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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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. Our programs provide activities and products to advance governmental financial management principles and standards and promote their implementation and application.

Internationally, the Consortium (1) sponsors meetings, conferences, and training that bring together financial managers from around the world to share information about and experiences in governmental financial management, and (2) promotes best practices and professional standards in governmental financial management and disseminates information about them to our members and the public.

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

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)

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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*)

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Foreword

The implications of the global economic recession continue to have significant effects on public sector financial management and are leading to a series of debates, a number of which we are covering in this issue and hope to continue in future issues.

We start this issue with an overview from Vivek Ramkumar on the state of global budget transparency as revealed by the International Budget Partnership’s second survey. The findings are generally said to be ‘deplorable’ across the 85 countries surveyed. Perhaps surprisingly, one of the weakest groups of performers are low-income countries that are heavily dependent on donor funding. It might have been expected that the World Bank, IMF and other donors could have wielded their influence in these countries and ensured greater openness. Other countries which are particularly poor in terms of budget transparency are those which are heavily dependent on exports of oil and gas, and countries that have weak democracies. However, things are improving and many countries have improved over the two years since the last survey.

In our second article, Paul Sutcliffe from the International Public Sector Accounting Standards Board provides an introduction to the major review of the Cash Basis Standard which is currently underway. Although this Standard is applicable to the vast majority of governments across the world, which adopt the cash (or more strictly the modified cash) basis for their annual financial statements, the actual level of adoption has been disappointingly low. The primary objectives of the review are to identify major technical issues in implementing the Standard and suggest to the Board any amendments which should be made. These will be subject to the IPSASB’s due process and so there will be plenty of opportunities for interested parties to comment at a later stage, probably next year.

In our next contribution Mike Parry and Andy Wynne provide an alternative view on the approach to be taken when reviewing the Cash Basis IPSAS. They say there are three main issues which should be addressed: the requirement for consolidated accounts to be produced at the government level, the suggestion that the modified cash basis be given official recognition, and the suggestion that the Standard take full account of the IMF Government Finance Statistics (GFS) Manual.

Following this debate, Paul Dorsey makes the case for independent periodic audits of all major IT projects. This, it is said, will effect a major reduction in the level of IT failures which all entities across the globe suffer. As Paul concludes, stopping from time to time, stepping back and asking “Is this system ever going to work?” is the key to not being surprised by a massive system failure.

In the next paper in this issue, Jawahar Thakur and Nalin Kumar Srivastava also make the case for extending the remit of audit activity. In this case they develop a framework for a generic evaluation of the internal controls of government financial reporting. This is an interesting alternative, or complement, to adopting international standards and we would welcome comments on the approach which Jawahar and Nalin suggest.

Liyan Tang and Paul J M Klumpes argue for the use of generational accounting rather than accrual accounting, especially where there are under-funding practices in the public sector. This,
they say, will provide clear accountability on the balance of costs and benefits for current and future generations.

Filippos Stamatiadis continues the debate over accrual accounting with a survey on its use in Greek hospitals. The results appear mixed as a fifth of the respondents said that they were not satisfied with the reform and the associated accrual based cost accounting system was implemented in less than a fifth of the hospitals.

The final paper in this issue, by John C. Anyanwu and Andrew E. O. Erhijakpor, considers the contribution of the level of government spending, amongst other factors, to the economic development of Nigeria. They point out that the disappointing rate of economic growth is not simply a case of the ‘resource curse’.

Finally, we introduce a new development with this issue by providing some reviews of recently published books and papers. We would like to make this a regular feature, but this will be dependent on receiving reviews of material which you think our readers should know about. If you would like to continue with the debates raised in this issue please start writing for our next issue, the ICGFM blog or attend future ICGFM events.

Andy Wynne  Doug Hadden  Jim Ebbitt
.Editor  Vice President: Publications and, Communications  President
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The State of Budget Transparency Worldwide

Vivek Ramkumar - ramkumar@cbpp.org
International Budget Partnership

Abstract

The International Budget Partnership’s Open Budget Survey 2008, a comprehensive evaluation of budget transparency in 85 countries, finds that the state of budget transparency around the world is deplorable. This encourages inappropriate, wasteful, and corrupt spending and—because it shuts the public out of decision making—reduces the legitimacy and impact of anti-poverty initiatives. Weak performers are typically low-income countries that are heavily dependent on donor funding, countries that are heavily dependent on exports of oil and gas, and countries that have weak democracies or autocracies. At the same time, the Survey shows that a number of countries have significantly improved their performance over the past two years. It also shows that many more governments could quickly improve budget transparency at low cost by making available to the public the budget information that they already produce for their donors or internal use.

Introduction

An extensive survey of government budget transparency in 85 countries issued on February 1, 2009, by the International Budget Partnership (IBP) found that 80 percent of the world’s governments fail to make public enough information on their management of their national budgets to enable their citizens to hold them accountable for the management of taxpayers’ funds. The Survey has also found that even those institutions – specifically, national legislatures and supreme audit institutions (SAI) – that are specifically charged with approving and/or overseeing the expenditure of public funds lack the powers and resources necessary to perform these functions effectively.

IBP’s Open Budget Survey 2008 is an independent and comprehensive analysis that evaluates whether central governments give the public access to budget information as well as opportunities to participate in budget formulation, implementation, and evaluation processes. The Survey also examines the ability of legislatures and SAIs to hold their governments accountable. This article draws on the Open Budget Survey 2008 report published by the International Budget Partnership. The entire report is available in six languages (English, French, Spanish, Russian, Arabic, and Chinese) at http://openbudgetindex.org/index.cfm?fa=fullReport.

The Survey analyzes the results drawn from a rigorous questionnaire that reflects generally accepted good practices related to public finance management developed by international organizations, such as the International Monetary Fund’s Code of Good Practices on Fiscal Transparency, the Organization for Economic Cooperation and Development’s (OECD) Best Practices in Budget Transparency, and the International Organization of Supreme Audit Institutions’ Lima Declaration of Guidelines on Auditing Precepts. The Survey was managed by IBP and implemented by independent budget experts drawn from civil society organizations and academic institutions in the 85 countries examined.
Why Budget Transparency Matters

The budget is the government’s most important economic policy tool and affects the lives of all citizens, particularly the poor. A good budget will include measures to support poverty alleviation while a bad budget can ignore the poor or even actually work to their detriment.

Transparency and public participation in financial management are the cornerstones of effective and accountable governance and are central to ensuring that a national budget reflects the priorities of the citizenry. Without access to information, legislatures, SAIs, the media, and citizens cannot effectively participate in decision-making nor hold their governments accountable for the use of public resources. Transparency and effective public participation are central to enhancing the credibility of policy choices and the effectiveness of policy interventions. On the other hand, lack of transparency can lead to the selection of inappropriate and unpopular programs and allow corrupt and wasteful spending to occur.

The Open Budget Survey 2008 provides an in-depth set of measures that assess the individual performance of national governments against international best practices in transparency and oversight. It also points to the steps that governments can take to improve their practices by expanding the amount of information available to the public and, concomitantly, by providing new opportunities for the public to participate in budget implementation.

Evidence shows that when citizens have access to information and opportunities to participate in the budget process, the allocation of scarce public resources is more equitable and effective. For example:

- In Mexico, Fundar, a nongovernmental organization, found the budget did not allocate funds to combat the loss of lives during childbirth and successfully argued for funds for emergency obstetrical care, especially in rural areas.
- In India, Mazdoor Kisan Shakarti Sangathan, an organization of farmers with small landholdings and daily wage workers, uncovered corruption through their examination of budget-related documents. Among other types of corruption, they found that the names of dead people and fictitious names were recorded on payrolls and that payments were made for work never done.
- At the urging of the Uganda Debt Network, which monitors local spending, Uganda officials identified substandard work in school construction and evidence of corruption by local officials and eventually denied payment to a construction firm.
- In the Philippines, Government Watch has used budget information since 2000 to monitor the delivery of school textbooks, the construction of new schools and other infrastructure, and the distribution of disaster relief funds. With the cooperation of other groups, the G-Watch efforts have dramatically cut the cost of textbooks to the government, improved the quality of the books, and substantially lowered the percentage of “no-show” contractors who previously failed to deliver contracted books.
- Public Service Accountability Monitor in South Africa’s Eastern Cape Province has used budget reports and other information it obtained to monitor the misuse of and irregularities in
funds budgeted for essential services – such as education, health care, and the provision of clean water – that have led to poor quality in the provision of these services.

**Key Findings in the Open Budget Survey**

The IBP Survey reports four key findings. The first key finding relates to budget transparency, which is calculated through the Open Budget Index (OBI). The OBI is a comparative measure of the accessibility and comprehensiveness of the eight key budget documents that international good practice says all governments should publish (a listing of the eight documents is provided in Table 3). Table 1 presents by world region the average scores achieved by the countries examined as part of the IBP assessment. The average score for the OBI 2008 is 39 out of a possible 100. This means that, on average, countries surveyed provide minimal information on their central government’s budget and financial activities. IBP concludes from this that the state of budget transparency around the world is very poor.

<table>
<thead>
<tr>
<th>Region</th>
<th>Legislative Strength</th>
<th>SAI Strength</th>
<th>Average OBI Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>East Asia &amp; the Pacific</td>
<td>41</td>
<td>53</td>
<td>39</td>
</tr>
<tr>
<td>Eastern Europe &amp; Central Asia</td>
<td>48</td>
<td>57</td>
<td>50</td>
</tr>
<tr>
<td>Latin America &amp; the Caribbean</td>
<td>40</td>
<td>47</td>
<td>39</td>
</tr>
<tr>
<td>Middle East &amp; North Africa</td>
<td>27</td>
<td>21</td>
<td>24</td>
</tr>
<tr>
<td>South Asia</td>
<td>32</td>
<td>41</td>
<td>42</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>35</td>
<td>29</td>
<td>25</td>
</tr>
<tr>
<td>Western Europe &amp; the U.S.</td>
<td>78</td>
<td>84</td>
<td>80</td>
</tr>
<tr>
<td><strong>Overall Average</strong></td>
<td><strong>42</strong></td>
<td><strong>45</strong></td>
<td><strong>39</strong></td>
</tr>
</tbody>
</table>

Source: The Open Budget Survey 2008

Second, countries that perform badly on budget transparency share certain common characteristics, including regional concentration (mostly in the Middle East & North Africa region and in the sub-Saharan Africa region), dependence on foreign aid and on revenues from hydrocarbon exports, and political systems that are weak democratic institutions or autocratic regimes.

Third, countries that perform poorly on the OBI are typically also countries in which inadequate powers are available to formal oversight institutions (legislatures and SAIs), thus undermining the ability of these institutions to provide effective budget oversight. The average score for “strength of legislatures” in the Survey is 42 out of a possible 100 while the average score for “strength of SAIs” is 45.

Finally, in an encouraging finding, the Survey identifies that it is in fact possible for countries to improve budget transparency quickly and at little cost. The OBI is a biennial Survey and comparisons between the OBI results for 2006 and those for 2008 show that some countries have improved their budget transparency over the past two years.

Each of the key findings from the Open Budget Survey 2008 is discussed in greater detail below.
State of Budget Transparency is Dismal

According to the Open Budget Survey 2008, the vast majority of countries surveyed fail to meet basic benchmarks for budget transparency; as a consequence, the public is almost entirely shut out of the budget process in approximately 80 percent of the countries surveyed. Only five countries (the UK, France, New Zealand, South Africa, and the US) provide extensive information on their budgets to the public. An additional 12 countries provide significant information on the central government’s budget and financial activities. This category includes developed economies, such as Norway and Sweden; transitional countries, such as Romania; and some developing countries, like Botswana, Brazil, and Peru. Forty-one of 85 countries provide only minimal, scant, or no information on budgets. For example, the Democratic Republic of Congo, Nicaragua, Kyrgyz Republic, China, Nigeria, and Saudi Arabia provide scant information on their budgets to the public.

While these survey results are a cause of concern, it is likely that the actual levels of budget transparency in many countries are even lower than those countries’ scores on the OBI would indicate. This is because information on some public funds and state-owned enterprises is not included in the government’s budget documents and therefore not assessed by the Survey.
By looking at the availability of each of the eight key budget documents that good practice indicates should be made public throughout the budget process, it is possible to identify the weakest phases of the process as well as the opportunities for improvement that exist. Thus, we find that the budget formulation, execution, and audit phases are typically characterized by a much lower level of transparency than the budget approval phase, which is relatively more open than other phases of the budget process.
### Table 3: Eight Key Documents Assessed by the Open Budget Survey

<table>
<thead>
<tr>
<th>Document Type</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A Pre-Budget Statement</strong></td>
<td>Should be issued at least one month before the executive submits the budget proposal to the legislature. It should present the assumptions used in developing the budget; expected revenue, expenditure, and debt levels; and the broad allocations between sectors.</td>
</tr>
<tr>
<td><strong>The Executive’s Budget Proposal</strong></td>
<td>Is the result of the formulation stage. It presents the government’s detailed declaration of the policies and priorities it wants to pursue in the upcoming budget year, including specific allocations to each ministry and agency. It should be submitted to the legislature at least three months prior to the start of the fiscal year to allow for proper review. The budget should be enacted prior to the start of the fiscal year.</td>
</tr>
<tr>
<td><strong>The Enacted Budget</strong></td>
<td>Should then be made publicly available, as it is the legal document that authorizes the executive to implement the policy measures the budget contains.</td>
</tr>
<tr>
<td><strong>In-Year Reports</strong></td>
<td>The executive should issue monthly or quarterly In-Year Reports on revenues collected, expenditures made, and debt incurred. These allow citizens to monitor whether the government is spending as much as promised on key sectors, as well as whether these funds are reaching the targeted institutions and beneficiaries.</td>
</tr>
<tr>
<td><strong>Mid-Year Review</strong></td>
<td>The executive should publish a Mid-Year Review to discuss any changes in economic assumptions that affect approved budget policies. For example, an unexpected change in the price of oil and gas can lead to huge revenue windfalls or shortfalls in resource-rich countries.</td>
</tr>
<tr>
<td><strong>Year-End Report</strong></td>
<td>The executive should issue a Year-End Report summarizing the situation at the end of the fiscal year. The Year-End Report should include an update on progress in achieving the policy goals in the Enacted Budget.</td>
</tr>
<tr>
<td><strong>Audit Report</strong></td>
<td>Best practice requires that a body that is independent from the executive issue an annual Audit Report. The supreme audit institution should report its findings annually to the legislature, as well as to the general public. Audit Reports should cover all activities undertaken by the executive, although guidelines from the International Organization of Supreme Auditing Institutions allows for the exclusion of cases involving “interests worthy of protection or protected by law.” The Audit Report should be issued within 12 months of the end of the fiscal year.</td>
</tr>
</tbody>
</table>

During budget formulation, the government determines the amount of revenues to be collected, the allocation of expenditures, and the levels of deficit and debt for the coming fiscal year. Civil society engagement at this stage is critical. Because most legislatures have limited powers to change proposed budgets, the formulation stage is often the final opportunity civil society has to
influence major priorities and allocations for the coming budget year (and sometimes future years).

