: the Constitution and the Rules of Procedure. In many countries, constitutions have a provision for setting up the financial committees for scrutinizing public expenditure. In the Bangladesh parliament, the PAC is derived from a special provision of the Constitution. Article 76 of the Bangladesh Constitution makes it mandatory to set up the Public Accounts Committee but the Constitution does not provide any provision for setting up an ad hoc PAC during the period when the legislature stood dissolved. Though it was contradictory to the Constitution, an ad hoc PAC was formed in 1983 by the Chief Martial Law Administrator General H. M. Ershad. This committee consisted of eleven members headed by Legal and Land Reform Minister K. A. Bakar and most of the members were retired civil servants.

The operation and terms of reference of the PAC are regulated by the Rules of Procedure. Rule 233 of the Rules of Procedure states that, “there shall be a Committee on Public Accounts for the examination of accounts showing the appropriation of sums granted by the House for the expenditure of the [Government], the annual finance accounts of the
In accordance with Rule 233 of the Rules of Procedure the PAC closely scrutinizes financial irregularities based on the reports of the Comptroller and Auditor General (CAG). Under the provision of the Article 132 of the Constitution, the Comptroller and Auditor General prepares an annual audit report which, through the President, is placed before the PAC. The full responsibilities of the PAC are to:

1) examine the annual appropriation accounts of the government;
2) examine the income and expenditure of the government;
3) examine the statement of accounts showing the income and expenditure of autonomous and semi-autonomous bodies, the audit of which may be conducted by the Comptroller and Auditor-General of Bangladesh;
4) consider the annual audit reports which, are prepared by the Comptroller and Auditor-General. The PAC mainly examines those reports on which the CAG has made observations.

Rule 233 of the Rules of Procedure also states that “if any money has been spent on any service during a financial year in excess of the amount granted by the House for that purpose, the Committee shall examine with reference to the facts of each case the circumstances leading to such an excess and make such recommendation as it may deem fit.” Upon examination of irregularities and lapses of institutions, the Committee submits a report to parliament with recommendations of remedial measures. But as its role is recommendatory the government departments are not legally bound to follow its recommendations.

The jurisdiction of the PAC is limited to examining the reports and accounts of the public sector organizations. It should be mentioned here that the PAC has no authority to examine the following matters: matters of major Government policy as distinct from business or commercial functions of the public undertakings, matters of day-to-day administration and matters for the consideration of which machinery is established by any special statute under which a particular public undertaking is established (Rules of Procedure, Rule 238). None of the financial committees have been given the power to scrutinise the budget.

In accordance with the Rule 196 of the Rules of Procedure, each committee may appoint one or more sub-committees to examine any matters that may be referred to them. In the fifth JS, there were as many as 47 sub-committees appointed and the seventh JS appointed more than 80 sub-committees. Like other standing committees, the PAC is also further broken down into sub-committees to deal with specific subject matter within the jurisdiction of the main committee. The sub-committees enjoys powers similar to the main committee and their reports are considered as the report of the parent committee.

The Committee Composition and Process

The size and composition of committees in the Bangladesh parliament is defined by the Rules of Procedure. In accordance with the Rules of Procedure, each standing committee is constituted with a chairman and a certain number of members. The number of members
of the financial committees varies between 8 and 15. Among the standing committees, the PAC is the largest committee comprising with 15 members whilst the Estimates Committee and the Public Undertakings Committee have ten members each. The chairpersons and the members of these three committees are appointed by the House and its members. Although, ministers are the ex-officio members of the ministerial standing committees, they are not allowed to sit in these financial committees under the provisions of the Rules of Procedure. If a member of the financial committees is appointed as a Minister, he/she shall cease to be member of the committee from the date of such appointment.

In many countries, such as the UK, a member from the opposition bench is appointed as the chairperson of the Public Accounts Committee. However, in the Bangladesh parliament all committee chairs are traditionally distributed to the ruling party following the majoritarian policy and members are appointed from the parliamentary parties on the basis of their strength in the house (Ahmed, 2002, p.135). As this distribution principle does not ensure representation of different party groups in the committee leadership, the main opposition party strongly claimed to follow the proportional representation method in distributing committee positions but the ruling party did not agree with them. Due to the absence of a proportional representation method, committee leaders cannot stay longer in the same committee in the same position unless his/her party comes to power again. Thus the career patterns of committee members in the JS are less stable than those in the established democracies where members often stay longer in the same committee and sometimes with the same position.

The Committee members and chairpersons are in principle appointed on the basis of seniority, specialization in subject matter, competence, personal choice and interests of their constituency. Conventionally re-elected members and senior party members are generally left on the committees of their choice while newcomers have to look for the best at the hands of party leaders. In the case of Bangladesh parliament, the party chief controls all the parliamentary party decisions and his/her personal choice and consent is given special importance to decide who will get which committee assignment. Therefore, loyalty to the party chief, dedication to the party and lobbying are commonly known factors for qualifying members to get positions in an important committee rather than traditional seniority and expertise principles. The major daily national newspapers indicated that legislators are keen to lobby for their assignment to particular standing committees linked to ministries connected with resource distribution, local and national level planning, and development works (The Daily Jugantor, February 3 2002).

Committee formation was delayed in the post-1990 parliaments for between one and half and three years due to disagreement between the government and the opposition party regarding the distribution of committee chairs. As mentioned earlier, committee chairs are traditionally distributed to the majority party though the opposition party strongly demanded to follow the proportional method. During the period of the seventh and the eighth JS, numbers of informal meetings were held between the ruling party and opposition party whips in the presence of the senior leaders to negotiate the demand about committee positions. The Speaker also called the ruling and opposition party leaders to resolve the problem. But all of informal and formal procedures failed to reach an agreement duly. In the seventh and the eighth JS, Ministerial Standing Committees
were first formed keeping slots vacant for the main opposition and later adopted them reorganizing the committees. To avoid the unwanted delaying of committee formation the eighth JS amended its Rules of Procedure making it mandatory to form all standing committees within three months from the beginning of a new parliament.

The role and responsibilities of a committee member are quite different in nature from the plenary session. Their role and responsibilities are not specifically defined in the Rules of Procedure. Members who sit on the financial committees purely work with financial matters. Members of the financial committees do not work with legislation; they work for improving the financial discipline of public organizations. In doing so, committee members review audit reports submitted to the parliament by the CAG, scrutinizing cases of corruption and financial mismanagement which they document.

The committee chairperson is responsible for preparing, convening and presiding over committee meetings and implementing the committee's decisions. Like the Speaker of a parliament in plenary session, the committee chairperson allocates speaking time and permits members to speak in the order in which they have requested leave to speak. The Chairperson has power to take measures for the maintenance of order as well as to suspend the meeting if necessary. However, the functions and power of the committee chairperson of the JS are not specified in the Rules of Procedure, but are split in various rules. Power and authority of the committee chairperson is mostly similar to the mentioned above.

The chairperson of a committee settles the agenda together with the venue, date and time. Thereafter, committee secretariat announces the meeting schedule and communicates with the members and concerned ministries before a certain time of the meeting. After meeting, every committee prepares and presents a report to the house together with recommendations. Committee report is generally presented to the house by the respective committee chairperson or any other member in his/her absence as his/her representative.

The committee chairpersons frequently depend on the co-operation of committee members to make a unanimous decision. In parliaments where majority committee members are drawn from the opposition parties and chaired by the ruling party member, and vice versa, committee chairpersons have to go against their own political line. Only with one exception, in every JS all committee chairs were drawn from the governing party members whose majorities of members were also drawn from the same party and they are nominated to take part in the work of the committee in party line. Therefore, the committee chairpersons hardly needed to go against their own party line. Thus the committee members from the opposition and minority parties often complained that the chairperson seemed to be partial.

The Rules with regard to committee regulations define the procedure of convening meetings, preparing decisions and reporting to the House. The sitting of a committee depends upon the schedule fixed by a committee chairperson. According to Rule 197, the committee chairperson fixes the date and time of the sittings. If a committee chairperson is not readily available or he/she fails to call mandatory monthly meeting for any reason the Speaker may direct the Secretary to call a meeting of that committee and the

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2 Recent reforms of committee rules make the mandatory for every standing committee to convene at least a meeting once in a month
Secretary shall convene a meeting of the committee at a date, time and place fixed by the Speaker (*Rules of Procedure*, Rule 197).