Of the 85 countries in the Survey, only 30 countries make a Pre-Budget Statement publicly available. In 12 of the countries that make a Pre-Budget Statement available, only partial information is provided; however, almost two-thirds of the countries surveyed (55) do not publish a Pre-Budget Statement at all. Of these, more than half (29 countries) produce the document only for internal purposes and do not make it public at any time.

In 23 countries, the public does not see the executive’s budget proposal before it is approved by the legislature. As a result, the public is completely shut out from meaningful input into the formulation or approval of government budget policies and receives the annual budget as a fait accompli.

On the other hand, an encouraging finding concerning the approval phase is that almost all countries (81 countries) publish an enacted budget. The fact that enacted budgets are generally published makes it possible for civil society organizations to engage in some level of monitoring on how budgets are executed. Only four countries in the survey do not publish even an enacted budget: China, Equatorial Guinea, Saudi Arabia, and Sudan.

The availability of information during the budget execution and auditing phases of the budget process is very limited. During the budget execution phase, funds are actually spent to implement the policies, programs, and projects outlined in the budget. However, given that in practice, budgets are seldom executed exactly as approved and actual expenditures can deviate from planned expenditures (for both legitimate and less legitimate reasons, including poor financial management, unauthorized expenditures, inefficiency, and fraud), having timely, accurate, accessible, and useful information during budget execution can enable civil society to augment government monitoring capacity.

The Open Budget Survey 2008 finds that performance on the provision to the public of budget execution information is mixed, but can be described as poor overall. While 20 countries publish all three relevant reports, 39 publish two of them, and 15 countries publish only one of them. Eleven countries (Algeria, Democratic Republic of Congo, Equatorial Guinea, Malawi, Nigeria, Pakistan, Rwanda, São Tome e Príncipe, Saudi Arabia, Sudan, and Trinidad and Tobago) do not release any budget execution reports to the public at all.

Central to reporting on how government expenditures track with budgeted expenditures are In-Year Reports, the Mid-Year Review, and Year-End Reports. The Open Budget Survey 2008 found that surveyed countries are more likely to produce In-Year Reports than the Mid-Year Review or Year-End Reports. However, the specific information provided in In-Year Reports varies widely. Of the 85 countries surveyed, only 27 were found to provide comprehensive information on budget execution in their In-Year Reports.

Very few countries provide extensive information in their Mid-Year Reviews and Year-End Reports (10 and five, respectively). Of particular concern are the countries that do not publish Mid-Year Reviews or Year-End Reports at all (63 countries and 21 countries, respectively).
During the final stage in the budget cycle, the audit institution should perform an assessment of whether public resources have been used appropriately and effectively, and the audit institution should make its reports public. Citizens can use this information to call for improvements in the expenditure of public funds and punishment of those responsible for corrupt actions.

The Open Budget Survey 2008 results show that even at this last budget process stage, transparency is rather poor. In 27 of the countries surveyed, the Audit Report is not made publicly available at all. In six of these countries – Cameroon, Equatorial Guinea, Liberia, Morocco, Niger, and Serbia – Audit Reports are not even produced. Nevertheless, 21 countries publish comprehensive Audit Reports. These countries span diverse contexts, again demonstrating that good performance can be achieved in most situations, if the political will exists.

Poor Performers Share Similar Characteristics
The Open Budget Survey 2008 finds that countries that perform badly on budget transparency share certain common characteristics. Typically, countries in the bottom of the OBI rankings tend to be low-income countries – mostly in sub-Saharan Africa and the Middle East & North Africa regions – that are often highly dependent on foreign aid. Countries that depend heavily on revenues from hydrocarbon exports also perform very poorly on the OBI. Finally, many of the countries at or near the bottom of the OBI rankings have weak democratic institutions or are governed by autocratic regimes.

Geographical Region
The Middle East & North Africa region has the lowest average regional OBI score – 24 out of a possible 100. Five of the seven countries in this region release minimal, little, or no budget information. Notably, however, Jordan scores 52 out of a possible 100 – well above the scores achieved by its regional neighbors or even by the region as a whole.

The sub-Saharan African region also has a low regional score – only 25 out of a possible 100 (just one point above the regional score for the Middle East & North Africa). More than two-thirds of the countries surveyed from this region release minimal, little, or no budget information. Botswana and South Africa are, however, strong performers in sub-Saharan Africa: Botswana’s score is 62 while South Africa has a score of 87 and is among the most transparent countries included in the Open Budget Survey 2008. Both of these countries have a much higher per capita income than almost all other sub-Saharan African countries. If we remove these two top performers, the average OBI score for sub-Saharan Africa falls to a disappointing 20.

Dependency on Foreign Aid
Countries that rely extensively on foreign aid also tend to perform poorly on the OBI. Thus, the average score for the 30 countries that received more than five percent of their Gross National Income (GNI) in foreign aid in recent years is 24, compared with a score of 62 for countries that did not receive any foreign aid over the same period. However, even within this list, Uganda and Papua New Guinea are outliers that have performed relatively higher on the OBI than other aid-dependent countries.
There is some evidence that as a country’s dependence on aid increases, its budget transparency actually worsens. This apparent relationship may simply reflect the fact that aid-dependent countries are aid-dependent because of their low-income status, and low-income countries tend to be less transparent. On the other hand, aid dependency can make accountability to donors more important than accountability to the public, thus undermining transparency. However, given that many of the aid-dependent countries have often received technical and even financial assistance to strengthen their financial management practices, this pattern appears ripe for further research.

**Dependency on Revenues from Oil and Gas**

The Open Budget Survey 2008 confirms that countries that are dependent on oil and gas revenues tend to be less transparent. Lack of budget transparency is particularly serious in the 21 oil and gas producing countries. Their average score is 23, which compares very poorly with both the overall average OBI score of 39 and with the average score of 44 for countries that depend on mineral resource revenues. Importantly, performance on the Open Budget Survey does vary even among oil and gas producing countries. For example, Columbia, Norway, and Mexico all exhibit fairly strong levels of budget transparency – which would tend to suggest that reduced transparency is not an inevitable consequence of the generation of significant levels of national income from hydrocarbon exportation.

**Political System**

All of the 17 countries that provide extensive or significant budget information are regarded as democracies to one degree or another. For example, the Economist magazine’s Economist Intelligence Unit’s (EIU) Index of Democracies classifies nine of the 17 countries as full democracies and eight as flawed democracies. In contrast, the EIU classifies two of the 25 countries that provide scant or no information as flawed democracies, six as hybrid regimes, and 15 as authoritarian regimes.

**Lack of Transparency Compounded by Weak Legislatures and SAIs**

**Assessing Legislatures**

The average Open Budget Survey 2008 score for “strength of legislatures” is 42 out of a possible 100. Table 1 (above) presents by world region the average scores achieved by the countries examined as part of the IBP assessment. An analysis of the key findings related to legislatures from the Survey is provided below.

*Legal Powers:* To be truly effective in budget decision-making, legislatures must have the legal power to amend the executive’s budget proposal, to approve any budget modifications (such as amendments) required during the fiscal year, to oversee the functioning of the national audit office or the SAI, and to be consulted by the executive throughout the budgeting cycle. The Survey finds that in 29 of the 85 countries surveyed, the legislature has either limited or no legal power to amend the executive’s budget; legislatures have unlimited power to amend the budget in only 24 of the surveyed countries.

Finally, in 41 of the 85 countries included in the Survey, the executive does not typically consult with members of the legislature as part of the budget preparation process. In another 25
countries, the executive holds only limited consultations involving only a few members of the legislature.

**Access to Budget Information:** In addition to formal legal powers, to be effective, the legislature needs timely access to comprehensive budget information. The OECD recommends that the executive provide a detailed budget proposal to the legislature at least three months prior to the start of a fiscal year. However, fewer than half of all countries surveyed (32 out of 85 countries) meet this deadline. In 17 countries, the budget proposal is received less than six weeks before the start of the fiscal year – which often limits the legislature’s ability to conduct a thorough review of the proposal. Notably, in seven countries, the legislature does not receive the budget proposal until after the budget year has already begun.

**Public Engagement:** The IBP Survey finds that in 34 countries, no public hearings are held on the macroeconomic and fiscal framework of the country. In another 33 countries, public hearings are held but testimony is accepted only from the executive branch; in these countries, the public is not given an opportunity to testify on the macroeconomic and fiscal framework assessments which inform the development of the budget.

The Survey finds that within the 85 countries examined, very little public input is solicited even on the actual annual budget. In 66 of the 85 countries surveyed, no public hearings are held on the budget of administrative units during which the public can testify. Further, in 59 countries, the legislature either does not release reports on the public hearings it has held or it does not hold any public hearings.

**Limited Follow-up on Audit Findings:** The Survey found that many legislatures exercise poor oversight during the audit and budget evaluation process. Because SAIs’ legal mandates usually prevent them from playing a direct role in policy or political processes, for an audit to have practical impact, the legislature must follow up on an SAI’s findings and recommendations. However, in 17 of the countries surveyed, the legislature does not follow up on the work of the SAI at all, while in another 20 countries, legislative follow-up is minimal. In 64 countries, neither the SAI nor the legislature reports to the public on actions taken by the executive to address audit recommendations, which makes it easier for government to ignore audit recommendations.

**Assessing SAIs**

The average score for “strength of SAI” on the Open Budget Survey 2008 is 45 out of a possible 100. Table 1 (above) presents by world region the average scores achieved by the countries examined as part of the IBP assessment. An analysis of the key findings related to SAIs from the Survey is provided below.

**Independence:** One of the most important measures of an SAI’s ability to provide effective oversight is its independence from the executive branch. Unfortunately, in 26 countries surveyed, the executive can remove the head of the SAI from office without the final consent of either the legislature or the judiciary.
Further, in 38 of the 85 countries surveyed, the executive rather than the legislature or the judiciary determines the annual budget allocation for the SAI. In 24 of these countries, the Survey’s civil society researchers felt that funding for the SAI was below the level of resources needed by the SAI to fulfill its mandate. Legal and financial dependence on the executive may cause the head of an SAI to withhold reports that are critical of the executive. Even in those 21 surveyed countries in which the legislature (rather than the executive) determines the SAI’s yearly budget allocation, SAI budgets were not assessed to be concomitant with resource requirements.

In 31 of the 85 countries included in the Open Budget Survey, the SAI does not have the full discretion in law to decide which audits it will undertake. In 13 of these 31 countries, SAIs have very limited or no discretion to decide which audits they will undertake.

**Public Engagement:** In 27 of the countries surveyed, audit reports are not made publicly available at all or within two years of the end of the fiscal year. In six of these countries, audit reports are not even produced. It is, however, heartening that in many of the countries surveyed, the SAI has some procedures in place to tap the public as a source of information. In 46 countries surveyed, SAIs maintain formal mechanisms through which the public can register complaints and suggestions regarding the agencies, programs, or projects that citizens believe the SAI should audit. However, in 12 of these 46 countries, the SAI receives little or no information from the public on potential subjects for audit, which may suggest that the mechanisms established by the SAI for soliciting public recommendations are inadequate, inconvenient, or are simply not adequately publicized to the populace.

**Timeliness:** In 30 countries, the SAI either does not audit any expenditure or does not release audit reports to the public within two years of the end of the fiscal year. In an additional 13 countries, the SAI completes its audits between 12 and 24 months after the end of the fiscal year. In only 15 countries surveyed does the SAI release its annual report within six months of the end of the fiscal year as recommended by international good practice. Delays in releasing audit reports reduce the opportunities available to civil society and the public in these countries to use audit information to advocate for improvements in government performance.

**Improvements Possible Given Political Will**

The first Open Budget Survey was completed in 2006; that Survey examined 59 countries. In the subsequent Survey conducted in 2008, an additional 26 countries were studied (85 countries in total) in order to provide a balanced geographic sample of countries around the world. In the 59 countries in which the study was repeated, there is a slight improvement in the performance of some of the countries. Based on comparative data from the first two Surveys, improvements in overall performance can be attributed primarily to changes in government policies (see Table 4). For instance, the desire to join the European Union led to greater budget transparency in Bulgaria and Croatia. Changes in the way the government produced information led to Sri Lanka’s improvement in both the quality of information and the amount of information available to the public. Nepal climbed a bit from the bottom of the index largely because a constitutional crisis was followed by an election that led to more normal functioning of government institutions whose functioning had been impaired during the crisis.
Other countries that showed improvement include Ghana, Egypt, Uganda, Georgia, Indonesia, El Salvador, Ecuador, Mongolia, and Morocco. In several of the cases in which improvements were observed, governments were able to significantly increase access to information by simply releasing material that they already produced.

In Croatia, Kenya, Nepal, and Sri Lanka, significant improvements either were influenced by the activities of civil society groups or have created opportunities for greater civil society interventions.

The Survey finds that progress could be made elsewhere quickly and at relatively low cost, given sufficient political will. Many countries that perform poorly are already producing much of the budget information required for the achievement of good practice standards and almost all of the governments in these countries have functioning websites. Eighty-one of the 85 countries included in the 2008 Survey have functioning government or parliamentary websites on which they could make budget-related information available to the public if they chose to do so.

### Table 4: Significant Changes in Budget Transparency (2006-2008)

<table>
<thead>
<tr>
<th>Country</th>
<th>OBI 2006</th>
<th>OBI 2008</th>
<th>Change</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Egypt</td>
<td>18</td>
<td>43</td>
<td>+25</td>
<td>• Publication of Executive’s Budget Proposal</td>
</tr>
<tr>
<td>Georgia</td>
<td>33</td>
<td>53</td>
<td>+20</td>
<td>• Introduction of multi-year budgeting format</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• Publication of Citizens’ Budget</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• Elimination of extra-budgetary funds</td>
</tr>
<tr>
<td>Croatia</td>
<td>42</td>
<td>59</td>
<td>+17</td>
<td>• Introduction of multi-year estimates</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• Publication of Citizens’ Budget</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>47</td>
<td>64</td>
<td>+17</td>
<td>• Introduction of 10-year implementation plan</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• Preparation of 3-year budget projections</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>47</td>
<td>57</td>
<td>+10</td>
<td>• Introduction of program budgets</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• More documents published on Internet</td>
</tr>
<tr>
<td>Kenya</td>
<td>48</td>
<td>57</td>
<td>+9</td>
<td>• Improvements in external audit including prompt reporting</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• Increased citizen participation in budget process</td>
</tr>
<tr>
<td>Papua New Guinea</td>
<td>51</td>
<td>60</td>
<td>+9</td>
<td>• Production and publication of Mid-Year Review</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• Publication of Year-End Report</td>
</tr>
<tr>
<td>Nepal</td>
<td>36</td>
<td>43</td>
<td>+7</td>
<td>• Reinstitution of Parliament after 2002 political crisis</td>
</tr>
</tbody>
</table>

Source: The Open Budget Survey 2008

### Recommendations for Governments

IBP has developed the following recommendations that can help countries achieve improvements in budget transparency. However, the most immediate – and often the least costly – action that governments can take to improve transparency is to make publicly available (through their websites) the budget information they already produce for the government’s internal use. In addition, governments can take the following steps:
Use methods and media that are understandable and useful to the wider population – such as the publication of citizens’ budgets and budget summaries in languages spoken by local populations – and to disseminate budget-related information. Countries can also broadcast budget-related hearings and events through the media, including television, radio, and the Internet.

Provide the public the opportunity to influence the formulation of budgets by convening regular public hearings during consideration of the Executive’s Budget Proposal and at regular intervals throughout the budget cycle. Governments could also take advantage of new technology to solicit such inputs from the public through emails (as is being done in Kenya).

Strengthen the political and financial independence of legislatures and SAIs and expand their analytical capacity and legal powers. Such reforms could aim to improve the capacity of legislatures and SAIs to play their formal oversight role.

Enhance the quality and timeliness of available budget information by using public finance information systems that provide clear, standardized information on the budget. In addition to this, governments could also take the lead in strengthening their record-keeping procedures and simplifying existing mechanisms such as freedom of information laws to provide the public with the information it seeks.

Recommendations for Legislatures and SAIs

IBP’s work on budget transparency around the world suggests that legislatures and SAIs could overcome some of the constraints they face in effectively overseeing budgets by expanding their engagement with civil society organizations. Such collaboration could help develop legislatures’ and SAIs’ capacities to provide more effective budget oversight, bring more publicity to budget and audit issues, build pressure on the executive to follow-up on legislative recommendations, and bring to legislatures and SAIs new ideas and evidence for legislative oversight activities and audit investigations.

Civil society groups specializing in budget issues can help to build legislatures’ and SAIs’ capacities in several ways. For example, groups in India, Mexico, Croatia, and elsewhere prepare accessible summaries and guides to their countries’ national budgets. Civil society organizations in some countries also provide training and technical assistance to boost legislatures’ budget literacy and the quality of budget hearings and reports. Finally, civil society can provide valuable independent analyses of the budget, which can enhance the capacity of legislatures to analyze budgets in many developing countries. For instance, analyses by civil society organizations focusing on the impact of the budget on poor and marginalized communities often constitute the few accessible, timely, and critical interpretations of the budget.

In turn, legislatures and SAIs can assist civil society by consulting with them during the budget and audit process. Legislatures could formally consult with civil society organizations through public budget hearings during the budget approval and oversight processes; legislatures – or individual legislators or political parties – could also organize informal meetings to solicit civil
society inputs on budgets. Further, legislatures and SAIs could share budget and audit information with civil society groups and the wider public by publishing budget and audit documents or by broadcasting budget or audit-related hearings on radio, television, and the Internet. Finally, legislatures could significantly empower civil society organizations and the public by enacting freedom of information legislation. Such legislation can enable individuals and organizations to access information (including budget-related information) from the government that they can in turn use to hold governments to account for their use of public resources – thereby complementing the oversight role played by legislatures and SAIs.

For more information on the IBP and on the Open Budget Initiative, contact Vivek Ramkumar at ramkumar@cbpp.org or go to IBP’s websites www.internationalbudget.org and www.openbudgetindex.org.

Documents Used to Develop the Open Budget Questionnaire

International Monetary Fund’s Code of Good Practices on Fiscal Transparency

The Organization of Economic Cooperation and Development’s Best Practices for Budget Transparency

The International Organization of Supreme Auditing Institutions’ (INTOSAI) Lima Declaration of Guidelines on Auditing Precepts.
http://openbudgetindex.org/files/LimaDeclaration.pdf
International Public Sector Accounting Standards Board
Review the Cash Basis IPSAS: An Opportunity to Influence Developments

Paul Sutcliffe - sutclif@tpg.org
International Public Sector Accounting Standards Board

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Executive Summary

The International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) is undertaking a review of the Cash Basis IPSAS “Financial Reporting Under The Cash Basis of Accounting”. The primary objectives of the review are, broadly, to identify major technical issues in implementing the Cash Basis IPSAS and to determine whether the IPSAS should be modified in light of those issues or supported with additional guidance on its application. The review will also consider whether additional reporting requirements should be added to the IPSAS.

This is an important project for the IPSASB – it responds to the needs of a major constituency and is a key component of the IPSASB’s on-going work program.

The IPSASB has established a Task Force to lead the data collection and analysis stages of the project and to make recommendations to the IPSASB on any modifications or additional guidance that should be considered. The Task Force hopes to submit its report for IPSASB review in early 2010. The IPSASB will then determine whether the IPSAS should be modified and in what ways. Any revisions to the IPSASB will be subject to the IPSASB’s due process.

The Task Force is developing the project in two stages. The first stage is the issue of a brief project questionnaire to identify broad areas of concern. Subsequently, the Task force will undertake more detailed interviews and/or “round table” discussions with respondents to the questionnaire in late 2009 and/or early 2010.

The questionnaire was issued in April 2009 with a request for response by July 15, 2009. It has been widely distributed to those who may be able to provide input to the review, particularly in developing economies that have adopted, or considered adopting, the Cash Basis IPSAS for financial reporting by the government or other public sector entities. The Task Force was advised that more time was needed to allow some interested parties to respond to the questionnaire and, in the interests of allowing for a wider participation in the project, continued to accept responses during August and September 2009. While the first stage of the Project has been completed and the interview and round table discussion Phase is well underway, there may still be an opportunity for interested parties to become involved in Phase 2 of the project. The project questionnaire and information about any round table discussions still to take place can be downloaded from the IPSASB website at www.ipsasb.org (click on Projects).

The Task Force encourages all interested parties to participate in this review of the Cash Basis IPSAS and bring to the IPSASB’s attention views on ways in which the IPSAS can be updated to
support its orderly adoption across a wide range of jurisdictions around the world, and strengthened to better serve user needs and enhance the transparency of financial reporting.

**Background to the Review - The Cash Basis IPSAS**

The cash basis of accounting, or a modified-cash basis of accounting, is widely adopted for financial reporting at various levels of government in many jurisdictions. The form of the cash or modified-cash basis accounting that is adopted can vary from jurisdiction to jurisdiction. Strengthening the cash basis of accounting, and applying that basis consistently within the same jurisdiction over time and across different jurisdictions, will enhance the quality and consistency of financial information reported for accountability and decision making purposes.

When first initiated, the IPSAS development program encompassed the development of standards for financial reporting under the modified-cash and modified-accrual bases of accounting, as well as under the cash and accrual bases. However, respondents to early exposure drafts of the proposed IPSASs argued it was not appropriate or desirable to develop standards for the modified-cash and modified-accrual bases. For example, they noted that while use of a modified-cash basis for financial reporting reflected a desire to be more accountable and transparent than was possible under a “pure” cash basis, the modifications were not necessarily underpinned by any general principles but responded to the circumstances and capacities of each jurisdiction - they reflected the practical realities of what was achievable at a particular time in a particular jurisdiction. Therefore, the nature of the modifications in place could well differ from jurisdiction to jurisdiction, and attempts to standardize modifications across all jurisdictions could act as a disincentive to ongoing developments in financial reporting.

An Invitation to Comment “The Development of International Public Sector Accounting Standards – Which Bases of Accounting” was issued in 1999 to seek views on whether to develop standards for the modified-cash and modified-accrual bases. There was an overwhelming response in support of developing IPSASs for only the cash and accrual bases, and encouraging the transition from cash to the accrual basis. As a consequence, the standards development program was refocused to develop IPSASs on only the cash and accrual bases. The Cash Basis IPSAS “Financial Reporting Under The Cash Basis of Accounting” was issued in January 2003, with an initial application date of 1 January 2004. Since first issued, the Cash Basis IPSAS has been updated with the inclusion of additional requirements and encouragements relating to the presentation of budget information in financial statements (2006) and the disclosure of information about external assistance (2007).

This review of the Cash Basis IPSAS was formally actioned in November 2008 when the IPSASB agreed on the Project Brief. (The Project Brief and a project history is available on the IPSASB website at www.ipsasb.org - click on Projects) It is part of the IPSASB’s on-going commitment to maintain and update IPSASs, whether cash or accrual, to ensure that they meet financial statement user’s needs and are capable of being implemented by governments in jurisdictions with different political and institutional arrangements and financial reporting traditions. The review of the Cash Basis IPSAS also reflects the IPSASB’s ongoing commitment to respond to the needs of developing economies.

The following sections of this paper outline major features of the IPSAS and the review process.

**The Cash Basis IPSAS - Key Requirements and Encouragements**

The Cash Basis IPSAS comprises two parts:
Part 1 of the IPSAS establishes requirements for the disclosure of information in financial statements and supporting notes, and deals with a number of specific reporting issues. The requirements of Part 1 must be complied with by governments and other public sector entities that prepare and present their financial statements in accordance with the Cash Basis IPSAS. To assist in its implementation, the IPSAS includes transitional provisions which provide relief from certain of the requirements for an initial transitional period after it is adopted; and

Part 2 identifies additional disclosures that adopters of the Cash Basis IPSAS are encouraged (but not required) to make. Part 2 is intended to support those jurisdictions that are enhancing the transparency of their financial reports by identifying additional disclosures to supplement the information presented in their cash basis financial statements. To allow enhancements in financial reporting to develop in response to the particular circumstances and capacities of each jurisdiction, the additional disclosures are encouraged rather than required.

The IPSAS also includes extensive illustrations which indicate how many of the required and encouraged disclosures may be presented in the financial statements of governments and other entities in a range of different circumstances. While intended to provide guidance to those adopting the IPSAS, the illustrations are not requirements and other methods of presentation are also possible. In particular, the illustrations may need to be refined and developed to respond to the particular circumstances of each jurisdiction.

Key requirements and encouragements of the IPSAS, including some that are expected to be the subject of discussion during the course of this review, are briefly noted below.

**Consolidated Statement of Cash Receipts and Payments**

A central requirement of the IPSAS is the preparation and presentation of a single stand-alone consolidated Statement of Cash Receipts and Payments which reports total cash receipts, cash payments and cash balances of the government or other public sector reporting entity, and identifies the major classes of those receipts and payments on a classification basis appropriate to the entity’s operations. Notes to the Statement of Cash Receipts and Payments may also disclose information about such matters as payables, receivables and other assets, borrowings, liabilities and commitments.

In respect of a government, the consolidated Statement of Cash Receipts and Payments will report all cash payments, cash receipts and cash balances controlled by the government and governmental entities, including those that are off budget. This requirement reflects the IPSASB’s response to the concerns of constituents that in many jurisdictions financial statements report cash receipts and payments against budget, but many government programs and activities are conducted through government entities and operations that are off-budget. Consequently, the cash basis financial statements did not provide to citizens a picture of the full amount of the cash that the government received and spent on their behalf during the reporting period, and the cash balance it held at the end of the reporting period to be deployed for the benefit of citizens in the future.
Third Party Payments

International assistance agencies, donors and other parties may provide financial support to a recipient government in different forms. For example, cash may be provided to a government to support its service delivery or debt retirement programs – the receipt and subsequent use by the recipient government of this cash will give rise to cash receipts and payments that will be reported in the Statement of Cash Receipts and Payments. In other cases, rather than providing a recipient government with cash to acquire the resources it needs to undertake agreed programs or to repay debt, a donor may directly pay a supplier for the assets or services acquired by the recipient government, or may directly repay the debt of that government. In these cases, the recipient government does not receive cash or make cash payments – rather, payments to settle certain of its obligations are made on its behalf by a third party (the donor).

The IPSAS requires that payments made directly by third parties to settle the obligations of a government or other public sector entity, or to purchase goods and services on behalf of the entity, are to be reported in a separate column on the face of the Statement of Cash Receipts and Payments. This will enable users of the Statement of Cash Receipts and Payments to identify the cash being provided by donors, assistance agencies or other third parties in support of the government’s (or other entity’s) activities during the reporting period, notwithstanding that they have not given rise to cash receipts and payments as defined in the IPSAS. In some cases, an entity may not be advised, or may not be able to verify, that payments have been made on its behalf by third parties until well after the end of the reporting period, if at all. Therefore, as a practical measure, the IPSAS requires that third party payments only be disclosed on the face of the Statement of Cash Receipts and Payments when during the reporting period the entity has been formally advised that such payments have been made, or has otherwise verified their occurrence.

Other Requirements

Part 1 of the IPSAS includes requirements relating to such matters as selection of accounting policies, consistency of presentation of the financial statements, presentation of comparative information and the timeliness of reporting – for example, it requires financial statements to be prepared at least annually and notes an expectation that the financial statements be available for issue within six months of the reporting date. It also includes requirements and guidance relating to:

- Disclosure of certain information about major classes of external assistance received from, for example, another government, bilateral agency or multi-lateral development bank;
- Presentation of actual and budget comparisons in financial statements and explanations of material differences; and
- Treatment of foreign currency cash receipts, payments and balances

Encouraged Disclosures

Part 2 of the IPSAS includes additional encouraged disclosures about such matters as:

- Assets and liabilities of the entity and the acquisition and disposal during the period of entities and operating units that the government or other public sector entity controls;
• Major classes of cash receipts and payments, including disclosures about receipts and payments that the entity administers, rather than controls – for example, revenue collected by state or provincial governments on behalf of a national government; and

• The sources and uses of external assistance, including assistance received from non-governmental organizations (NGOs).

Part 2 also includes guidance on financial reporting in hyperinflationary economies.

**Objectives of the Review and the Review Process**

The primary objectives of the review are to:

• Identify the major technical issues that governments and other public sector entities in developing economies have encountered, or are anticipated to encounter, in implementing the Cash Basis IPSAS; and

• Determine whether the IPSAS should be modified in light of those issues or whether further guidance on application of the IPSAS should be provided by the IPSASB.