The meetings of the PAC generally take place in the committee room on any day of the week when the JS is sitting. They usually start at 10 in the morning or after lunch and last around two to three hours without a break. Before embarking on the agenda, the committee meeting normally begins with a discussion of procedural matters relating to the meeting, general information, etc. At this point, it is also agreed which agenda items should be dropped or postponed, which should be debated jointly, and which items can proceed directly to a vote without a debate. The Chairperson then announces the individual agenda items; in doing so, he may deviate from the order set out in the agenda. At the start of each agenda item, the representative of the concerned government department provides background information and supplies necessary information on behalf of his or her department. After this, committee members have had an opportunity to put forward their views, the Chairperson calls the speakers in the order in which he receives the requests to speak. The concluding deliberation takes place after a final vote and at this stage no amendment can be brought. Thereafter, chairperson prepares the final report with the assistance of the committee secretariat. The committee report generally contains recommendations, opinion of the minority and other comments of the committees concerned. The committee report shall be signed and presented to the House by the chairperson on behalf of the committee, or in his/her absence, any member of the committee can submit the report within one month of the date on which reference to the committee was made, if an appropriate time limit is not fixed by the house for the presentation of the report.

In accordance with the *Rules of Procedure*, committee decisions are made by a majority vote, when a vote is taken on draft legislation or a complex matter, each separate provision or clause is put up separately. In other cases, committee decisions are prepared in a draft report and placed for vote or amendment. When a disputed issue goes to a vote, members cast their votes along party line, both the government and opposition parties make sure that all of their members are present. If the minority members disagree with the majority, they can record ‘note of dissent’ but they are not allowed to submit ‘minority report’. In case of an equality of votes on any matter, the committee chairperson, or the person acting as such, has the casting vote.

A committee may sit whilst the parliament is sitting with the permission of the Speaker. Meetings usually take place within the area of parliament, if it becomes necessary meetings can also be held outside the parliament and in that case the matter shall be referred to the Speaker whose decision shall be final (*Rules of Procedure*, Rule 200). A committee is deemed to have quorum if one third of its members are present. If quorum is not found, the chairperson can suspend a sitting of the committee to some future days. Unlike the US Congress, committee meetings in the Bangladesh parliament are not in principle open to the public. Although meetings are closed to the media and mass public, authorized parliamentary/committee staff and people other than members of the committee may attend the meetings without taking part in the deliberations, if a committee invites them.
Social Standing of PAC Members

Many political scientists like Thomas Stratmann, Heino Kaak, Roger H. Davidson, have expounded the idea that parliament requires skilled and experienced members who can give full time attention and are capable of working in a complex environment (Stratmann & Baur, 2002, Kaak, 1990, Frankland, 1977). In the developed democracies majority of the parliamentarians turn out to be professional politicians. Because parliamentary nominations are usually distributed on the basis of qualifications like length of political career, devotion to the party, academic qualification, resource capacity, attachment with intra party organizations, quota for women, specialization in subject matter or experience. After the parliamentary elections legislators are appointed to different parliamentary committees as chairperson or members according to their seniority, experience and expertise. Besides these factors, constituency interests and members’ interest and desire are also taken into consideration (Stratmann & Baur, 2002, Kaak, 1990, Frankland, 1977). Keeping in view these characteristics, the present section explains the social standing of PAC members of the Bangladesh parliament.

Table 2 shows that the business-industrial class has been the dominant group in the parliament followed by retired civil-military bureaucrats who are mostly businessmen and industrialists. The social composition of parliament was also reflected in the committees. Most of the PAC members have been business-industrialists followed by professionals. Former civil servants were quite high in the 7th and 8th JS, especially compared to their number in the JS. Since 1975, successive military regimes brought them in to the political arena. Despite political patrimonialism, massive foreign aid also contributed to fostering the growth of new business-industrialist and bureaucratic political class (Maniruzzaman, 1994).

The percentage of professional politicians gradually increased in the parliament and also in the PAC. Table 3 shows that no professional politicians were appointed to the PAC during the period of the seventh and the eighth JS. Most of the committee members were business people. This happened because political parties prefer to nominate moneyed men (businessmen, industrialists, entrepreneurs etc.), retired civil- military bureaucrats etc rather than professional politicians for the parliament. They did not consider the political experiences, seniority and educational qualification for electoral nomination. With a few exceptions, members of the trade unions or interests groups, employees of the private business office, workers and student leaders are also underrepresented in the JS as a whole. A prominent journalist of the country observed that political parties sell nominations to financially affluent people or business people who are contributing huge amounts of money to get nomination without having any political background (Karim, 2004). Thus, many MPs were not really political representatives of the people because they did not personally build political relationship on the basis of political demand (Ahmed, 2002, p.71). They hardly maintained regular interaction with their electors and were less concerned with their constituency. They were busy with extra parliamentary activities to enrich themselves, rather than their parliamentary job.

Like most parliaments in the world, the Bangladesh parliament is also male dominated. Excluding the reserved seats only few women were elected for the general seats. Statistics revealed that in the eighth parliamentary election 27 women candidates contested for 37 general seats and among them only six women candidates (16%) were...
elected for 13 general seats, meaning 4.3 percent of the total 300 general seats (Hassanuzaman & Hussain, 1998, p.81). It has been observed that since the independence of the country, women members were not appointed to the PAC. As women members were very small group compared with their male colleagues and their candidature by and large was dependant on their male partner for money and support for electoral politics, they were not nominated to the committees according to their choice (Hassanuzaman & Hussain, 1998, p.80).

Table 2: Social Composition of the Members of the JS (figures shown in %)

<table>
<thead>
<tr>
<th>Background</th>
<th>Fifth JS</th>
<th>Seventh JS</th>
<th>Eighth JS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Occupational Background</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business people</td>
<td>53</td>
<td>48</td>
<td>57</td>
</tr>
<tr>
<td>Former Army Officers</td>
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<td>6</td>
<td>5</td>
</tr>
<tr>
<td>Former Civil Servants</td>
<td>2</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Lawyers</td>
<td>19</td>
<td>17</td>
<td>11</td>
</tr>
<tr>
<td>Doctors, Eng., Journalists</td>
<td>14</td>
<td>9</td>
<td>11</td>
</tr>
<tr>
<td>Politics</td>
<td>2</td>
<td>4</td>
<td>7</td>
</tr>
<tr>
<td>Others</td>
<td>4</td>
<td>14</td>
<td>6</td>
</tr>
<tr>
<td>Educational Background</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Postgraduate</td>
<td>38</td>
<td>40.25</td>
<td>42.38</td>
</tr>
<tr>
<td>Graduate</td>
<td>46</td>
<td>45.28</td>
<td>47</td>
</tr>
<tr>
<td>Undergraduate</td>
<td>16</td>
<td>10.37</td>
<td>10</td>
</tr>
<tr>
<td>Others</td>
<td>-</td>
<td>4.1</td>
<td>0.62</td>
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</table>

Table 3: Social Composition of the PAC (figures shown in %)

<table>
<thead>
<tr>
<th>Background</th>
<th>Fifth JS</th>
<th>Seventh JS</th>
<th>Eighth JS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Occupational Background</td>
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<td></td>
<td></td>
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<tr>
<td>Business people</td>
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<td>46.7</td>
<td>53.3</td>
</tr>
<tr>
<td>Former Army Officers</td>
<td>0</td>
<td>13.3</td>
<td>6.7</td>
</tr>
<tr>
<td>Former Civil Servants</td>
<td>0</td>
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<td>13.3</td>
</tr>
<tr>
<td>Lawyers</td>
<td>13.3</td>
<td>6.7</td>
<td>13.3</td>
</tr>
<tr>
<td>Doctors, Eng., Journalists</td>
<td>20</td>
<td>13.3</td>
<td>13.3</td>
</tr>
<tr>
<td>Politics</td>
<td>13.3</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Others</td>
<td>6.7</td>
<td>6.7</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
</tr>
<tr>
<td>Educational Background</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Postgraduate</td>
<td>66.7</td>
<td>53.3</td>
<td>46.7</td>
</tr>
<tr>
<td>Graduate</td>
<td>33.3</td>
<td>46.7</td>
<td>53.3</td>
</tr>
<tr>
<td>Undergraduate</td>
<td>0</td>
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<td>0</td>
</tr>
<tr>
<td>Others</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Calculated by the author from the PAC reports

**Activism of the Public Accounts Committee**

The PAC uses a number of techniques to keep the government accountable for its financial actions and policies. The following paragraphs focus on the work of the PAC and compare it with other two financial committees. As mentioned in an earlier chapter, the PAC takes measures against irregularities and mismanagement of the government departments by examining the audit objections based on the annual audit report, performance audit report and special audit report prepared by the Comptroller and Auditor General (CAG). It is worth mentioning that the CAG himself/herself or his/her representative and high officials along with the accounting officer of the concerned ministry or department are present at each committee meeting to clarify the audit objections.