The review is also to seek the views of interested parties on whether additional reporting requirements should be added to the Standard for accountability and decision making purposes, including whether any of the encouraged additional disclosures identified in Part 2 of the IPSAS should be included as mandatory requirements.

Following approval of the Project Brief in November 2008, the IPSASB appointed a Task Force to lead the data collection and analysis stages of the project and make recommendations to the IPSASB on any modifications to the IPSAS or additional guidance that should be considered. The IPSASB has also requested the Task Force to make recommendations on whether additional disclosures about financial instruments should be required or encouraged by the Cash Basis IPSAS, and the nature of any such disclosures.

The Task Force is chaired by the IPSASB Deputy Chair and comprises members from the IPSASB, Asian Development Bank (ADB), IFAC’s Developing Nations Committee (DNC), Inter-American Development Bank (IADB), OECD, World Bank, and a public financial management (PFM) expert with extensive field experience. The Task Force members are identified in Attachment 1.

In early 2009, the Task Force agreed that it would adopt a two stage process for data collection and identification of issues:

• During the first stage of the project the Task Force issued a brief project questionnaire. The questionnaire seeks input on broad implementation issues from developing economies which have adopted or are intending to adopt the cash basis IPSAS, and from PFM experts, users and others with experience of the Cash Basis IPSAS who may be able to provide input on implementation issues. The questionnaire is intended as only an initial reference point to identify broad areas of concern; and

• During the second stage of the project, the issues identified will be explored further – the Task Force will undertake detailed “follow-up” discussion with those that respond to the questionnaire on a one-to-one basis, or in regional round table forums. It is anticipated that the follow-up discussions will take place in late 2009 and early 2010. (Respondents to the
questionnaire who express an interest in participating in follow-up discussions will be contacted directly by the Task Force to finalize follow-up arrangements.)

The Task Force hopes to be able to submit a report for IPSASB review early in 2010. That report will outline the issues identified by those that have participated in the project and the Task Force’s recommendations on any actions the IPSASB should take in response. The IPSASB will then determine how it will respond, including whether to provide additional guidance to support the operation of the IPSAS and/or whether any of the IPSAS’s requirements or encouragements should be amended. Any revisions to the IPSAS will be subject to the IPSASB’s due process which includes the issues of an exposure of proposed changes for comment by interested parties.

The Task Force has set itself an ambitious timeframe for delivery of its report to the IPSASB. While its work program is currently on schedule, whether the Task Force will be able to achieve its target date for the final report will be determined by the extent and nature of responses to the project questionnaire and progress on follow-up interviews and round table discussions.

**Current Progress**

The Task Force is aware that while many jurisdictions adopt a form of cash or modified-cash basis for financial reporting by governments and other public sector entities, few are likely to be fully compliant with the Cash Basis IPSAS. Consequently, the project questionnaire has been widely distributed to Ministries of Finance, Auditors General, users and PFM experts and others in a broad range of developing economies around the world that adopt a cash or near cash basis of accounting. It is also being made available to other jurisdictions and individuals that have familiarity with the Cash Basis IPSAS and are likely to be able to provide input to the project.

The project questionnaire was issued in April 2009, with a request for responses by 15 July 2009. (Translations of the questionnaire in French, Spanish and Russian were prepared and made available.) The Task Force was advised by a number of interested parties that they wished to participate in the review but needed additional time to respond to the questionnaire. The Task Force does not wish to exclude interested parties from providing input to the review – the success of the project is dependant on the Task Force obtaining input from constituents on implementation issues and any enhancements necessary to strengthen the operation of the IPSAS. Consequently, the Task Force continued to accept responses to the questionnaire during August and September 2009 – at the time of completion of this article 45 responses had been received.

Arrangements for follow-up interviews and round table discussions are developed as responses to the questionnaire are received. The Task Force is also exploring opportunities to hold round table discussions in conjunction with regional seminars during the remainder of 2009 and early 2010. While the first stage of the data gathering process has been completed and Phase 2 will be well underway by the time of publication of this article, there may still be an opportunity for those interested to provide input to this review of the IPSAS. The project questionnaire together with information about participating in any round table discussions still to take place can be downloaded from the IPSASB website at [www.ipsasb.org](http://www.ipsasb.org) (click on Projects). The Task Force encourages all interested parties to participate in this review of the Cash Basis IPSAS by responding to the questionnaire and advising whether they are prepared to participate in follow-up discussions in their region – it is an opportunity to shape the future development of this important IPSAS.
**Exploration of issues during Stage 2 of the project**

The follow-up discussions during Stage 2 of the project development will explore in more detail issues identified in responses to the questionnaire. However, Stage 2 will also allow for broader jurisdictional input from participants about such matters as:

- Current reporting practices and processes adopted in their region and whether and how those practices differ from the requirements of the Cash Basis IPSAS;
- Whether legislation or other authority prescribes a reporting format or content that differs from the Cash Basis IPSAS;
- Institutional, capacity and other constraints that act as impediments to adoption of the Cash Basis IPSAS in the region;
- Whether the Cash Basis IPSAS is responding to users information needs and, if not, how it should be modified to better align with those needs; and
- Whether the Cash Basis IPSAS is performing its role as intended, and whether that role is appropriate – the Cash Basis IPSAS was developed to support those jurisdictions that wished to strengthen the cash basis when adopted for financial reporting by governments and their entities. It was also intended to provide a sound base for jurisdictions intending to transition to the accrual basis of accounting for financial reporting by these entities.

The Task Force is also particularly interested to explore with participants whether the current consolidation requirements in the IPSAS are appropriate from both a policy and practicality perspective, and whether the requirements to disclose information about third party settlements are well understood and appropriate. It has specifically sought input on these and other requirements relating to the Statement of Cash Receipts and Payments in the project questionnaire and will explore them further in the second stage of the project.

Other matters that have been identified for further exploration include whether:

- The structure of the IPSAS is user friendly in its current form – as noted above the IPSAS comprises two parts and encompasses requirements, encouraged disclosures and extensive illustrations. This has resulted in a lengthy document – the inclusion of any additional guidance in the IPSAS will further increase its size;
- Any of the encouraged additional disclosures in Part 2 of the IPSAS should be included as mandatory requirements in Part 1;
- The required disclosures relating to external assistance are appropriate and sufficient for accountability purposes, and satisfy donor and other user needs – and whether some of the encouraged disclosures relating to the sources and use of external assistance should in fact be recast as requirements;
- Disclosures of information about commitments and contingent liabilities should be identified as additional encouraged, or even required disclosures, in the IPSAS;
- The IPSAS should encourage or require any additional disclosures about financial instruments, and the nature of those disclosures; and
- There are unintended differences between cash basis statistical financial reporting models and the requirements of the Cash Basis IPSAS that present an impediment to adoption of the
IPSAS. In this context, it is appropriate to note that the strategic themes the IPSASB has identified for its work program through 2009 include convergence with statistical bases where appropriate.

The register of issues for consideration in Stage 2 of the project will of course be further developed and refined as the Task Force receives input from interested parties.

**Conclusion**

The Task Force encourages users, preparers, auditors, PFM experts and others who have familiarity with the Cash Basis IPSAS to provide input to the review. Input is particularly welcomed from those from developing economies that have adopted, or have considered adopting, the Cash Basis IPSAS.

Participation in the project provides the opportunity for interested parties to bring to the attention of the IPSASB their views on:

- Requirements of the Cash Basis IPSAS that act as an impediment to its adoption in particular regions; and
- Ways in which the IPSAS can be strengthened to better serve user needs and enhance the transparency of financial reporting under the cash basis of accounting.

Any proposed revisions to the Cash Basis IPSAS will be subject to the IPSASB’s due process which includes the issues of an exposure of proposed changes for comment by all interested parties. However, participation in the project at this early stage of its development provides the opportunity to shape the nature of any exposure draft that might be issued in the future.

**Attachment 1: Task Force Members - Review of the Cash Basis IPSAS**

<table>
<thead>
<tr>
<th>Name</th>
<th>Role and Affiliation</th>
</tr>
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<tbody>
<tr>
<td>Erna Swart</td>
<td>IPSASB - Deputy Chair. Chief Executive Officer, Accounting Standards Board, South Africa</td>
</tr>
<tr>
<td>Andreas Bergmann</td>
<td>IPSASB Member. Professor - Zurich University of Applied Sciences, Institute of Public Management Switzerland</td>
</tr>
<tr>
<td>Simon Bradbury</td>
<td>Division Manager, Loan Department, World Bank</td>
</tr>
<tr>
<td>Sara Fyson</td>
<td>Policy Advisor. Aid Effectiveness Division, Organisation for Economic Cooperation and Development (OECD)</td>
</tr>
<tr>
<td>Hong-Sang Jung</td>
<td>Controller. Asian Development Bank (ADB)</td>
</tr>
<tr>
<td>Irene Lombe Ng’andwe</td>
<td>Member, IFAC Developing Nations Committee. Consultant, Zambia</td>
</tr>
<tr>
<td>Ron Points</td>
<td>Consultant – World Bank. Financial Management, South and East Asia</td>
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The Cash Basis IPSAS: An Alternative View

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Introduction

We welcome the decision by the International Public Sector Accounting Standards Board (IPSASB) to review the Cash Basis IPSAS, but we are reminded of the story of the pedestrian who was asked by a motorist for directions, and replied, “If I was you I wouldn’t start from here...”. There are so many decisions implicit or explicit in the Cash Basis IPSAS, indeed all the IPSAS, that it is easy to forget the purpose of the IPSAS and hence whether they effectively meet that purpose. In terms of standardising financial reporting by national governments, the Cash IPSAS has had mixed success. It has for the first time set out a standard for the majority of public sector entities, including sovereign governments, which report under the cash basis. Thus it has created an aspirational goal which in itself is to be commended. On the other hand, it was first issued in January 2003 and yet not a single government has fully adopted the standard. Hence at the level of sovereign government reporting the Standard has failed to achieve compliance at least in terms of all the mandatory requirements being complied with. The IPSASB needs to consider carefully why this is the case and how to facilitate the convergence of financial reporting by governments and their adoption of international best practices.

The purpose of International Public Sector Accounting Standards (IPSAS) – cash or accrual – is “to prescribe the manner in which general purpose financial statements should be presented under the cash basis of accounting.” IPSAS apply to all public sector entities, from supra-national organisations, such as the UN, through sovereign or national governments to the smallest public sector entities, and only excluding Government Business Enterprises (which should report according to International Financial Reporting Standards – IFRS).

The traditional approach to government financial reporting was to provide a budget out-turn report for each ministry, department or agency that is funded from the government’s budget. This report shows the extent to which the government’s budget, agreed by parliament, was actually implemented as planned. Together with the auditor general’s report, this enables public accountability on the extent to which the budget and relevant laws and regulations were complied with during the year. Over the last 25 years there has been a dramatic change in the dominant view of ‘international best practice’ for public sector management. Many countries have adopted variants of New Public Financial Management and the ethos that the private sector approach provides distinct advantages and lessons for the public sector (although the current economic turmoil has led to some questioning of this view).

The introduction of private sector style financial statements is thus completely new (especially at the sovereign or national government level). It has led to significant confusion and challenges as the public sector accounting environment is fundamentally different. The International Public Sector Accounting Standards Board has established a set of reporting standards which are achieving international recognition. Basing the standards on existing commercial accounting standards (IFRS) was a pragmatic means of rapidly establishing credible standards. But this approach has also created problems. These are most apparent at the level of national government financial reporting. The approach adopted by the Cash Basis IPSAS requires changes in several
respects from the usual approach to financial accounting by governments. Thus more extensive guidance is needed for the approach to be clearly understood. However, this has yet to be provided. The current Cash Basis IPSAS is only 126 pages long – about half the size of the recently issued IFRS for small and medium enterprises. This is despite most national governments being larger and more complex than almost all private sector companies.

In this Article we suggest that there are three major issues with the Cash Basis IPSAS that need to be addressed if it is to move from merely being a standard to being an established international best practice:

1. The concept of control as the basis for defining the entity and the requirement for consolidated accounts to be produced at the government rather than the entity level
2. The view that there is a clear dichotomy between cash and accrual basis, and that any intermediate stage is just a step on the path to full accrual
3. The failure to recognise that there already exists a standard for government financial reporting – the IMF Government Finance Statistics (GFS) Manual 2001 – and that this review should be used as an opportunity for convergence.

The concept of control

The concept of control to define an entity works well for a business entity and is also reasonably applicable for most sub-national entities, for example, local governments and not-for-profit agencies, which tend to have clearly defined roles and responsibilities under their control. However, it is inappropriate at the sovereign or national government level. At this level it could include ministries, departments and agencies; but should exclude Government Business Enterprises.

By definition, national governments are “sovereign” – a government controls a country. This has been vividly demonstrated during the current financial crisis, when governments simply took control of the banking system and even private sector banks were nationalised in the US, UK and other countries. There will be constitutional constraints on government actions, but nevertheless if rigorously applied the concept of control would result in a definition of government too broad to be useful. For example, in the UK, local governments are effectively controlled by central government with only limited autonomy in areas prescribed by central government. This broader definition of government is emphasised by the fact that these sub-national governments are part of the Whole of Government Accounts project which is struggling to produce consolidated accounts for the UK government.

Is it possible to have a different basis of entity definition for sovereign governments to sub-national entities? The answer is, why not? The need arises from the problem identified of consolidating Government Business Enterprises (GBEs) into national financial statements, which consolidation no country has thought appropriate. If control provides an adequate entity definition for sub-national entities but not for sovereign governments, then this fact should be recognised and a different definition adopted for sovereign reporting.

In fact, an alternative definition already exists in IPSAS 22 “Disclosure of Financial Information about the General Government Sector”. This definition is the same as that used for financial reporting under the IMF GFS and hence adopting IPSAS 22 as the entity definition for the Cash
Basis IPSAS would also serve the objective of convergence with GFS. Essentially, under the IPSAS 22 definition, consolidated financial statements would be produced for the General Government Sector comprising central and local government, but would exclude Government Business Enterprises. This is illustrated in the diagram below.

**Note 1:** This would not remove the need for sub-national entities to prepare their own financial statements, which may then be consolidated into the “whole of government” financial statements.

**Note 2:** The concept of Government Business Enterprises (GBEs) in IPSAS is essentially the same as the GFS concept of Public Financial Corporations and Public Non-Financial Corporations, though the wording of the definitions is different.

The idea of producing consolidated government financial statements is a relatively recent innovation in the public sector which, for example, the UK and the US are currently struggling to implement. Most governments amalgamate the accounts of their entities, but do not fully consolidate these accounts, at least in the technical accounting sense.