The nature, scope and functions of the PAC have been increased considerably since the beginning of the fifth parliament in 1991 (Ahmed, 2006, p.93). The fourth PAC was set up in the fifth parliament on 8 July 1991. In all, the committee held 52 meetings and submitted four reports. The PAC at that time mainly dealt with old audit reports (until 1986-87) and settled 440 audit objections. But the fourth PAC could not deal with 70.49% of audit objections prepared by the CAG. It was difficult for the PAC to discuss all old reports with their limited time and facilities. Committee thus suggested setting up of a task force for each ministry to settle their old audit objections. Though a large number of old audit objections have been discussed and settled in the PAC meetings, it was not possible for them to complete this task (Transparency International Bangladesh, 2002).
Table 4: Activities of the Public Accounts Committee (1991-2006)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of meetings held</td>
<td>52</td>
<td>103</td>
<td>46</td>
</tr>
<tr>
<td>Attendance of Committee members</td>
<td>7.28</td>
<td>7.17</td>
<td>8.73</td>
</tr>
<tr>
<td>Number of Sub-committee formed</td>
<td>4</td>
<td>1</td>
<td>9</td>
</tr>
<tr>
<td>Number of sub-committee meetings</td>
<td>83</td>
<td>6</td>
<td>48</td>
</tr>
<tr>
<td>Number of sub-committee reports</td>
<td></td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Number of committee reports</td>
<td></td>
<td>4</td>
<td>3</td>
</tr>
</tbody>
</table>

Source: Calculated by the author from the PAC reports.

The seventh JS set up the fifth PAC four months after the establishment of the parliament. This committee had examined both current and old audit reports with its 103 meetings, including four policy-planning meetings. The committee had examined the audit reports from 1987-88 as the previous committee had scrutinized the audit reports until 1986-87. The committee was able to examine some of the reports from 1996-97 up until 23 April 2001. For the years 1997 to 2001, PAC discussed 1301 audit objections and settled 497 objections involving a total of Tk. 176,300 million (Ahmed, 2006, p.94).

Comparatively, the PAC of the eighth JS could discuss and dispose of fewer audit objections since the committee was established only after one and half year of the establishment of the parliament. From July 2003 to October 2006, the committee had met in 46 meetings and examined 149 audit objections on 15 ministries involving a total amount of Tk. 131,540.54 million and recovered only Tk. 637.7 million which is 0.5 percent of the total money involved these audit objections. Although, the PAC was serious about their responsibilities, they could not settle all audit objections. From the beginning of the first parliament to the eighth parliament (until April 2004), altogether 799 audit reports were placed before the parliaments. Among these audit reports placed before the parliament, the PAC discussed only 166 (20.78%) audit reports on various ministries while 633 audit reports are yet to be discussed.

The PAC of the eighth parliament has submitted only one report with seven general recommendations. Among these recommendations, they expressed their deep dissatisfaction about the secretaries of six different ministries, as they did not follow the PAC decisions about resolving audit objections. Another important recommendation was to ask the executive departments to be careful about providing the necessary documents to the CAG office.

The PAC also made some general recommendations asking the relevant authorities to implement its recommendations and decisions. However, most of the ministries were reluctant to implement the recommendations within the allotted time. The PAC has no right to take any punitive measure against a ministry or department. The Rules of Procedure do not mention a situation of a ministry ignoring the committees’ recommendations.
**Strengthening the PAC**

Compared to the parliaments of the developed countries, the Bangladesh parliament is not properly equipped with sufficient staff and research assistants. The parliamentary committees do not have sufficient professional and expert staff. Altogether 138 staffs are employed for 48 permanent committees. Though Members of the JS receive an overwhelming salary and other benefits, they do not have personal staff and research assistants. As we see earlier most of the parliamentarians are new business elite and professionals, they are more interest extra-parliamentary activities rather than improving their parliamentary capacity. In this circumstance, political parties, donor agencies, civil society organizations and media made emphasis on strengthening the parliament through improving the institutional capacity and efficiency of the committees for achieving its legislating and overseeing performance.

Since the beginning of the fifth parliament (1991-1996) the Bangladesh JS has been receiving parliamentary aid from various development agencies and countries including UNDP, DFID/UK, USAID, the World Bank and other agencies. The UNDP and other experts prescribed to strengthen the financial committees for improving the financial accountability of government to parliament. The UNDP introduced a development project in 1997 named ‘Strengthening Parliamentary Democracy (SPD)’ for improving institutional capacity of the parliamentary committees particularly those concerned with finances. Including the PAC financial committees are given special emphasis to improve their legislative and oversight functions. As part of the ‘Strengthening Parliamentary Democracy’ project, training programs were conducted for the staff assigned to the committees, series of discussions were held with a focus on the role of the parliamentary committees in the legislative and overseeing process. Under the UNDP SPD project orientation programs for the committee chairperson and members were organized during the period of the seventh and the eighth JS (Hashem, 2001).

**Concluding Remarks**

From the above discussion it is revealed that the PAC worked in the parliament in a highly politicised environment. The endemic conflicts and disunity between the two major political parties prevented the real debate on the committee process. The PAC was not formed in due time and the committee failed to fulfil its meeting and reporting requirements according to the *Rules of Procedure*. Despite these the PAC performed a significant role in settling number of audit objections and in revealing mismanagement of the various government departments. The PAC was particularly devoted to identifying the persons and organizations involved in financial irregularities. Examining the financial anomalies of the different ministries, the PAC made more than hundreds of recommendations but few of them were implemented. The PAC chairperson and members complained, both in public and in private, that the performance of the PAC often remained far form satisfactory because different ministries did not properly take initiative against the expenditure irregularities. As the role of the PAC is recommendatory not mandatory it can make recommendations against any irregularity but it cannot force the government departments to implement the decisions. For strengthening the PAC in overseeing financial management, decisions taken by the standing committees should be considered as mandatory.
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*Rules of Procedure of the Bangladesh Parliament*, available at

www.parliamentofbangladesh.org/rprocedure.htm#_Toc518283136.


The Imperatives of Prudent Management of Nigeria's Rich Resources
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achuajoe@yahoo.com

Abstract
There is a discernibly wide expectation gap in the way Nigeria’s resources have been managed over time. This paper stresses the strategic importance of the human factor in the nation’s resources management. Only a responsible leadership, kept in check by a well organised and progressive workforce in a conducive environment, can be trusted with prudent use of the nation’s resources. Therefore, in the light of the “Nigerian Factor” syndrome, the imperatives of sustainable prudent management of Nigeria’s resources include an urgent need for a political will to effect robust fiscal responsibility, pragmatic public accountability, and good public governance. This will entail a Nigerian renaissance towards rebuilding basic mechanisms of democratic governance to make elected and appointed officials accountable to their constituents through free and fair elections; strong government institutions; and well-organized and informed citizens with the power to stand up to the existing elite and demand performance. Accomplishing this Herculean task is the responsibility of all Nigerians. Encouragingly, the eventual installation of a former union leader as Edo State Governor after a protracted struggle at the polls and the tribunals is a manifestation that change is possible. This should serve as an impetus to other concerned citizens and pressure groups.

Keywords: Prudent management, corruption, Nigerian factor, governmental accountability, fiscal responsibility, political governance,

Introduction
Nigeria is a country blessed with rich human and natural resources. The country has the largest population in Africa of over 148 million (AfDB/OECD, 2008), and great diversity of cultures, cities and terrain. Her wide span of land includes large quantities of some of the most valuable mineral resources in the world. Given the volume, value and varieties of available natural resources, Nigeria should be ranked among the richest countries of the world. However, Nigeria typifies the paradox of poverty in the midst of plenty. At the dawn of the Third Millennium, approximately 70% of the population still live on less than US$1 a day, an indication of extreme poverty. Real Gross Domestic Product (GDP) growth has remained sluggish, averaging 3.5% per annum since 2000 (AfDB/OECD, 2008, estimates it at 3.2%). With an average annual investment rate of barely 16% of GDP, Nigeria is far behind the minimum investment rate of about 30% of GDP required to reach a growth rate of at least 7 - 8% per annum required to achieve the Millennium Development Goals (MDGs) by 2015. Most of the Foreign Direct Investment (FDI) into the country is directed at the oil and extractive sectors. Thus, the economic structure remains undiversified and oil exports account for 95% of total export earnings, while the manufacturing sector accounts for less than one percent (UNDP, 2004). As of 2007, life expectancy was 46.9 years while oil accounted for more than 37% of its GDP.
(AfDB/OECD, 2008). With 80% of its public revenues dependant on oil, Nigeria’s reliance on oil production for income generation clearly has serious implications for its economic policy management (World Bank, 1995). In addition, the country faces daunting challenges of re-building a country badly damaged by decades of military misrule and a fragile democracy. Furthermore, there are threats of diseases such as malaria, HIV/AIDS, and tuberculosis. Worse still, with the intractable crises in the Niger Delta over resource allocation, instability looms high. Clearly, it is obvious that progress in achieving the MDGs will depend critically on the goodwill, cooperation and concrete actions of the rich countries (AFRODAD, 2005). With this attitude of depending on the goodwill of others, it is doubtful when the child will become the “father of the man.” (Udombana, 2003, p.20).

Nigeria’s predicament stems substantially from the unsatisfactory management of the resources at its disposal. This stresses the strategic importance of the human factor in the nation’s resources management. The authors of the 1999 Constitution of the Federal Republic of Nigeria took the astute steps of trying to curb this ugly situation in Section 16 (2) which states, inter alia: the Government shall direct its policy towards ensuring:

(a) the promotion of planned and balanced economic development; and
(b) the material resources of the nation are harnessed and distributed as best as possible to serve the common good.

Therefore, prudent management of the nation’s resources is not just a wishful matter; it is a constitutional issue that should be given the attention it deserves. In the light of the apparent neglect of this constitutional provision, and the consequences thereof, this paper examines the imperatives of sustainable prudent management of Nigeria’s national resources.

**Resource Riches or Resource Curse?**

It is often argued that there is an association between resource riches and poor economic performance (“the resource curse”), and a significant body of literature has grown seeking to explain the relationships between resource abundance and economic performance. Auty (1997), for instance, examines the relationship between broadly defined resource-rich groups of countries over the period between 1960 and 1990. Sachs and Warner (2000) show a robust inverse relationship between growth and resource riches for a sample of 97 countries over the period 1970-1989. However, this view has not remained unchallenged. Hausman and Rigobon (2003), while supporting the generally inverse relationship, point out that oil-rich countries performed well economically in the 1980s when oil was doing well—contrary to what would be expected under the “Dutch disease” hypothesis³. In an attempt to explain Africa’s performance with growth and investment regressions, Mkandawire and Soludo (1999) find that while

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³ “Dutch disease” is the deindustrialization of a nation's economy that occurs when the discovery of a natural resource raises the value of that nation's currency, making manufactured goods less competitive with other nations, increasing imports and decreasing exports. The term originated in Holland after the discovery of North Sea gas. See [http://www.investorwords.com/1604/dutch_disease.html](http://www.investorwords.com/1604/dutch_disease.html). While it most often refers to natural resource discovery, it can also refer to any development that results in a large inflow of foreign currency, including a sharp surge in natural resource prices, foreign assistance, and foreign direct investment (Ebrahim-Zadeh, 2003).
the “Dutch disease” syndrome, caused by large natural-resource endowments, constitutes serious impediment to investment and growth in Africa, other factors also exist to explain her underdevelopment. Also, Lederman and Maloney (2003) have raised doubts about the robustness of the Sachs and Warner’s (2000) findings. It is extremely difficult to definitively say that “Dutch disease” is the cause of the underdevelopment since there are many other factors at play in the very complex global economy.

Oil production provides the most dramatic illustration of the problems posed by resource riches for developing countries: very large, quickly growing, but time-limited production and revenue flows, combined with a high degree of volatility as a result of fluctuating world prices. When combined with weak administration, ownership of such wealth provides ample scope for inefficient policies, discretionary behaviour, and outright corruption, all of which could contribute to poor growth performance and eventual dissipation of national oil wealth. A key question in this regard is how countries can avoid the resource curse and turn their abundant resources into a blessing. This question is especially relevant for countries like Nigeria that are rich in hydrocarbon and mineral resources. This concern arises from the realisation that owning resources may not be a curse in itself, but that the problem seems to lie in the institutional factors inherent in the management of these resources.

Effective resource management is not usually a product of chance. It is, rather, a result of conscious efforts towards a process of institution creation in a particular state formation, an institution building framework that is able to reconceptualise and bring about development. The extent to which this institution manages the resources available at its disposal, as judged by the general ‘welloffness’ of the citizens, is the dividing line between ‘rich’ and ‘poor’ nations. The distinction is not based on the quantity, or even quality, of resources available at the disposal of any country. The distinction lies in the quality of management of these resources, and the distribution of the output thereof (Sala-i-Martin and Subramanian, 2003). This seems to be evident in the Nigerian situation as Wegh (2008, p.66) aptly notes:

*It is something of paradox that a country categorised as one of the richest in human and material resources in Africa finds itself in this inglorious position. Nigerians and her well-wishers hoped that with the enormous resources, especially oil, the country would take off and achieve rapid economic and industrial transformation. But this was not to be as through the combination of mismanagement, poor leadership and incredible levels of corruption on part of public officials, Nigeria’s fortunes have been squandered or siphoned off.*

Nigeria is the most oil dependent of all established federations (Anderson, 2007). However, Nigeria stagnated because its governments were captured by the elites that undermined market forces and used public services to provide employment patronage for their cronies. State capacity building was neglected during the colonial times. Since

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independence, ruling elites also did not find it in their interest to develop state institutions or public infrastructure. National resources generated large resource rents for ruling elites, thus making the rationalization of institutions unnecessary (Fosu, 2004). As a consequence, Nigeria’s institutions are relatively weak in terms of policy coordination and transparency compared to most other federations (Anderson, 2007). The importance of functional institutions as an explanatory variable is stressed by Sala-i-Martin and Subramanian (2003) who provide evidence to show (both in a cross-section study, and in the case of Nigeria) that the impact of resource wealth is strongly linked to its impairment of institutional quality, and that little of the effects arise from the actual level of natural resources.

Without good norms and practices at all levels, and in all institutions in a given economy, development will remain elusive even with the ideal endowment of resources (GRZ, 2002). This means that development does not come about just by a country’s endowment of resources. Even with an abundance of resources, development is a function of prudent resource management. Nigeria’s dilemma stems from the unsatisfactory management of the resources at its disposal. Prudent public resource management arises as the result of a conscious strategy of purposeful institution building. Deficiency in this has remained the bane of optimal management of resources in Nigeria. Though, Nigeria as a country does not lack institutions that could guarantee prudent management of the nation’s resources, what exist now are spurious institutions, weakened and made moribund by economic collapse and corruption.

**The Human Factor and Waste in the Management of the Nation’s Resources**

The essence of government is to ensure the prudent management of the economy and efficient utilisation of scarce resources for the wellbeing of its citizens. All resources need proper planning and control in their utilisation to satisfy public interest. According to Osisioma (2001), these resources essentially consist of the 6Ms – men, machines, money, materials, methods and minutes. Resources must include time which is being consumed in doing anything. Methods are the processes and procedures through which the management system is carried out. Materials represent all the natural resources. Money is an essential element of the management system because it facilitates payments for all the other resources as well as the accumulation and distribution of the products arising from the system. Men are the human element which comes with divergent needs and wants, some of which could be in conflict with the national interest. When men are dissatisfied, disgruntled or disillusioned, the machines, the money, the materials and the minutes of the nation are wasted and squandered. The central task of resource management, therefore, is to create enabling conditions and control environment, and a clear statement of the processes and procedures that must be adhered to, so as to safeguard public interest and resources. This can only be done by men. Therefore, the human factor is the most critical factor in the nation’s resource management system. It is the source and summit of the workforce and leadership.

Ejiofor (1987) has identified three major premises for inefficiency, which lead to waste of resources by the Nigerian worker. These include structural inefficiency, primary or voluntary inefficiency and secondary or induced inefficiency. Structural inefficiency
arises when workers are inefficient because they do not know what to do in a given situation. Voluntary inefficiency is where those who know what to do are not willing to do the right thing in the given situation. Induced inefficiency is a situation of knowing what to do, and being willing to do the right thing, but being constrained by the given situation. Underlining these premises is the fundamental assumption that only men and women, not machines, money and materials can be held responsible for non optimisation of public resources. The human control environment is the main determinant of the public systems’ integrity. Systems do not work themselves; they are made to work. When human factors will not facilitate the optimum performance of a system, failure is guaranteed. When environmental influences (mainly human factors) are inimical to the normal working of the system, it will not operate and produce as desired. The system will lack integrity, the excellence of design notwithstanding (Adebiyi, 2002). Thus, prudent management of public resources is mainly a function of good leadership, an effective workforce, the quality of management and supervision, and availability of machines, money and materials.