Whilst such “whole of government” information is useful for fiscal and policy management, it must be questioned whether it is appropriate as a mandatory requirement in a Standard intended for countries which have not as yet adopted more sophisticated tools of public financial management. And if “whole of government consolidation” is to be included even as an additional voluntary disclosure, what is the benefit of adopting a definition of the whole of government different to that adopted for other reporting purposes?

Other international standards appear to have moved away from requiring a whole of government consolidation. The IMF Code on Fiscal Transparency, revised in 2007, for example, now makes no reference to consolidated accounts. The 2001 version stated that:
2.1.1 The budget documentation, final accounts, and other fiscal reports for the public should cover all budgetary and extra budgetary activities of the central government, and the consolidated fiscal position of the central government should be published.

The 2007 version just says that:

2.2.4 Audited final accounts and audit reports, including reconciliation with the approved budget, should be presented to the legislature and published within a year.

Performance indicator 25 of the PEFA performance measurement framework states that:

Consolidated year-end financial statements… are critical for transparency in the PFM system. To be complete they must be based on details for all ministries, independent departments and deconcentrated units.

In scoring for this performance indicator, if a “consolidated government statement is not prepared annually” then the lowest score of D would be applicable. However, the detailed guidance from PEFA makes it clear that this does not require fully consolidated financial statements in the technical accounting sense, as currently required by the Cash Basis IPSAS. It is enough for the financial statements of government ministries to be presented together and PEFA’s clarifications explain that:

AGA [autonomous government agencies] are autonomous and operating their own accounting systems outside the central government budgetary system. Therefore, they prepare their own accounts statements and do not have to be included in consolidated government statements.

As a result, for example, Uganda scored a B+ on indicator 25 on the “Quality and timeliness of annual financial statements” during its PEFA review undertaken last year and South Africa similarly scored A. In neither case are Government Business Enterprises consolidated into the government’s own accounts. In the case of South Africa “Consolidated Financial Information” is provided to distinguish this from fully consolidated financial statements.

Many public sector accountants freely admit that the requirement to provide fully consolidated financial statements covering all entities controlled by the national government has prevented the adoption of the cash basis IPSAS by their governments. The requirement to disclose “payments by third parties” has provided a similar impediment. The first step should be for all public sector ministries, departments and agencies to provide timely financial reports which account for the way in which their budgets have been implemented. Public accountability requires that these are clearly understood by the public and therefore need to be as simple as possible. But they also need to be technically robust to facilitate interpretation and analysis.

Hence there is a need in the current review both to change the definition of the government entity so as to bring it into line with IPSAS 22 and other international reporting standards, and also to make the requirement for consolidated financial statements an additional voluntary disclosure rather than a mandatory disclosure. In this respect it may well be that the requirement for sovereign governments differs from the requirement for sub-national entities.
Cash or accrual: the only choice?

A fundamental decision by the International Public Sector Accounting Standards Board was to recognise only two bases of accounting – cash or accrual. Intermediate systems are seen simply as stepping stones to full accrual. There appear to be two justifications for this view.

Firstly, it is stated that in 1999 an invitation to comment produced “overwhelming support” for only recognising the two basis of accounting – cash or accrual. We do not know who commented in 1999, but the reality is that most governments adopt some form of modified cash or modified accrual, and will continue to do so indefinitely into the future.

Secondly, it is argued neither modified cash nor modified accrual is “underpinned by a general principle”. However, since the cash and accrual basis IPSASs have also all been produced in the absence of any conceptual framework, this is a difficult argument to sustain! The International Public Sector Accounting Standards Board is only now in the process of developing a conceptual framework for the accrual based standards.

There is a very strong case for governments adopting modified cash (and in fact most of them already do so), and such a basis is very easy to define. The modified cash basis recognises financial assets and liabilities, but does not recognise non-financial assets (so the value of government buildings and equipment is not included in a balance sheet). The definition of financial assets and liabilities itself the subject of current exposure drafts, so precise definitions do, or will shortly, exist. Adopting the modified cash basis enables advances, deposits, government lending and unpaid bills (a common problem for many governments) to be recognised within the accounting system, with consequent improved control and transparency; it enables a proper double entry accounting system; it fits well with off the shelf accounting software; it enables a financial balance sheet; and finally it remains consistent with a cash based budget approach. The inclusion of information on borrowings and other liabilities, including government debt, is particularly relevant when the credit rating of sovereign governments is questioned. In fact, why do governments need anything more than this?

A modified accrual basis is harder to define. Typically it would recognise capital (fixed) assets acquired and would expense them over their lives. Such a system would not include heritage or intangible assets, nor seek to recognise inter-generational assets and liabilities. This approach has been adopted by a few governments who are experimenting with the accrual basis, but there is no common approach.

Of course, the Cash Basis IPSAS does allow such modified cash or modified accrual information to be disclosed as “encouraged additional disclosures”, but it is not a recognised basis and there are no definitions or proposed presentation formats.

In our view, the Cash Basis IPSAS should be re-titled “Cash and Modified Cash Basis IPSAS” and should explicitly recognise the modified cash basis with definitions, presentation formats and examples. This should not be seen as stepping stone to full accrual, but a basis of accounting suitable for sovereign governments and enabling full accountability to their citizens. Indeed, as indicated, this is the approach which is currently adopted by the majority governments across the world.
On the other hand, we would agree with the view that to also recognize modified accrual, which is less clearly defined and not widely used, would be too confusing. A move from two to three acceptable accounting bases would be sensible; introducing a fourth might engender confusion.

**IPSAS and GFS**

Somewhat disingenuously the International Public Sector Accounting Standards Board tends to refer to the “statistical bases of reporting” as though they were a variety of financial reporting or accounting standards. In fact most national governments report according to the IMF Government Finance Statistics (GFS), except those in Europe which report under Eurostat ESA 95. Both reporting systems are very similar and are consistent with the UN System of National Accounts Classification of the Functions of Government (COFOG). Clearly for most countries the GFS is the relevant sovereign reporting standard.

The GFS is not described as a financial reporting standard. It does not lead to audited financial statements. But it does prescribe reports including a “Balance Sheet”, a “Statement of Government Operations”, and “Statement of Sources and Use of Cash”. It defines classifications of expenses and revenues, presentation and valuations. It also defines the government entity (essentially the same as IPSAS 22), financial and non-financial assets and liabilities. Hence it looks very much like a financial reporting standard, and as Douglas Adams said, “If it looks like a duck, and quacks like a duck, we have at least to consider the possibility that we have a small aquatic bird of the family anatidae on our hands”. Our view is that the GFS and ESA 95 are de facto sovereign government reporting standards and have to be placed alongside IPSAS when developing government accounting and reporting systems.

There is a “Task Force on Harmonization of Public Sector Accounting” comprising IPSASB, IMF, Eurostat and OECD, and this has published a report “International Public Sector Accounting Standards (IPSASs) and Statistical Bases of Financial Reporting: An Analysis of Differences and Recommendations for Convergence” in January 2005. This identified a large number of differences between IPSAS, GFS and ESA 95. Some differences are fundamental, such as the entity definition, and some relatively minor, such as the definition of GBEs as compared to the GFS definition of Public Financial Corporations (PFC) and Public Nonfinancial Corporations (PNFC), while some are the result of the different purpose of the standards – IPSAS lead to audited financial statements, the statistical systems to reports to intergovernmental institutions such as the IMF. IPSAS 22 “Disclosure of Information about the General Government Sector” is an outcome of the harmonisation process, but it remains an optional and additional disclosure and, illogically, only applies to accrual reporting.

However, many of the differences between GFS and the Cash Basis IPSAS could be resolved by simple re-wording of the Cash Basis IPSAS. In other cases, an explanation of the differences and linkages, e.g. the presentation of similarly titled reports, would make clear that apparent differences are in fact just a matter of presentation. It will be a lost opportunity if the revision of the Cash Basis IPSAS is not also used to address the issue of harmonization with statistical reporting systems and in particular with GFS.
Conclusion

Financial reporting by sovereign or national governments is an increasingly important issue, and will become more so as the impact of the financial crisis on governments across the world becomes apparent. Government financial statements should provide critical information on the health of government finances which is useful and understandable by citizens. If the revision of the Cash Basis IPSAS can facilitate improved transparency, accountability and comparability, it will have served an important purpose. However, to achieve this objective, a critical re-think is needed on the structure and content of the government financial statements which are required by the standard.

The International Public Sector Accounting Standards Board needs to base its review of its Cash Basis IPSAS on existing good practice in public sector accounting around the globe. The starting point should be for each ministry, department and agency to produce timely and simple financial statements which citizens can use to hold their governments to account.

Financial statements of sovereign governments are important and present their own distinct set of challenges which are in some important respects different to those facing sub-national entities. A more appropriate entity definition, the recognition of the modified cash basis of accounting and greater consistency with other reporting standards would make the Standard much more relevant to national governments and hence lead to more widespread compliance.

Consolidated financial statements (and payments by third parties) are refinements which some governments may choose to adopt, to a certain level, but should not be mandatory requirements.

Careful consideration should also be given to the more detailed requirements of the Cash Basis Standard. For example, its current requirement is for financial statements to be issued “within six months of the reporting date, although a timeframe of no more than three months is strongly encouraged” (paragraph 1.4.4). This is far more challenging than other public sector standards. In contrast, the Cash Basis IPSAS does not require the disclosure of the level of aid received from individual governments or agencies. Thus any government providing budget support cannot gain assurance from the level of its aid appearing in audited financial statements issued by the recipient government.

We welcome the review of the Cash Basis IPSAS and welcome the opportunity to comment. But because this standard is so important for sovereign governments, it is important that this opportunity is used to provide a relevant and appropriate standard for such governments.

*The authors would like to thank Cosmas Lamosai, the Chief Executive Officer of the East & Southern African Associations of Accountants General, for helpful comments which have improved this article.*
Using Periodic Audits to Prevent Catastrophic Project Failure

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In the early part of the 17th century, Sweden endeavored to construct the grandest warship ever built. It would be larger, heavier, and carry more firepower than any ship ever built. It was covered in beautiful carvings so, not only would it be capable of destroying any enemy vessel, it would do so in grand style. The construction of this ship consumed 5% of the country’s GNP. In 1628, the VASA set out on its maiden voyage. It sank to the bottom, killing 50 people, after sailing only 1000 meters from the dock in a light summer breeze. The irony is that this was not an unexpected event. The project made every mistake common to IT projects (scope creep, change in project lead, using new technology, failure to follow a careful design). The worst part was that although the ship failed when it was tested, no one informed management (the king). Not only did the project fail, but 50 innocent lives were lost. This cautionary tale exactly parallels some massive IT project failures (although rarely do IT failures kill more than careers and profits).

Year after year, we continue to build the IT equivalent of the Vasa. The main difference between the doomed historical ship and “IT Vasas” is that when a ship sinks, construction stops; on an IT project, we continue to pump millions of dollars into a system after it has already failed. We cannot prevent poor decisions, but we can prevent people from ignoring them.

Managing Successful Projects

Several years ago, I was contacted by a graduate student who was working on a thesis comparing system development methodologies. The student wanted to create a contingency model indicating which style of development was appropriate for which type of project. I was asked to give my opinion about when each proposed development methodology should be employed. I thought it was an excellent question; however, I don’t think the answer I gave satisfied the student very much. I replied that the software development method employed had very little effect on project success. I have seen successes and failures using every method. If the development team used no formal process at all, failure was guaranteed, but it did not seem to matter which development method was used.

What I told the student was that project management is like leading a bunch of children on a wilderness hike. Periodically, you should climb to the top of a tall tree and see if you are still going in the right direction, find out if there are obstacles in the way, and make sure that the path you are on will get you to your final destination. Climb back down from the tree, gather all of the children (most will have wandered off into the woods), and point them all in the right direction prior to moving on.

As simple as this description of project management sounds, it is shocking how often managers do not follow it. Project managers may go for months (if not years) without taking stock of the real status of a project. As a result, the architecture of the system may be unsound and failure may be inevitable, but this critical information will not be discovered in a timely manner. Frequently, an unsound system foundation is not discovered until there is an attempt to put the system into production. Of the many shortcuts that are taken in the name of expediency, there is none more dangerous than failing to make a periodic assessment of the overall project status.
Auditing is the critical success factor in preventing massive failures. IT projects need to be periodically examined to make sure they are on the right track. Failure to periodically assess means that you could be building a system that will never work and be unaware of it.

These assessments can be internal, but IT professionals are notoriously poor at self-examination. The most successful way to get developers to consistently test their own code is to force them to write the tests before they write the code (the so-called “test-first” concept from the Agile methodology). The official audit should not be done by anyone on the project team.

A project audit is a significant, substantial effort. It is not a review of one part of the system (a security audit is not a project audit), nor should its scope be limited. The audit should answer the question “Are we building a system that will meet user requirements?”

**Audit Costs**

Useful IT project audits are both time consuming and expensive and will the delay the project. They are intrusive, annoying and usually create political land mines. Assume that the audit will consume 5-10% of the total cost of the system (excluding hardware). For systems that have been stuck in analysis or development paralysis, the cost may be much lower. Therefore the actual audit cost is likely to be around 5-10% of the current total productive work completed on the project, which, unfortunately, may be far less than the total amount spent on the project.

Meaningful audits cannot take place without the participation of the project team. Team members will need to walk the auditors through the system, prepare architectural overviews, and educate the audit team.

Audits can also be very threatening to a project team. In the rare cases when they are conducted at all, audits are usually only initiated when a project is known to be in trouble and management is looking for a scapegoat, or wants to find a different solution.

Everyone connected to the project will declare an audit to be a waste of time and effort. Project management will feel threatened and wonder why you do not trust them. The developers will wonder why they need to help these outsiders when they should be coding.

Given the economic and political costs, it is little wonder that IT project audits are not as common as they should be.

**Audit Benefits**

An audit will tell you whether or not you are building a Vasa. Failing a $200 million project after $20 million (rather than $300 million after cost overruns) is a huge benefit. Of course, the second time you try to build the project may be no better than the first, but at least you will not be going down a road that is doomed to failure.

There are hundreds of articles quoting industry project failure rates that vary from 20% to 80%. These articles differ about what failure means, but regardless of the source of the statistics, there are enough project failures to conclude that audits make good economic sense.

Periodic assessments can help prevent several common problems:

1. **Ensuring that project milestones have actually been achieved.** Assessments should be made:
   - when determining project scope
• when the data model is thought to be relatively stable
• after the basic user interface design is complete
• after each major architectural decision.

Such assessments are best made with the assistance of an outside auditor who is not otherwise connected to the project. The act of defending a decision to a third party often helps to focus the thinking of the team.

2. **Averting unforeseen disasters.** It is very easy to think that a project is going along smoothly when many people already know that it is doomed. Asking developers and users involved in the day-to-day project development process how things are going on a regular basis can help reveal problems looming on the horizon.

3. **Inappropriate resource allocation.** At the outset of a project, it is not always possible to accurately determine the number of hours or all of the resources required for each phase of the project. By taking time to frequently assess project status, tasks that have been omitted will be discovered and a reassessment of the outstanding issues will ensure that they are being addressed.

Audits do more than simply prevent disasters. They can also help to identify missed opportunities and find places to improve even a very successful project. An audit will help the existing team to take stock of the project and provide them with opportunities view the project from another perspective that they might otherwise never have seen.

**The Politics of the Audit**

The political impact of a project audit must always be taken into consideration. If the project development team or the project manager is resistant to an audit, it is time to worry. A competent IT professional should be proud of his/her work and be happy to get another team’s perspective. If they resist an audit, this usually means that they already know what the audit will find and that the result will not be positive.

It is important to ensure that the auditor is truly independent and brought in only to audit. There should be no chance that the auditor can work on the project after the audit. There should be no conflict of interest. The auditors should neither be partnered with, nor have an adversarial relationship with the development team. On one audit (where litigation was likely), I was not even told what consulting organization the previous team came from, and I had to perform most of the audit from existing documentation.

Who does the auditor work for? This is a very important question. On one audit, I was brought in by the prime contractor who had a bad relationship with the sub-contractor responsible for all of the IT work on the project. I was told to make the report to the client as general and positive as possible. In the report for the prime contractor, I was told to list everything that was wrong with the system requiring correction. The point is that I was hired by the prime contractor as their agent. Therefore, only in my interactions with the prime contractor was I a totally independent auditor.

An audit is never totally objective. Biases always exist among the members of the audit team. They bring their own way of doing things and their own views of the world. However, if you are
building a Vasa that will never float, even a biased audit will reveal that valuable information. An audit team with a different approach will help to bring new ideas to the project.

**Finding the Right Auditor**

This may be one of the more challenging aspects of performing a successful audit. IT projects are so rarely audited that auditing is not a widely discussed or advertised service.

You may need to get a team to perform the audit whose members have never done a project exactly like the one being audited. However, any reputable consulting firm should have some experience of reviewing existing work as well as creating plans for assuming responsibility for an existing project to go forward, which is effectively the same task as an audit.

You will not need a large audit team, but each member should be highly skilled. You will need to make sure that each area of the audit has a technical lead who can evaluate the quality of the system. Minimally, you will need the following resources:

1. Project Manager – This individual must have managed projects similar in size and scope to the one being audited. If he/she has never managed anything larger than a $1 million dollar project, that person is not a good choice to audit a $100 million dollar project.
2. Database Administrator (DBA) – A DBA is needed to audit the underlying database and make sure that the system is set up to conform to industry standards. This resource can also help evaluate the system backup and recovery procedures.
3. Application Architect – User Interface design and development is its own specialty. This area is just as important as the database. In Object-Oriented (OO) or Service Oriented Architecture (SOA)-driven systems where most of the logic is not coded in the database, this individual may be more important than a good DBA. Note that SOA and UI architecture are not two different areas that can be audited independently. The application audit must be done as a whole.
4. Security Specialist – Assessing system security (particularly web-based systems) is usually not within the skill set of most designers. You need to have a security specialist for this task. Experience with high-security military, medical, or financial systems is useful in selecting the appropriate specialist since security in those industries is vital.

When selecting the audit team, be sure to evaluate the actual individuals performing the audit and not just their firm’s reputation. This is a very specialized operation that requires very high-quality talent. You do not need an army of junior developers reviewing each Java class for adherence to documentation and coding standards. An audit is not a total quality evaluation. It should indicate the health of the project, not identify every undocumented class.

**Structuring the Audit**

An audit should not be an isolated effort. In addition to substantial periodic audits, large projects should have some level of independent continuous monitoring to make sure that the ongoing management of the project is on track.

There are various sections within a system audit:

1. The first step for the audit team is to understand the system. The auditors should have a thorough knowledge of the system prior to critiquing it. This initial phase of the audit follows
the same process as that of a new team taking over a project. The auditors formulate a project plan, begin reviewing documentation, and walk through the system architecture and features.

2. The audit should include scalability and performance tests. IT development teams are notorious for hiding system performance and scalability flaws.

3. Part of the review should also include direct interviews with users and observations of the working system.

Knowledge Transfer

This step allows the auditors to understand the entire system architecture as if they were taking over system development. Declaring that the level of understanding of the auditors must be sufficient to take over development of the system helps to clarify the detailed knowledge needed by the auditors. Many auditors do not try to really understand a system prior to commenting on it. This makes their audits superficial and necessarily flawed. The goal of this phase is to gain an understanding of the complete system prior to working with any or all of the individual system areas.

The following areas should be reviewed for the knowledge transfer portion of the audit:

1. System Overview – Review the existing Strategy Document. This will allow the auditors to understand the project charter, roles, responsibilities, and core use cases to be supported.

2. Data Model Walkthrough – Review or create documentation describing each database table and attribute.

3. Review/Identify Transaction Use Cases – Review the requirements documentation or interview current personnel to identify how the use cases are supported by the current system and to understand how users interact with the existing system.

4. Review User Interface Code Architecture – This will help the auditors understand how the existing applications are built and maintained. Of particular interest is the amount of information being moved from the client to the application server and from the application server to the database.

5. Review Reporting Requirements/Architecture – Examine how the reporting requirements are met in the existing system.

6. Review System Architecture – This includes the information transfer/synchronization mechanism in distributed systems.

7. Review System Installation/Upgrade Mechanism. This requires installing the entire system on the auditor’s computers.

8. Internal Control review – Identify known exposures and match them to existing internal controls. This is a much broader review than simply examining what computer security controls are in place and includes business exposures such as human data entry errors and collusive fraud.

9. User Access review – Examine architecture controlling user names, passwords, roles, privileges and how these are controlled in the system.

10. Review process for handling system bugs and enhancement requests – Review the existing bug handling and configuration management processes.

11. Multi-Lingual capabilities (if applicable) – Review the current system's multi-lingual architecture and capabilities.
12. **Basic System Requirements** – The number of users, bandwidth restrictions, transaction volumes, performance requirements should be quantified and evaluated.

13. **Process Flows** – Determine the current system process flows and how they are implemented.

14. **Custom Framework** – Review the application development framework and documentation for any custom frameworks.

15. **Performance** – Audit system performance to determine the number of users in the system, number and types of transactions performed, and the effectiveness of existing performance testing. Identify performance bottlenecks.

16. **Standards** – Review user interface coding standards and how these standards are implemented and enforced.

17. **Training** – Review existing training methods and trainer qualifications.

**Infrastructure Audit**

In this phase of the audit, examine each of the following areas from a technical soundness perspective. Compare existing system practices to current industry best practices and document any discrepancies.

1. **System and User Documentation**
   - Includes code commenting and training manuals

2. **Data Model Audit** – Examine the system model for the following:
   - Violations of database normalization rules
   - Appropriate level of abstraction
   - Consistency of naming conventions
   - Adequate documentation of the model
   - Consistency and appropriateness of data types
   - Flexibility to accommodate future changes to requirements

3. **Database Review** – Examine the following aspects of the database structure and design:
   - Appropriate usage of server-side code, particularly for batch routines
   - Quality/performance of SQL
   - Database performance including creation of appropriate indexes

4. **User Interface (UI) Architecture Review** – Examine the following aspects of the user interface code and design:
   - Binding framework
   - UI complex rule enforcement
   - Resulting network traffic
   - DML Operations
   - State management
   - Row caching
   - Appropriate use of relevant architecture
   - Code and documentation

5. **Distributed System/ETL Audit**
   - Complexity and maintainability of code
2. Quality of architecture

6. Security Audit
   • User interface susceptibility to code injection and cross-scripting
   • Control/exposure matrix review
   • User privilege security review

7. Hardware/Software/Networking Review
   • Review existing hardware/software and networking equipment and assess suitability to meet system requirements

8. Backup/Recovery Procedures
   • Review plans for system backup/recovery in the event of system failure or damage

9. Appropriateness of system upgrade mechanism

**System Ability to Meet Current and Future Requirements**
Examine the current set of system requirements; identify all of the use cases, and review a sample of the use cases for suitability, specifically:
   • Compare documented requirements to the existing use cases and how they are handled.
   • Interview users to assess satisfaction with the existing system.
   • Determine whether or not the existing backup and recovery procedures are sufficient to meet maximum downtime requirements.
   • Assess flexibility of the system to meet new requirements.

**Financial Review**
Auditors should review how resources have been spent over the lifetime of the project, including budgeted expenses versus actual expenditures for each year of the project.

**Audits of Commercial-Off-The-Shelf (COTS) Software Projects vs. Custom System Development Projects**
Given that COTS projects fail with the same regularity as custom development projects, the need for an audit is just as great; however, the structure of a COTS audit is a bit different. If the project uses mainstream COTS packages (e.g. Oracle or SAP), there is little need for a data model audit because the strengths and weaknesses of those structures are well known.

Very serious attention should be given to any customization of the COTS:
   • Were the customizations necessary?
   • Were they appropriate?
   • What will be the impact of the customizations on the ability to move to the next release of the COTS?

Most COTS projects have enough customization that they need the same level of scrutiny as a custom development project.
The Audit Reports

A comprehensive audit should result in multiple reports. There is usually a high-level finding report for top management to answer the big questions. This report should be written in terms that non-technical professionals can understand. This high-level report should be no more than 2-5 pages.

A detailed audit report should be written for the project manager. It should describe all major system flaws in detail and discuss the architectural strengths and weaknesses of the system design. The executive summary of the detailed report should be no more than 10-15 pages. A complete listing of all observations, flaws, and suggestions might easily require 100 pages or more.

The existing team should have access to the audit report and be given a chance to respond to it. Existing team members should have participated in many parts of the audit and senior team members should have been included in evaluative discussions of the system. The existing team may not agree with the findings of the audit but, by the time the report is released, there should be no surprises.

The existing team should be provided with an opportunity to write a response to the report to be included with the final audit report.

Acting on the Audit

The most difficult part of the whole audit process is determining how to take corrective actions. These actions may potentially result in discarding large portions of the existing system.

If an audit brings significant architectural weaknesses to light, the findings of the audit must be validated by additional review (probably with a different audit team). Even if the existing team agrees with the findings of the audit, major shifts in the direction of a large project should not be undertaken lightly.

It might even be prudent to bring in another outsider to review the audit report to determine whether or not its findings are legitimate. If the project being audited costs hundreds of millions of dollars, some extra prudence is appropriate.

Once the audit report has been accepted, the basic sunk cost argument must be applied. The amount of money already spent on the project is not relevant information. The decision about how to proceed should be based on the lowest estimated cost to complete the project. Technology may have advanced since the project’s inception. Therefore, starting over may be the easiest way to proceed.

Sometimes calling something an “upgrade” rather than a “refactoring” or a “rewrite” is much more palatable, especially to management. However, when some or all of an existing system is not capable of meeting user requirements, the system must be modified whether the changes cost $10 or $10 million.
Case Studies

Most Financial Management Information Systems (FMISs) are never audited. An informal poll at the 2007 ICGFM conference indicated that only 30% of systems typically receive a review. Frequently, when an audit team is brought in, it is only after it is clear that the project is failing and the government is looking to better understand the reasons for the failure. Even when an audit (or “review” as it is frequently called) is done, it is rarely completed to the level of depth described in this paper. Some audits are best described as “journalistic.” In these cases, the audit team comes in for a few weeks, interviews all of the stakeholders and then reports on what they said.

Even though most audits are not done to the level described in this paper, they usually seem to come to the right conclusions and provide significant value to the project. However, some audits can reach erroneous conclusions. Journalistic audits will usually report what any stakeholder says, which may or may not be true or accurate.

Governments may not act upon the conclusions of the audit report, even when these conclusions are correct. Their representatives may not agree with the report, or may be unwilling to accept that a project that has already consumed so many resources is a failure. Audit reports including good news that suggest next steps seem to be more likely to be accepted.

Gathering case study information is difficult. In this article, I can only report the names of projects and their reviews when the audit report was favorable. Struggling or failing projects are not usually discussed publicly.

Projects facing massive cost overruns that deliver only a small percentage of the user requirements still may be reported as successes in presentations and in publications. No government is anxious to publicize wasting significant resources on a failed project.

Case Study 1: Ethiopia

Ethiopia has been involved in a 12-year economic budget and finance reform led by a team from Harvard University. As part of the project, a customized budget and finance software system was built. When Harvard’s role on the project concluded, a detailed audit of the software was performed. The only part of the audit process described in this article that was not done was the evaluation of how well user requirements were met.

The conclusion of the audit was quite favorable. The system was well built, well documented, and mostly conformed to industry standards. The entire system had been built for less than US $2M (a comparatively very low cost for systems of this type). The network capabilities throughout Ethiopia at the time required that hundreds of installations be deployed throughout the country, since it was initially impossible to support a centralized environment. The long-term goal of the government was to centralize when the infrastructure could support it. The audit concluded that the existing system would probably not support a centralized deployment and needed to be redesigned.

The government accepted the audit team’s recommendations and ultimately hired the audit team company to manage the development of the redesign project. Although the audit had been quite
thorough, when the team took over, they were surprised by how little they had learned about the system during the audit process. A few areas of the system were far less well designed than originally believed which demonstrates that even a substantial audit may not uncover all the problems with a systems development project.

**Case Study 2: Tanzania**

For their FMIS, the Tanzanian government has deployed the finance and accounting functions (General Ledger, Cash Management, Accounts Payable, and Accounts Receivable) of the EPICOR Enterprise Resource Planning (ERP) application. The system was implemented by a local vendor with funding from various donors. The FMIS has been implemented in all ministries, departments, and agencies, as well as 21 sub-treasuries located in various regions of the country. A scaled-down version of the system has also been implemented by two-thirds of Tanzania’s local government authorities.