The Nigerian economy, particularly in the public sector, has suffered from the double jeopardy of leadership failure and deplorable work ethic. According to Osisioma (2001, p.4):

*The bane of Nigerian economy has been the work ethic of the Nigerian worker. His corrupt and fraudulent propensity, his lack of zeal in discharging organisational functions, his basic unreliability, do not stem from lack of skills, abilities, or competence. His attitude to work has coloured everything he does. The average Nigerian worker is exploited by both government and entrepreneur: that is very true. But more importantly, the average Nigerian worker wants more for less work. He lacks commitment to organisational goals and objectives. He is only at his best when he is working for himself. Neither productivity nor excellence means anything to him; his creed is simply, ‘I, me and my’.*

Nigeria’s experience of ineffectiveness and inefficiency in resource management and poor economic growth has also been attributed to corruption and waste (Nwoko, 2002). Anything that constitutes leakage from the resource management system is a waste. According to Osisioma (2001), wastes and loss of public resources in the economic sense occurs in diverse ways such as when:

- Funds are expended and yet the public interest is not accomplished;
- Funds are disbursed for a particular end, far in excess of what is needed for that end;
- Funds are spent, but not for public interest – that is diverted to private ends;
- Staff convert public property to personal use, or use them for unapproved purposes;
- There is fraud, errors of judgement and operation, and faulty workmanship;
- Boards, panels and probe committees whose reports are neither used nor contribute to the efficiency of management of government resources are constituted.
Perhaps, the worst source of waste in the Nigerian public sector is the endemic and pandemic issue of corruption, with its attendant consequences. The 2008 global Corruption Perceived Index (CPI) suggests that Nigeria has improved marginally in eradication of corruption relative to other countries in the world. However, much more needs to be done to further reduce the perceived level of corruption in the public sector. Corruption reduces rate of investment, scares away foreign investors, and slows the rate of growth of the gross domestic product. Corruption also breeds political instability, bureaucratic bottlenecks and weak legislative and judicial systems. It destroys values and initiative. These vices are self-strengthening and seriously undermine national economies.

Our economic system is besieged by fraudsters and has become comatose after suffering corruption for too long. For instance, most of Nigeria’s debts, including external loans, were irresponsibly contracted by our leaders who plundered the nation’s resources for selfish ends (UNDP, 2004). The corruption virus has become so prevalent and pervasive that those who long for order, stability, and efficacy simply avert their eyes helplessly. Nigerian leaders now appear to be a crop of ‘rulers’ who are selfish, corrupt, inconsiderate and greedy, and whose only concern seems to be with how to fraudulently milk the country dry.

The common explanation for corruption in Nigeria is the hydra-headed ‘Nigerian Factor’. This can hardly be defined due to its multiplicity of meanings and applications. However, it simply means any waste and loss of public resources in the economic sense that can be explained away within the Nigerian context. It appears to be the justification for all corrupt practices in the country. Its phenomenal posture requires an extraordinary strategy for combating it. Osisioma (2001) observes that in Nigeria corruption is capable of changing its colour, shape, size and mode of operation to achieve its parochial interest at the expense of the tax payers and good political governance. The “pervasive incentive structure for corruption in Nigeria” is such that “everyone condemns it and yet it persists and flourishes.” (Akpa, 2006, p.7). The ‘Nigerian factor’ has systematically saturated the society with an overdose of corruption, bribery, nepotism, tribalism, chaos and anarchy, religious bigotry, and political intolerance. The ubiquitous ‘Nigerian factor’ undermines even the most water-tight internal control in the public system. The consequence is that corruption has placed Nigeria on life-support because “democracy, stability and peace cannot long survive in conditions of poverty, dispossession, and neglect.” (Udombana, 2003, p.21).

Corruption has continued to thrive in Nigeria in brazen violation of the Constitution. Section 15 (5) of the 1999 Nigerian Constitution states that “the State shall abolish all corrupt practices and abuse of power.” The Code of Conduct Bureau for public officers is also enshrined in the fifth schedule, Part 1 of the 1999 Constitution to forestall corruption. It is, however, pertinent to note Adebiyi’s (2002, p.177) assertion that “a good constitution does not guarantee good governance. When human factors will not facilitate the optimum performance of a system, failure is inevitable.” In the absence of ‘political will’, corruption cannot be eradicated or controlled. Dandago (2008, p.66) notes the worrying issue of weak or missing ‘political will’, “given by dedication, commitment, honesty and sincerity of purpose, on the part of the leaders.” In the light of the apparent intransigence, Dandago (2008) also questions the effectiveness of the Constitution and calls for a law with the semblance of the Sedition Act in Malaysia, which contributed
substantially to its economic upturn. However, superfluity of laws and regulations already exist to minimise waste of the nation’s resources through corruption. These include:

- The Audit Act No. 38, 1956
- The Finance (Control and Management) Act No.33, 1958
- The Finance (Control and Management) (Amendment) Act No. 27, 1987
- Public Accounts Committee Act No. 8, 1987
- The Civil Service (Re-Organization) Act No. 43, 1988
- Banks and Other Financial Institutions Act 1991
- Failed Bank (Financial and Malpractices in Banks) Act 1994
- Money Laundering Act 1995
- Advance Fee Fraud and Other Related Offences Act 1995
- Corrupt Practices and Other Related Offences Act of 2000
- Economic and Financial Crime Commission (EFCC) established by Act No. 5 of 2002
- Monitoring of Revenue to Local Governments Act 2005
- Public Procurement Act 2007
- Due Process and Contract Certification Act 2007
- Fiscal Responsibility Act 2007
- Financial Regulations 2000
- Financial Instructions
- Financial Memoranda
- Treasury Circulars

Surely, public law is the foundation of government administration. Government business, whether in the form of policies, programmes, activities or functions is guided by statute laws, rules, regulations, case laws, customs or conventions, and accepted norms of behaviour. However, the quantity or quality of laws and regulations made to enhance resources management cannot by themselves bring about prudent resources management. These are, no doubt, necessary as essential components of the resources management requirements. However, all these laws and regulations have not yielded any substantial result to forestall corruption and the attendant waste in the system (Abada, 2003). Elkin and Vorwaller (1982) suggest that measures of effectiveness should concentrate on results rather than on operational process and inputs.

This could explain, at least in part, the reasons for the poor resources management, even with the plethora of laws and regulations in this regard. This calls for an altruistic re-orientation of the people through cultural transformation. There is, therefore, an ever widespread and acute need for a radical civil, political and social renewal capable of ensuring optimal management of the nation’s resources. Bringing about such renewal will require enormous efforts, especially on account of the number and gravity of the causes giving rise to, and aggravating, the situations of Nigeria’s resources mismanagement. Effective fiscal responsibility, public accountability and good political governance seem to be the panacea backed by the power and active involvement of organised workers and their trade unions. The eventual installation of Adams Oshiomhole, a former union leader, as Edo State Governor after a sustained struggle at
the polls and the tribunals does provide some hope. Organised labour and the trade unions have the interest to change the culture and make a more equitable society. They also have the power (as witnessed by the general strike in 2007 and the teachers’ strike in 2008) and the organisation that is needed. These examples should serve as impetus to other pressure groups and concerned citizens.

**Fiscal Responsibility Management**

Among the broader policy issues, there is a particular focus on the economics of fiscal responsibility, encouraging our policymakers to “do the right (fiscal) thing” for the sake of our children and grandchildren. Theory and evidence show that, all things being equal, fiscal responsibility is essential in order to promote a strong economy. Our current fiscal irresponsibility is a shirking of duty to our children and grandchildren. It is unfair to those future generations with no “political voice,” whose future is in the hands of their parents and grandparents.

Fiscal responsibility has been an area of concern in recent years because fiscal stress has seriously constrained the country’s ability to discharge its primary responsibility of developing social and economic infrastructure. Fiscal responsibility reflects the increasing transparency and accountability citizens expect of the governments they elect and the social and fiscal responsibilities of governments to their citizens. According to the Reserve Bank of India (2005), these responsibilities include:

- being able to afford and sustain quality public services and to improve equity, while encouraging economic activity and generating jobs;
- being fair to the next generation by passing on undiminished Total State Net Worth; and
- ‘keeping government honest’ by keeping the public informed of the amount spent on government services, and how this spending is funded.

Effective fiscal responsibility reporting ensures that the services the government provides are articulated clearly, costed accurately and consistent with its priorities. Government spending is a very big business and the public demands to know whether the huge outlays of money are being spent wisely for the public interest. Because public funds are in the nature of a trust, “the management and control of the public purse is the heart of governmental administration” (Oshisami, 1997, p.1). Effective fiscal responsibility reporting also assists in providing better-targeted, value-for-money services.

It was heart-warming to note that the Fiscal Responsibility Act of 2007 was one of the first Acts to be signed into law by President Umar Musa Yar'Adua’s administration even though his government ironically broke it the next year with a proposed budget deficit of 3.95% of GDP (Thisday, 2008). The credibility of fiscal policy is considerably enhanced if the goals of government are specified in some detail in the form of a law besides the usual annual budget announcements (Premchand, 2003). The institutional framework of the fiscal legislation facilitates effective monitoring of fiscal performance of the government and encourages pursuit of fiscal management policies aimed at the internationally accepted principles of fiscal legislation. These include transparency, stability, responsibility, fairness and efficiency.
Fiscal transparency is a key aspect of good political governance based on fiscal policy rules. The transparency relates to the clarity with which the fiscal policy rules are defined and the adequacy of reporting against these rules. The principle of fiscal transparency emphasizes being open to the public about the structure and functions of government, fiscal policy intentions, public sector accounts and fiscal projections (Kopits and Craig, 1998). Transparency in fiscal operations strengthens accountability of the budgetary policies and highlights the risk associated with unsustainable policies. Transparency in government’s fiscal operations has several dimensions, such as (Reserve Bank of India, 2005):

- provision of reliable information on the government’s fiscal policy intentions and forecasts, presupposing a high degree of fiscal marksmanship;
- detailed data and information on government operations, including the publication of comprehensive budget documents that contain properly classified accounts for the general government and quasi-fiscal activities conducted outside the government; and
- a transparent regulatory framework, open public procurement and employment practices, a code of conduct for tax officials and published performance audits.

Stability in the fiscal policy-making process and in the way fiscal policy impacts on the economy is a very crucial element of fiscal management. Accordingly, the government should operate fiscal policy in a manner that is predictable and consistent with the objective of high and stable levels of growth and employment.

Fairness requires that fiscal policy should be operated in a way that takes into account the financial effects on future generations, as well as its distributional impact on the current population. Equity and efficiency should be the key objectives in the design and implementation of fiscal policy and in managing the assets and liabilities of the public sector balance sheet. The government should ensure that available resources are deployed optimally and public assets are put to the best possible use. While the Fiscal Responsibility Act cannot be panacea for all fiscal ills and has its own drawbacks (Andy, 2008), it may provide a basis for political consensus to accomplish complex economic tasks and thereby enhance the credibility of the government. If a fiscal rule is to be useful, it needs to be well designed, combining simplicity and flexibility. Furthermore, the rules must be implemented in a transparent manner, with the support of an appropriate institutional structure especially as regards the budget processes and monitoring mechanism.

Under a federal system like Nigeria, the application of fiscal rules at the sub-national levels of government is a key issue to be addressed. This is because, with very few exceptions, states and local governments in Nigeria, are reckless as evidenced by the number of cases before the Economic and Financial Crime Commission emanating from these tiers of government. It is the performance of the entire public sector, which is crucial for macroeconomic performance. Often it has been noticed that even when the central government takes steps for effective fiscal consolidation, the overall fiscal deficit may not improve due to the poor fiscal performance of the states and local governments. Coordinated efforts towards fiscal correction are also important as the sovereign ratings are based on a comprehensive assessment of financial performance of all the tiers of the
government. The objective of fiscal responsibly legislation would need to be broadened to include the second and third tiers of the government, namely the states and local governments. It is important to note that unless there is a strong political commitment to adhere to a sustainable fiscal adjustment process enshrined in the spirit of fiscal law, the rules, howsoever well designed and elegantly framed, could be bypassed and policies reversed to the detriment of the long term financial health of the nation. “The human factor is the critical factor in financial accountability” (Okafor, 1999, p.23).

It is instructive to note Wynne’s (2008) strong arguments that “in suitable economic conditions, what are now considered to be unacceptably high budget deficits and government debt levels can actually lay the basis for sustained economic growth” as exemplified in the USA and UK in their sustained economic boom of the 1950s and 1960s. This is in congruence with the redefinition of fiscal responsibility as the body of growth-oriented public laws and policies that sustain the nation’s debt-to-GDP ratio at prudent levels (Justus, 2006). Prudence in this context is mainly about keeping unemployment low and inflation under control irrespective of debt level as long as those two statistics are in good shape while managing prudently the fiscal risks facing the government. The guiding principle is that the common denominator for any high and low debt-to-GDP boundary choices should be economic growth. It should, however, be noted as well that with very few exceptions, Nigeria has a weak governance at all tiers of government due to corruption and ineptitude. Controls are needed to strengthen a weak system. It would be dangerous to assume that there would always be a direct translation of debt into public services without significant levels of loss and wastage. An in-built flexibility is rather necessary to cope with changing economic realities of the moment.

**Governmental Accountability**

Accountability can be defined as the obligation of anyone handling resources, public office or other position of trust to report on the intended use of the resources of the designated office (UN DESA DPADM, 2004). Accountability is all about being answerable to those who have invested their trust, faith, and resources in you. It is often used synonymously with such concepts as answerability, responsibility, blameworthiness, liability and other terms associated with the expectation of account-giving. It is expected to contribute to enhancing governmental responsiveness, legitimacy and the improvement of policy implementation of the government. In leadership roles, accountability is the acknowledgement and assumption of responsibility for actions, products, decisions, and policies including the administration, governance and implementation within the scope of the role or employment position and encompassing the obligation to report, explain and be answerable for resulting consequences. Thus, Barker (2000) defines governmental accountability as the duty of public officials to report their actions to the citizens, and the right of the citizens to take action against those officials whose conduct the citizens consider unsatisfactory. Accountability is one of the most important requirements of all politicians and public officials in underpinning governance that is in the public interest.

The rationale for accountability is the general fear that public officers might exploit the governmental apparatus for their own personal aggrandizement. These fears come from the fact that public officials usually command much power, expertise, information and resources that can be misapplied (Sorkaa, 2003). This is one of the obstacles in extracting accountability from politicians and public officers in Nigeria. Those who are responsible
for operating the accountability enforcement mechanisms are most often culprits in
defaulting in accountability principles. For instance, Tafa Balogun, the former Inspector
General of Police in Nigeria was jailed for only 12 months for stealing over N11 billion
(Okoye, 2006)! This vitiates the relevance of the enforcement mechanism and reduces its
potency to mere rhetoric. Thus, the leadership in Nigeria remains the very obstacle to
effective accountability (Obianyo, 2003). The recovery of Abacha’s monumental loot of
the government treasury only after his death is a glaring example. Attempts made by
successive Nigerian governments over time to eradicate, or at least reduce drastically, the
corruption cases of fraud, greed and avarice within the society by putting in place
agencies like the EFCC have hardly been altruistic in the performance of their statutory
duties. For instance, even a Senate report indicted the EFCC for allowing the Presidency
to “doctor” its reports (Folasade-Koyi, 2007).

Clearly therefore, attempts by successive governments in Nigeria to establish
political and administrative institutions of control and accountability have
ended up as mere palliatives rather than surgical operations to douse the
cancer of unethical behaviour and the general lack of accountability in
governance which has contributed immensely to underdevelopment (Sorkaa,

Consequently, Nigeria’s accountability systems are weaker than those found in most
federations (Anderson, 2007). For a meaningful accountability culture to emerge, our
leaders “must come to the appreciation that leadership is a matter of display of
unquestionable integrity and passion to do the best things that benefit all.” (Enwegbara,
2007, p.55).

For accountability to be effective, the people should be inclined to hold the government
accountable (Witts and Trinks, 2007). So far, the National and States’ legislatures have
not demonstrated the requisite legislative prowess as effective oversight bodies. One
reason is that the legislators themselves are often corrupt. For instance, three Senate
Presidents and one Speaker of the House of Representatives were removed from office
between 1999 and 2007 for corruption. Another reason is that capable representation is
difficult in Nigeria because the environment of politics is so arbitrary that only those with
gamblers’ instincts will be willing to venture into the game (Agbaje, 2007). Ultimately,
democratic governments are held accountable at the polls. Unfortunately, the electorates’
votes at the polls hardly count in Nigeria. As a consequence, there has been weak support
for increasing credible citizens' opportunities to participate in governance as a way to
increase government legitimacy and to address some of these perceived flaws in the
operation of the nation’s administrative machinery. It appears that the citizens’ concerns
about neutrality and trust, in particular, may be affecting their confidence in the process
and their interest in getting drawn in. To have a functional legislature that will ensure the
desired accountability in governance, all citizens must genuinely be informed, involved
and interested in a transparent and generally accepted manner.

Unfortunately, accountability suffers most from the inability of the general public to
insist on it. The civil society provides alternative voices, guaranteeing an alternative
mechanism to get responses from the government. Over time, government actions have
tended to win or weaken the civil society, which is the bullet that helps all societies to
govern better. While the political class dictates the tune of the political music, the civil
society should, at least, amplify the melody for good governance, accountability and transparency. A strong and autonomous civil society, which is the force for society to resist the State excesses, must act as a catalyst in bringing about the realisation of good governance (Udombana, 2003). This was given impetus by the recent organised labour efforts that enabled Adams Oshiomole to win the election in Edo State in spite of the Federal Government’s might behind his major opponent and the tacit threat of the consequences of being in the opposition.

The media plays a key role in ensuring freedom, promoting the free flow of information and ideas, and assisting people in making informed decisions. However, it has been beaten into submission by years of repressions or oppressions. To be candid, the Nigerian press deserves commendation for doing so much in this regard but they are constantly constrained by threats from the ruling class and dearth of financial information from the public service. An example is the threat to *The Leadership* newspaper over its article on the President’s health. This implies that an apparatus such as whistleblowing, among others, should be embraced as integral to maintaining national security and ensuring that the government works properly. Unfortunately, whistleblowers are punished, blackballed, go broke and their lives are ruined because the road to exposing government errors or corruption is very bumpy and very costly (Robinson, 2005). This could be strengthened by legislation. Perhaps, the passage of the Freedom of Information (FoI) Bill could be very helpful in this regard. This taxpayer protection law could protect disclosures regarding illegality, abuse of authority, gross waste, gross mismanagement or substantial and specific danger to public health or safety. For accountability to be meaningful, citizens must have access to information by which to judge the performance of their government (Obazee, 2006). Information is a prerequisite to responsibly exercised authority. Therefore, accountability on the part of democratic governments requires investment in production of timely and reliable information with which the citizens can judge the performance of the public servants and politicians.