A major audit is planned for the future so a preliminary review was conducted by a single external consultant. Various aspects of the program were reviewed including:

- Business processes, both automated (EPICOR and non-EPICOR) and manual
- Software modules and functionality
- Peripheral applications supporting the FMIS
- Hardware and infrastructure
- User and technical support capabilities
- Knowledge transfer and training
- Vendor relations (including contracting)
- Disaster recovery and security procedures

The audit did not conclude that the project was a failure but did suggest that the system requires some significant work before it can be declared a success. Some of the key recommendations included:

1. Resolving contractual agreements with vendor
2. Acquiring additional EPICOR expertise
3. Resolving long standing technical problems with FMIS application
4. Improving reporting functionality
5. Implementing a disaster recovery plan
6. Expanding user and technical support training
7. Revising the budget planning process

Although the Tanzanian government did recognize that the FMIS had not yet achieved all of its objectives, the government disagreed with many of the consultant’s findings. Donors were convinced by the consultant’s findings and recommendations and continue to request that the government act on these recommendations.
Case Study 3: Anonymous Government FMIS

The government has implemented a number of public expenditure reforms which are expected to lead to improvements in fiscal management and service delivery. An FMIS for the central government and several local governments had been implemented.

Many believed that the system has been successful thus far and performs reliably and consistently. Despite this, many questions have been raised by some donor staff, especially within financial management sector with regard to system’s lack of performance and/or its unsuitability within the present environment.

The donor initiated a review to document the system’s present performance as well as suggestions for its future functional and practical improvements. Three team members spent two weeks in country reviewing the system.

The goals of the audit were as follows:

1. Review the FMIS
2. Review the system reporting functionality
3. Observe how the system is utilized
4. Evaluate the technical infrastructure

The major focus of the audit was to assess the status of the deliverables and milestones. It was concluded that the system is a total success. The main recommendation was to continue on the current path to deploy to the rest of the country.

Later a second audit was done as there were continuing questions about the quality of the system. Two auditors spent two weeks reviewing the system. The second audit was far less complimentary citing significant cost overruns and functional deficiencies.

Case Study 4: Anonymous Government FMIS

In spite of spending millions of dollars and nearly 10 years trying to get an FMIS operational, the project in question did not seem to be making material progress. Some modules were completed and pilot tested, but the lack of networking infrastructure prevented the FMIS from being deployed.

Two auditors were brought in for three weeks to evaluate the system. The audit report was understandably critical. The report cited poor management, and an inadequate infrastructure to support the project. Some module development made little progress due to lack of government involvement.

It seems that there were two critical factors preventing project success:

1. Many commercial FMISs require significant bandwidth. They assume network capability common in North America and Europe but less common in developing nations. This was a known issue and should have been recognized prior to spending millions of dollars on software development.
2. The project never seemed to be well supported by government. There were inadequate resources devoted to the project and a lack of leadership was evident.

Conclusions
Stopping from time to time, stepping back and asking “Is this system ever going to work?” is the key to not being surprised by a massive system failure.

There are a few important points to keep in mind:

1. Audits need to be performed by outside resources. Keeping them truly independent is a critical success factor.
2. Audits will not take the place of good design and should only comprise a part of the overall quality assurance strategy of the project.
3. Audits are large, substantive efforts. A superficial audit may be worse than no audit at all since it may provide a false sense of security.
4. Both COTS and custom developed systems require audits.

Audits are not a substitute for good architecture and project management. The best defense against project failure is to build a good system that does not fail in the first place using proven architecture, good project management and a capable team. However, the failure rate of projects continues to be alarming. Audits, though unpopular, expensive and intrusive, are the last defense against massive project failure.
Framework for Evaluating Internal Controls over Financial Reporting in Sovereign Governments

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Abstract

This paper develops a proposed framework for evaluating government financial reporting systems. It is based on an international study of financial reporting and their associated internal controls. The framework provides a generic model for evaluating internal controls over financial reporting at three different levels. Sovereign governments publish their financial statements which have far reaching implications. The size and scale of economic activity of sovereign governments means that their financial reports are more susceptible to errors. Their significance has also increased with globalization. The challenge is greater than for private sector accounting because of the lack in uniformity in government accounting. In contrast, most private enterprises produce accounts based on commercial principles and a double entry accounting system. Government accounting ranges from modified cash based systems in most countries to full accrual accounting in New Zealand and a few other countries. We would welcome a debate over our proposed framework.

Reliability of Public Sector Reporting in Present Context

Effective internal control over financial reporting should provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes. The importance of internal controls over financial reporting in private enterprises has grown in light of recent scandals in various parts of the globe such as Enron, World Com, Satyam, etc. Much work has been undertaken across the globe in this area to provide a framework for the evaluation of internal controls over financial reporting in private enterprises. Internal controls over financial reporting forms a major part of the scope of internal auditing in most progressive enterprises. This exercise provides reasonable assurance, both to management and shareholders, about the financial status of the company.

Sovereign governments also publish their financial statements and these have far reaching implications. The financial statements of sovereign governments have an impact on their international credibility and are quite significant in the current context of global business. These statements are watched by international investors who then make decisions about their future actions and this has an impact on economic growth in the country. The size and scale of economic activity of the sovereign governments is so vast that it makes them more susceptible to errors in financial reporting. Therefore, a framework for evaluating the reliability of financial reporting for sovereign governments is essential. The challenge is greater than with private sector accounting because of the lack in uniformity with government accounting. While most enterprises in the private sector publish their accounts on commercial principles based on a double entry accounting system, there is no such uniformity in government accounting.
Government accounting ranges from the modified cash basis of accounting in most countries like India to full accrual accounting in New Zealand and a few other countries. Many countries have developed their own versions of the modified cash basis of accounting.

Most countries have also developed IT systems to process their accounting information. These also vary in complexity, from simple spreadsheets to completely automated and integrated systems. The reliability of these IT solutions should be evaluated as they have a significant bearing on the financial reports produced by government enterprises. A framework should be developed for the evaluation of the use of IT for financial reporting by public sector enterprises.

The International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) has produced both cash based and accrual based International Public Sector Accounting Standards (IPSAS). However, these have yet to be totally implemented in any country. Many have developed their own variants which makes the evaluation process all the more complicated. Further, many countries are reporting their accounts on the basis of their own conventions and rules which also are being continuously changed and updated as required.

**Factors to be Considered in Evaluating the Maturity of Internal Controls in Financial Reporting**

The financial reports are an aggregation of a number of process cycles. Each process cycle needs to have proper controls built into it for the financial reports to be reliable. Governments need to assess all key business processes and all material financial statement lines. All the financial processes need to be described for proper documentation of the accounting system. All the steps which create or process a financial transaction from an operational event need to be documented. Components must analyze the processes from the point of origin to the financial report and then back from financial report to the point of origin in order to capture all transaction types, service providers and systems which are the elements of the process.

In the process of developing an internal control framework, it is recommended in various studies that the process be documented prior to being flowcharted. Interviews should be conducted with personnel who have knowledge of relevant operations to validate that manuals, policies, forms and documents are accurate and being applied. The narrative should be in sufficient depth to ensure that a reader familiar with internal controls over financial reporting will understand the process. Transaction cycle flowcharts are not only an efficient way to document the key internal control points in business process, but they also provide an effective way to confirm the accuracy of the transaction cycle narrative with the process owners, and identify where disparate processes could be standardized.

Thorough, well-written documents and flowcharts can facilitate the review of key controls. The documentation should reflect an understanding from beginning to end of the underlying processes and document flows involved in each major business event or transaction cycle that affect the component’s financial reports. Control points should be added where data transfers exist to identify areas of potential risk in the flowchart. Flowcharts should not have detailed control descriptions. Controls should be identified and assessed in subsequent steps. Some process cycles may flow from one component to another through an electronic process.
The reliability of financial reports produced by a country depends upon several factors. These factors may be grouped into the following categories:

1. Maturity of financial reporting in the country compared with international standards and practices.
2. Status of documentation of various processes related to financial transactions.
3. Maturity of IT system used in processing the financial information and generating the financial statements.
4. Quality and Skills of Manpower deployed for the generation of financial reports.

We review each of these categories in detail to assess broadly the financial reporting environment. These categories and the subsequent checklist will form a macro evaluation of the financial reporting framework. The next step would be an evaluation of general internal auditing to assess the maturity of the profession. This is particularly significant in the light of the complexity of internal controls over financial reporting auditing as it requires skilled manpower both in the area of financial reporting as well as internal auditing to accomplish this task.

This is followed by a micro level model for the evaluation of internal controls over financial reporting. This approach is required for public sector accounting, because of lack of uniformity in the accounting systems prevalent in different countries. In contrast, private sector accounting uniformly deploys commercial principles of double entry accounting. Though there may be differences in accounting standards across different countries in the private sector as well, the basic accounting framework remains the same. It is only the processing and treatment of various types of financial transactions which may vary from one country to another. This difference warrants a multi layered evaluation framework for the public sector.

**Box 1: Evaluation Framework Model**

<table>
<thead>
<tr>
<th>Macro Financial Reporting Environment</th>
<th>Structure and Maturity of Internal Auditing in Government</th>
<th>Micro Evaluation</th>
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</thead>
<tbody>
<tr>
<td>Internal Controls in Financial Reporting in Government</td>
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The model envisages an evaluation of these three broad categories for a comprehensive evaluation of internal controls over financial reporting. The Macro Financial Reporting Environment will evaluate the reporting framework at an overall level and will deal with the broad accounting framework, principles and policies. This will give insight into the financial reporting systems of a country and would help in assessing its maturity and will set a framework for an evaluation of internal controls in the reporting process.

The structure and maturity of the internal audit profession in a country in general and in government in particular will have implications for internal controls over financial reporting. This is because internal controls over financial reporting is a specialized kind of audit which
requires detailed knowledge of accounting as well as auditing and hence the quality of internal controls over financial reporting engagements would depend upon the skill sets of the staff performing the engagement. Many governments have now realized the importance of internal auditing and it has become an integral part of the financial administration system of a country. However, internal controls over financial reporting are not common even in countries with well developed public sector internal audit. With the development of the internal audit profession in governments, internal controls over financial reporting has become an important part of government financial management and accounting systems.

Micro evaluation will review the details of internal controls over the financial reporting process and would evaluate specific procedures. This would involve examination of various entity and process level controls over financial reporting. Internal controls over financial reporting at a detailed level is a process affected by those charged with governance, management and other personnel designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with the applicable financial reporting framework. Therefore, micro evaluation is an important component in this evaluation framework which should help to establish the status of internal controls over government financial reporting.

Macro Evaluation:
In this section the four categories mentioned above will be considered individually. In the authors’ opinion all these four factors are vital for the final evaluation model.

Maturity of Financial Reporting: This is an important factor in the macro evaluation model. This would further take into account the following factors:

- **Consistency in applying accounting principles:** This factor will evaluate the transaction level accounting principle, such as whether all the transactions are recorded on a cash basis or on accrual basis or a mixture of both. Some countries record their expenditures on an accrual basis, but use the cash basis of accounting to record their revenues. In some cases there is even a distinction in recording tax and non-tax revenue receipts. There can be a distinction in recording different types of expenditure such as capital and revenue expenditures.

The authors give a higher reliability rating to an account which applies consistent principles across various types of transactions and has uniform accounting principles. Different approaches for different types of transactions may increase the readability and usefulness of financial reports, but would definitely decrease the reliability of financial reports, particularly with respect to the valuation of assets and liabilities of governments, and would also give governments room to manipulate financial statements to present a rosier picture of their finances. The consistency of principles and the process for changing these principles and frequency of changing the same are also important in judging the reliability of statements. It is also more difficult for stakeholders to judge the quality of financial reporting when consistency is lacking.

Further, there is a tendency in some countries to move to the accrual basis of accounting and various countries are making attempts in this regard by undertaking phased accounting reforms.
But, most countries stop somewhere before full accrual based accounting. This has resulted in a situation in which different countries have varying levels of accrual elements in their financial reports. This may give some more insight into the Government financial status at the cost of comparability of financial reports.

- **Design of Chart of Accounts**: The Chart of Accounts is an important element of any financial reporting system. The Chart of Accounts is a linkage between budgetary and accounting systems and thus holds the key for the financial reporting format. It is the coding element used to classify, record, budget and report financial transactions. The Chart of Accounts should take into account different dimensions of information vis-à-vis functional, program and object head classifications to take care of desirable requirements of the stakeholders. The design of the Chart of Accounts is at least a medium-term activity as it may not be feasible to change the Chart of Accounts very frequently. The design of the Chart of Accounts needs to be rational and suited to the financial reporting needs of each country.

The design of the Chart of Accounts can be evaluated with respect to its effectiveness in reporting the financial transactions and its logical flow of classification. Also, there needs be consistency in the design of the Chart for different types of transactions. The structure of the Chart of Accounts is hierarchical and layered and may include Organizational, Functional, Economic, Program and Funds classifications and establishes linkages between them and helps in preparing financial reports.

- **Completeness and consistency in the Chart of Accounts**: The Chart of Accounts should be comprehensive and consistent with reporting requirements and international standards such as the IMF’s Government Finance Statistics Manual and the United Nations Classification of Functions of Government. The Chart of Account may include:

  - Organizational Classification
    - Ministry, department or agency
    - Spending Unit
    - Activity
  - Economic Classification
  - Functional Classification
  - Programme Classification
  - Fund Classification
  - Financing Segment
  - Territorial code
  - Financial Asset + Liabilities Classification Code
  - Expenditure reporting Group
  - Chart of Account Code (Revenue – Expenditure Code)

The comprehensiveness of the Chart of Accounts can be evaluated against these factors.

**Status of documentation of various processes related to financial transactions**: The documentation of accounting processes related to recording of financial transactions is important for the reliability of financial reporting. Proper documentation provides guidelines for recording
The government accounting framework and its reliability is largely dependent on the status of documentation. The rating can be ascertained on the basis of following factors:

- Comprehensiveness and coverage
- Compilation of accounting policies, procedures and manuals and their availability.
- Process of updating and revision of manuals and procedures to incorporate new and changing requirements
- Linkages between rules, manuals and subsidiary documentation and consistency between them
- Presence of an accounting research unit to evaluate and update documentation on a regular basis

The presence of an accounting research unit is particularly significant as it should help a country modernize its government’s financial reporting with the primary goal of making government transactions transparent. It should try to make a government’s accounting classification system logical and comprehensive so that transactions can be linked to physical outcomes. It should also try to improve the linkage between budget preparation and the execution process. The accounting research unit should also help in streamlining the payment and accounting process and should be helpful in generating meaningful financial reports. An example in this regard is in the Government of India where there has been a new initiative of mapping its Chart of Accounts with various Planning Schemes from the Planning Commission. This has helped in producing scheme-wise expenditure reports. The next stage should be the tracking of the flow of funds and capturing the date of actual expenditure by the executing agencies down the line. Further, it has been planned to leverage the banking network to ensure that funds are released only at the point of actual expenditure and not during transfers. This would reduce the amount of money kept unproductively in the pipeline and would save the country from costly international borrowings to that extent.