A critical part of government accountability is the requirement to publish regular, informative reports on the outcomes of the government’s activities, against previously announced objectives. The government needs to release regular reports on the efficiency and effectiveness of its activities in meeting its objectives for the country. Prompt reporting of government annual financial statements is rightly considered to be vital aspect of financial accountability. Significant progress has been made by several developing countries in this regard. 

*Thus, for example, the Pakistan Government provided its annual accounts in July 2007 just over a year after the end of its financial year. Tanzania did even better, with its financial statements for 2005/06 being reported just over nine months after the end of the financial year, a target which has been achieved by the Ugandan Central Government in recent years.... The audit report for the National Treasury of South Africa was signed only four months* 

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5 For example, in the U.S.A., the Whistleblower Protection Act of 1989, as amended in 1994, is a government statute that implements free speech protection for government workers challenging betrayals of the public trust. The Act allows employees to “commit” the truth and survive because when they blow the whistle, so frequently, they are treated as if they had committed a crime.
after the end of the financial year in 2007 despite a large public sector strike in June.... A number of governments also provide quarterly reports which cover macro-economic and fiscal developments, as well as summary reports of the government’s financial affairs and the execution of the budget. Such reports have improved the accountability of the governments to their citizens, but also to aid agencies, (Wynne, 2007, p.11).

Tremendous progress has been made in this regard in Nigeria. The Office of the Accountant General of the Federation (OAGF) has cleared the backlog in preparation of Annual Statements of Public Accounts with the 2006 accounts submitted to the Office of the Auditor-General of the Federation (OAuGF) in September 2007. Reports on audit examination\(^6\) on the financial transactions for 2002 - 2006 are expected to be submitted to the National Assembly in 2008.

Vishwanath and Kaufmann (2001) emphasize that functional public accounting practice is a \textit{sine qua non} to accountability but note, however, that accountability in itself is not sufficient without accompanying enforcement mechanisms to facilitate disclosure and enforce appropriate behaviour. Reporting and disclosure requirements are important, but it could be meaningless to a complacent, cynical or self-indulgent citizenry. Accountability, like liberty, requires eternal vigilance. Sufficient and effective accountability is a by product of good political governance.

\textbf{Good Political Governance}

Governance describes the process of decision-making and the process by which decisions are implemented (or not implemented). Hereby, public institutions conduct public affairs, manage public resources, and guarantee the realization of human rights. Good political governance accomplishes this in a manner essentially free of abuse and corruption, and with due regard for the rule of law. Good governance translates to the provision of adequate qualities and quantities of the prime political goods of security, rule of law, political freedom, economic opportunity, and access to infrastructure, education, health, and an empowered civil society (Rotberg, 2007). Therefore, governance is about having transparent and accountable governments throughout the political structure through a top-down approach, if it is to be functionally effective.

\textemdash \textit{Good governance should start from the top, with the political leadership setting the best example by clearly demonstrating a firm commitment to responsible policies and practices. At the same time, this example should permeate all branches of the administration, the judiciary, and society at large to ensure that public sector and corporate operations are conducted in an irreproachable manner and forms of corruption are shunned} (Calamitsis, 2001, p.13).

Historically, Nigerian top leaders have been scarcely accountable and ruled with impunity, especially with regard to the management of public resources. Robinson and Parson (2006) have clearly demonstrated that political governance in Nigeria is relatively very poor, even within Africa. Consequently, public confidence in most of the leaders is

\(^6\) The OAuGF issues two reports to the PAC. The Volume I report covers findings on detailed transaction audit whilst the Volume II report contains the audit opinion on the annual statements of accounts.
low and they are often objects of derision, presented as greedy, corrupt and oppressive around the world. Unfortunately, the expectations of Nigerians with regard to their leaders is also broadly not one that suggests they expect altruism to drive decision-making and therefore opt for the second best of hanging around to see what they can gain directly for themselves and their families. Worse still, when these corrupt leaders are caught for looting the public purse, they seem to enjoy the spontaneous and determined support of their people who rally to their cause because they perceive them to be victims of ethnic witch-hunt. If these leaders are shamed and shunned even by their natives, it would serve as a deterrent to others. In this way, a culture of political accountability may be beginning to take root in consonance with expectations driven by global imperatives.

As an endeavour to escape from ineffective and insufficient governance, there is an urgent need for a radical civil, political and social transformation capable of ensuring equity, justice, solidarity, honesty, and openness. Bringing about such reforms requires attitudinal change from the ruling elite. This invariably involves the evolution of a system of ensuring that the citizens truly elect the leaders of their choice to represent them credibly. This has manifested through the tacit support of the organised labour in the election of Adams Oshiomhole as Governor of Edo state against the scheming of the ruling elite. Presently organised labour seems to be the only force with the power, interest and organisation to make this happen in Nigeria. There is need for solidarity from other pressure groups with sincerity of purpose to join forces with them to consolidate on this gain.

No doubt, the present Nigerian electoral system is not one that can ensure free and fair elections of credible leaders. The Electoral Review Committee (ERC) symbolically submitted its report on December 11, 2008 just a day before the Supreme Court on Presidential Election Appeal upheld the election of President Umar Musa Yar’Adua. Even in upholding the election, the Supreme Court clearly indicated that all was not well with the electoral system in the country. The verdict, as delivered by Justice Niki Tobi, reads in part:

> For the avoidance of doubt, I am not saying by this judgement that all was well with the Presidential Election conducted in 2007. What I am saying is that there was no evidence before the Court of Appeal to dislodge section 146(1) of the Electoral Act (Ogundele, 2008, p.1).

“The President himself had acknowledged that the 2007 general elections were flawed” (Omonijo, 2008p.1). Thus, the ERC submitted far-reaching recommendations which, if implemented assiduously, would probably transform the electoral system. However, with the benefit of hindsight, there are many unanswered questions lingering in the minds of concerned Nigerians. For instance, Omonijo (2008p.1) asked pertinently, “[P]rofound submissions, but whither the will?” The ability of the country’s electoral system to conduct a free and fair election will ensure that only people who can manage the nation’s resources prudently would be elected. It is wished though that Nigeria would benefit from the spill over effects of the relatively sustained integrity and success of the Ghanaian electoral system.

In addition, all means of abating corruption could be employed. When the government puts institutionalized measures that will give zero tolerance to corruption in public life, prospective politicians will find out that they cannot loot public treasury when elected
into office and they will have no reason to see the fight for a political office as a do-or-die affair. This could remarkably reduce the money-induced attraction for public office (Agada, 2006).

**Conclusion**

Governments should be ‘stewards’ of their national resources, maintaining and improving them for the benefit of their populations. Stewardship encompasses the task of defining the vision and direction of the citizens’ welfare, exerting influence through regulation and advocacy, and collecting and using information (WHO, 2000). Thus, the founding fathers of the 1999 Nigerian Constitution, in their clairvoyance, mandated the government in Section 16 (1) to:

a) harness the resources of the nation and promote national prosperity and an efficient, a dynamic and self-reliant economy; and

b) control the national economy in such manner as to secure the maximum welfare, freedom and happiness of every citizen on the basis of social justice and equality of status and opportunity.

However, there is a discernible wide expectation gap in the way government has managed our nation’s resources over time, the intensive, extensive and sustainable propaganda of democratic dividends notwithstanding. Nigerians want to see the dividends of democracy, for all and sundry, through improved living conditions commensurate to the volume, value and varieties of our national resources. This is the citizens’ constitutional right. Everything about Nigeria’s development has been left for too long in the ‘pipeline’. Effectual results from prudent management of the nation’s resources are expected from our governments to justify their mandates. Koonz, O’Donnel and Weihrich (1980) rightly believe that no one would want a person in a managerial position who appeared to do everything right as a manager (leader), but who could not turn in a good record for whatever the area of responsibility they held. This essentially relates effectiveness to results obtained or impact made to the extent the management of the nation’s resources positively affect the citizens’ lives. Rhetoric, no matter how sound and loud, would not amount to effectiveness of the nation’s resources management.

The prudent use of the enormous resources accruing to the nation can turn this country into a buoyant economic haven in the shortest possible time. However, only responsible leadership can be trusted with prudent use of resources. These are servant leaders who put the interest of the led uppermost in their order of priority and leave footprints in the sands of time, and in the hearts of their followers through acts of self-denial. *The servant leader does not consider his “personal” interest above the group interest. ... The servant leader always plays by the rules, when they are formulated and agreed. He does not consider himself above the law. To the servant leader, the interest of his group is paramount. ... The servant leader does not “force” himself on the group, or attain leadership through untoward methods and strategies (Ayegbusi, 2008, pp.13-14).*
Those in governance have for too long regarded and treated the nation’s resources as ‘national cake’ which is often shared among a privileged few. This goes on because the machinery to compel accountability has been weakened by the same leadership (Achua, 2002). Nigerians must make exceptional concerted efforts to develop inclusive, transparent, and effective institutions of democratic governance. This entails rebuilding basic mechanisms of democratic governance to make elected officials accountable to their constituents through free and fair elections, strong government institutions, and well-organized, informed citizens who demand performance. Conscious efforts must be made to improve the rule of law in Nigeria by strengthening the capacity and transparency of law enforcement agencies and the judiciary. The civil society has to be strengthened by promoting existing watchdog groups for more transparency, accountability, and pluralism in Nigeria’s fiscal, electoral, conflict management, political, and human rights affairs. It is pertinent, therefore, that the National Assembly allows the Freedom of Information Bill to see the light of the day in its original design. Given the demonstration of the lack of political will-power to effect a change by the ruling class, the civil society, and specifically the organised working class, must continue to press for it.

Ensuring the prudent management of the nation’s resources is a duty, the accomplishment of which is the responsibility of all Nigerians. This is, no doubt, a Herculean task which invariably entails re-ordering of priorities, rechanneling of ideals, and revitalising the governance machinery towards breeding a sound, habitable, and tolerable society for every one to proudly live in. This is critical because Nigeria as a nation will be unable to achieve its mandate and arrive at its destiny if greed and avarice continue to deprive it of authentic vision and imagination. In the light of the “Nigerian Factor” syndrome, there is an urgent need for a Nigerian renaissance to effect robust fiscal responsibility, pragmatic public accountability, and good public governance. These are the imperatives of sustainable prudent management of Nigeria’s national resources, which can be actualized through:

- Making exceptional concerted efforts to develop inclusive, transparent, and effective institutions of democratic governance that guarantee the election of responsible leaderships through free and fair elections. The most important guarantee of government accountability is the right of citizens to control their government through elections.

- Rebuilding basic mechanisms of democratic governance to make elected officials accountable to their constituents through effective government institutions. Not only that all power should be derived from the people, but that those entrusted with it should be kept in dependence on the people.

- Making conscious efforts to improve the rule of law by strengthening the capacity and transparency of law enforcement agencies and the judiciary. This would guarantee "equal protection of the laws" which established the principle that government is accountable to all the people, not just to those who constitute the "ruling class" at any given moment.

- Strengthening the civil society by promoting existing watchdog groups for more transparency, accountability, and pluralism in Nigeria's fiscal, electoral, conflict
management, political, and human rights affairs. The foregoing ways and means would be ineffective without freedom of speech, press, assembly, petition and association, which are guaranteed by the the 1999 Nigerian Constitution.

- Enacting the FoI law to protect well-organized and informed groups and individuals who demand performance and accountability from the leadership. Unless citizens can speak openly, publish and debate their ideas, and organize themselves into groups according to their own criteria and principles, they cannot possibly call public officials to account.

- Re-ordering of priorities, rechanneling of ideals, and revitalising the governance machinery towards breeding a sound, habitable, and tolerable society for every one to proudly live in.

- Astute investment in production of timely and reliable information with which the citizens can judge the performance of the public servants and politicians. The concentration and misuse of power increase amongst democratic nations in the same proportion as the ignorance of their citizens.

- Setting up a depoliticized (truly independent) apparatus with a sincerity of purpose to get rid of corruption in the public sector.

This is a change situation that requires a “bend or break” reality (Ayegbusi, 2008, p.9) from all Nigerians. That is, those who anticipate and prepare for the change will bend. However, the change will take its toll and break those who would not be ready or prepared to accept it. A successful change situation will leave leaders and potential leaders with very little option. This will be the Nigerian renaissance. Accomplishing this will entail that all and sundry must concertedly, and altruistically, press for the realizations of these imperatives of prudent management of Nigeria’s national resources today, tomorrow and together.

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Invitation to Potential Authors

The *International Journal on Governmental Financial Management* (IJGFM) aims to provide a forum for practitioners, academics and the general public to discuss the many disciplines involved with governmental financial management. These include accounting, auditing, budgeting, debt management, information technology, tax management and treasury management.

We would like to be able to publish articles and comment which will:

- encourage collaboration among professionals and others concerned about public financial management
- contribute to the advancement of government financial management principles and standards, especially through describing existing good practice
- identify problems or weaknesses through the critique of currently dominant views on public sector financial management reforms; and
- assist public sector financial managers to identify their own solutions to common challenges.

We would particularly welcome contributions from individuals or teams working in the developing countries. We invite potential authors to review past issues of the journal at: [http://www.icgfm.org/digest.htm](http://www.icgfm.org/digest.htm)

The *Journal* does not currently provide double blind reviews (where both the author and the review’s identities are not disclosed) as the standard approach. The aim is to provide confidential comment on submitted contributions and to provide editorial suggestions (detailed as necessary) to help the author to produce a paper which is suitable for publication. A double blind review facility may be provided if requested by individual authors.

*The Journal primarily publishes papers in English. However, for a trial period at least, we will now also accept articles for publication in French or Spanish. Such articles will not be translated, but will be published in their original language. We welcome comments on this initiative from our readers.*

**Submission of Manuscripts**

*We do not charge a fee for submission or publication of articles.*

Manuscripts should be sent as email attachments to the editor, Andy Wynne – andywynne@lineone.net and be copied to icgfm@icgfm.org

Ideas for articles are welcome and may be discussed with the editor before submission of the full text. The editor is happy to respond to informal enquiries about the suitability of papers for possible publication.

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**Format and Style**

The manuscripts should include:

- **no more than 10 thousand words** or 20 single spaced pages
- **an abstract not exceeding 150 words** - it should summarize the purpose, methodology, and major conclusions of the article
- **title, the authors name(s), position/post and institutional affiliation** (university, ministry etc), email address and any acknowledgements
- **authors should write in a non-sexist and non-discriminatory style**, using, for example, "her/him" or "s/he"
- **limited use of abbreviations** to improve ease of reading
- **appropriate references** (see below) to the literature on the subject to support facts, assertions and opinions; all quotations should be fully referenced
- **footnotes**, identified in the text by a numeral that is superscripted, should not include literature citations, and should be listed at the end of the paper, before the bibliography

**Referencing in the text**

References in the text to books, articles etc should include the authors’ names, the year of publication, and the specific page numbers if direct quotations are provided e.g. (Mickey & Donald, 1968, p.24). For more than two authors, the citation should be abbreviated as follows: (Kramdon and others, 1988, p.1). Multiple citations of the same author(s) in the same year should be distinguished in the text (and in the bibliography) by a, b, c, etc following the year of publication. Latin terms, for example, *et al*, *ibid* or *op cit* should be avoided.

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References should be included at the end of the text containing details of all books, articles papers, etc. which have been referred to in the text. The references should be arranged in alphabetical order according to the surname of the author. The following details should be included: author and initials, full title and subtitle, place of publication, publisher, date, and page references (for direct quotations). References to journal articles must include the volume and number of the journal.

Where possible, details should be provided of the web address for materials available on the Internet. In this case the date the material was read should be provided in brackets ().

The layout should adhere to the following conventions:

1. **Articles**

2. **Books**
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**Charts, Diagrams, Figures and Tables**
These should all be called figures, numbered consecutively in Arabic numerals, with a brief title in CAPITALS, labeled, axes etc. The text should indicate where the figure is to appear.
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We would also like to hear from other individuals who would be willing to assist with the editorial work of the Journal. The work would consist of reviewing potential contributions, suggesting whether they should be accepted for publication and making editorial recommendations to improve the quality of submissions.

Please contact the editor, Andy Wynne - andywynne@lineone.net - if you would like to discuss the role of the editorial board and any input you could provide.
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Members for the Board of Directors serve a two-year term. Each Sustaining Organization is represented on the Board. The Nominating Committee solicits nominations to select six Organization Members and six Individual Members to fill remaining Board seats.

ICGFM Board of Directors as of January 1, 2009
January 1, 2009 - December 31, 2009

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<tr>
<td>Past President</td>
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<td>Vice President Membership &amp; Development</td>
<td>Ronaldo Rotter (IADB)</td>
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<td>Vice President Programs</td>
<td>Rhoda Canter (Grant Thornton, LLP)</td>
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<td>Secretary</td>
<td>Mary Mohiyuddin (GAO)</td>
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