Documentation needs to be comprehensive and should provide guidance on all aspects of accounting, particularly for staff involved at the operational level to help them accomplish their tasks correctly. Documentation should also be easily available and preferably be web-based so that it can be referred to whenever required. For any document to be current and maintain its utility there needs to be a process for regular updating and periodic revision to incorporate changing requirements. The status of documentation is also critical in assessing the financial reporting environment.

**Maturity of IT Systems:** IT systems used in Financial Reporting should be mature enough to introduce an improved system of internal and external controls. The internal controls regulate the
cycle of recording, analyzing, classifying, summarizing, communicating and interpreting financial and accounting information. IT systems have become an integral part of financial reporting framework in most countries in some way or another. The robustness of these systems will have an implication on internal controls over financial reporting of any country. IT systems should be designed on the basis of accounting rule books and procedure manuals and should have various processes properly linked and integrated within the software system designed so that financial information is adequately compiled and reported into the format required by statute.

IT systems need to be evaluated against the following aspects:
- Design of applications
- Reliability and integrity of data
- Backup and disaster recovery plan
- Internal control structure and data security
- Process of modification, updating and change in the system

**Design of Applications:** The design of an IT system should be based on general accounting rules, manuals and procedures. IT applications should have cross functional integration so that financial transactions captured at one place are automatically updated in all relevant reports. The internal design and mapping of various tables in the software should take care of all reporting requirements and be able to generate financial statements required by statute. The system architecture should also be considered in the appraisal and its structure and suitability should be evaluated.

A significant factor in this regard is the involvement of people in transition and reporting processes. User feedback is very important in the initial design and subsequent refinement of any application. User requirements should be assessed properly at the design stage itself by involving them from the beginning. This would also help in developing ownership for the systems and would help in actual implementation as well. The design and development team should include users as well. There is a need for training and capacity building of the accounting staff as well so that they may ensure a sound design of applications and a better implementation of developed systems.

**Reliability and Integrity of Data:** Reliability and integrity of accounting data will have a direct bearing on the overall reliability of the financial reports presented by a government. Ensuring adequate reliability and integrity of data requires proper internal control mechanisms to be in place. This includes authorization control, online access control, password control, etc., to ensure that only authorized users are able to enter data. Transaction logs, reconciliation of data, documentation and error correction procedures should be put in place to ensure that data are accepted into the system correctly and errors are identified and corrected. Sequence checks, limit checks, range checks, validity checks, reasonableness checks and completeness checks can help in ensuring adequate input and financial controls in the system.

There need to be certain well-defined checks and balances to eliminate the possibility of errors, such as matching of data generated by two different sources and accepting data only if the two reports match. For example, in some countries, data generated by the government accounting
system is matched with that from the central bank, and the data is processed further only when the two sets of figures match. Thus, the data integrity and validation system needs to be elaborately defined and evaluated based on the robustness of the process. Further, the financial transactions are transmitted from the point of capture to the point of compilation by semi-automated systems which sometimes require manual intervention. The integrity and authenticity of data needs to be preserved and would be critical for accurate financial reporting.

Backup and Disaster Recovery Plan: Accounting transactions are numerous and on the level of a country mean a huge amount of data. In a computerized environment, the entire financial information and reports are stored in the form of electronic files and become the basis of a country’s financial reporting framework. Any system can crash and corrupt all data. Thus, making regular backups and having a proper disaster recovery plan to take care of contingencies is equally important, if not more, as to the design of an efficient IT system. The backup should preferably be made and sent to a secured remote site. The form (flat files, database images etc) and media of backup (Separate Hard Drive, Disc drive and magnetic tapes etc) should also be clearly specified. The effectiveness of backup systems should be evaluated and form a part of overall IT evaluation.

Internal Control Structure and Data Security: Internal controls and data security are two related aspects and a significant factor in any IT system. Internal controls which have been prescribed in the country’s accounting manuals should be inbuilt into IT applications. Besides these basic accounting controls, there need to be additional controls specific to IT systems to make them work better and free from errors. The IT control framework should also address the data security needs of the system and specific controls need to be put in place for this requirement.

Process of Modification, Updating and Change in System: Any system needs to be rigid in the control structure on one side and flexible to take care of changing needs on the other. Any system is always faced with the challenge of maintaining its utility and relevance and for this it needs to be able to take care of changing requirements. Alterations to the system should not be haphazard and should be managed at different levels by various individuals, in which case it would be difficult even to track changes. There should be a well-defined process of making changes in the system in which roles and responsibilities of various individuals should clearly be specified. The approval process and approval levels should be clearly documented and no change should be made in the application without following due procedure.

There should be a procedure for authorizing, prioritizing and tracking system change requests from the user. The procedure for making emergency changes should be prescribed in the operation manuals. Change controls should be a formal procedure for the user and development groups. Also, a change control log should be maintained to ensure that all change issues were resolved. The user’s satisfaction with the changes made with respect to timeliness and cost should also be taken into consideration. The organization should review the overall change management process for possible improvements in acknowledgement, response time, response effectiveness and user satisfaction with the process.
Quality and Skills of Manpower Deployed for the Generation of Financial Reports: Any system is manned and implemented by individuals. The quality of manpower and its skill sets will be a major determining factor of the reliability of financial reports. In an IT environment, it becomes pertinent that the skill set is a good blend of IT and accounting professionals. There should be an adequate level of competence in dealing with accounting matters and also providing IT solutions to accounting issues. Competencies are most useful when they are expressed in terms of outputs. Each country should develop a competency framework for various types of skills required for accomplishing various tasks. A skill matrix should be developed for handling various levels of financial records, such as field level where the financial transactions originate or at the central accounting office where the actual compilation of financial reports take place. Skill sets should be regularly reviewed and a careful policy needs to be put in place to continuously update it with new recruits and upgrade the existing skills with regular training and development processes.

The process for managing adequate IT and accounting skills can be evaluated on the basis of the following five processes:

- Taking stock of existing skill sets and matching it with requirements to identify the gaps.
- Recruiting new staff with adequate background to fill in the gaps.
- Analyzing structure and reporting relationship between it and accounting functions to ensure synergy.
- Identifying training needs and tailoring training programs to short, medium and long term goals of the department.
- Clearly defining roles and responsibilities of staff involved in preparing financial statements.

Structure and Maturity of Internal Auditing

Internal Auditing is viewed as “an objective assurance and consulting activity that is independently managed within an organization and guided by a philosophy of adding value to improve the operations of the organization.” This definition of internal audit, when applied to the financial reporting process, aims to improve the overall financial reporting process by analyzing controls and identifying deficiencies in them so that organizations may take effective steps to strengthen internal controls. Further, the function also aims at improving the operating effectiveness of the financial reporting process by identifying control points which needs to be upgraded by installing adequate checks and balances so that the financial reports are free from any material errors or discrepancies.

The audit function has always been viewed as an integral part of government financial management and reporting. Traditionally, internal auditing in most governments has been concerned with only the compliance review with respect to rules and regulations. However, recently this function has evolved in many countries and has assumed much wider role and comprehensive view of government functioning with far reaching implications. Existence of internal audit with a framework for evaluation of internal control can be of substantial importance in improving the financial reporting process in the country. There has been progress in reaching a consensus on what auditing standards the government should meet for internal
audit in general and financial reporting aspects in particular. International Organization of Supreme Audit Institutions (INTOSAI) and the Institute of Internal Auditors (Internal Audit) have issued auditing standards to guide the auditing and accounting professions. While such standards do not have a mandatory application, they are generally regarded as reflecting best practices, so that while countries may develop their own public sector auditing standards, generally it is expected that they will keep them consistent with the international standards.

The internal controls over financial reporting framework present in a country are dependent upon the overall maturity of the auditing systems in the country. Internal controls over financial reporting audit is a specialized audit function and it requires a mature auditing environment for its effectiveness. The sophistication level required for financial audits in general is higher as compared to operational audit and can be conducted by trained personnel with the requisite skills and specialization. The reliability of financial reports would be directly dependent upon the quality of the auditing system present in the country. In this section, the parameters for the evaluation of the maturity of auditing systems in countries are taken into consideration.

There are certain issues specifically linked with the violation of accounting rules and procedures such as processes for changing manual systems to electronic. These have been addressed by internal audit. An example in this regard is the accounting procedure for changing manual tax payments to internet payment of taxes and payment of tax through credit cards. Internal audit in countries have specifically evaluated these issues and suggested systemic improvements to ensure that the basic accounting and legal requirements are adhered to.

The maturity of the Internal Auditing Function can be evaluated on the basis of following factors:

**The Status of Development of Internal Audit Standards:** INTOSAI in 1992 offered general standards for an internal control structure. This included a framework for modelling internal control structures. Internal management controls broadly defined include all the means by which an organization ensures that its operations are carried out efficiently and effectively – describing control processes that ensure effective planning, resourcing and coordination of the organization’s activities and the feedback of the results of these activities into the initial prioritization and planning phases. Emphasis focused on the information needs to ensure internal controls and ways of ensuring its relevance, timeliness and objectivity, where internal audit was seen as making a substantial contribution. Almost every country has now assigned some role to internal audit functions, but its significance varies widely between countries. Public sector auditing standards should be adopted for a proper oversight mechanism for government operations and financial reporting.

Most developed nations such as EU member countries require internal audits to comply with international standards. Some countries have attempted to develop their own auditing standards in line with internationally accepted auditing practices. The status of internal audit standards’ development should be evaluated against international standards.

**The Structure of Internal Audit Organization:** The more precise definition of internal audit’s role and the specification of how it should be organized and how it should function is important.
The organization structure and functional relationship between auditing and other government operations is quite significant in deciding the role of internal audit in the future. The factors which need to be considered for evaluating internal audit structure and organization in a country are:

- Independence of internal audit function
- Separation from accounting function
- Reporting structure and access to top executives and statutory audit committees
- Structure of the team conducting audit and its reporting relationship
- Acceptance of position of chief audit executive in the government

**Competencies and Skills of Internal Auditors in General and Internal Controls over Financial Reporting Auditors in Particular:** The competencies and skills are significant for any profession in general but more so for auditors because they have to work in a multifaceted environment and are required to give their opinion on a wide variety of functions. The internal auditors involved in internal controls over financial reporting audit must be familiar with the accounting principles in general and government accounting policies specific to that country in particular. Various types of skill sets are required in auditing function such as competence in IT, analytical ability, accounting knowledge, etc.

**Scope of Internal Audit Function:** The scope of the internal audit function should cover all the aspects described in the international standards and have a broader outlook as a management process to improve the systems rather than just concentrating on a narrow compliance aspect. Based on the scope of work assigned to internal audit and the importance given to its report, the internal audit function in various countries can be rated.

**Overall Management of Internal Audit Function and Process:** The management of the internal audit function is quite critical for its effectiveness. Good work practices, proper planning, sound personnel management and support from the external audit function can help in improving the effectiveness of the internal audit function. Lack of proper institutional arrangement for internal audit can often result in compromises in the role of internal audit as an aid to internal management.

The coordinated effort of internal and external auditors would lead to an improvement in the overall financial management system of a country. Internal auditors would aim at guiding management towards improving operational efficiency, while external auditors would evaluate operations from an independent perspective and test from the point of compliance with established rules and procedures. The work of internal auditors should be made available to external auditors and vice versa so that they can work in a focused manner on their audit engagements and can lead to overall improvements in the system. The internal controls should be identified and critical control points should be tested and inferences made on that basis for overall systemic improvements.
Micro Level Evaluation
At the micro level we will examine various entity and process level controls which should be present in financial reporting. Since, accounting systems are not uniform, we will not go into the specific process types and controls required for them but will evaluate generally the control framework. Internal controls over financial reporting at a detailed level is a process effected by those charged with governance, management and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with the applicable financial reporting framework and includes those policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with the applicable financial reporting framework, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and
- Provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Effective internal control provides reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes. If one or more material weaknesses exist, the entity’s internal control cannot be considered effective. The auditor’s objective in an examination of internal control is to form an opinion on the effectiveness of the entity’s internal control. To form a basis for expressing an opinion, the auditor should plan and perform the examination to obtain sufficient appropriate evidence. This would help in obtaining reasonable assurance about whether material weaknesses exist as of the date specified in management’s assertion. A material weakness in internal control may exist even when financial statements are not materially misstated. The auditor is not required to search for deficiencies that, individually or in combination, are less severe than a material weakness.

The critical factors which should be considered in the micro evaluation are:

**An Assertion by the Accounting Management Regarding Acceptance of Responsibility for Existence of the Entity’s Internal Control:** Management accepts responsibility for the effectiveness of the entity's internal control and evaluates the effectiveness of the entity's internal control using suitable and available criteria. Management should support its assertion about the effectiveness of the entity’s internal control with sufficient appropriate evidence.

**Documentation of Control:** Management is responsible for identifying and documenting the controls and the control objectives that they were designed to achieve. Such documentation serves as a basis for management’s assertion. Documentation of the design of controls, including changes to those controls, is evidence that controls upon which management’s assertion is based are

- identified
- capable of being communicated to those responsible for their performance
Management’s documentation may take various forms, for example, entity policy manuals, accounting manuals, narrative memoranda, flowcharts, decision tables, procedural write-ups, or completed questionnaires. No one particular form of documentation is prescribed, and the extent of documentation may vary depending upon the size and complexity of the entity and the entity’s monitoring activities.

Existence of Entity Level Controls: The existence of entity level controls is a significant factor to be considered in internal controls over financial reporting audit. Entity-level controls include

- controls related to the control environment
- controls over management override
- the entity's risk assessment process
- centralized processing and controls, including shared service environments
- controls to monitor results of operations
- controls to monitor other controls, including activities of the internal audit
- controls over the period-end financial reporting process
- programs and controls that address significant business control and risk management

Some entity-level controls, such as certain control environment controls, have an important but indirect effect on the likelihood that a misstatement will be prevented, or detected and corrected on a timely basis. These controls might affect the other controls that the auditor selects for testing other controls.

Identifying Significant Accounts and Disclosures and Their Relevant Assertions: Every government prepares annual financial statements. The compilation of government’s financial statement requires coordination from field units where the financial transactions are first recorded and their transmission and compilation. The period end financial reporting process includes the following procedures:

- to enter transaction totals into the general ledger
- related to the selection and application of accounting policies
- used to initiate, authorize, record, and process journal entries in the general ledger
- used to record recurring and nonrecurring adjustment statements
- for preparing financial statements and related disclosures

As part of evaluating the period-end financial reporting process, the auditor should assess

- the inputs, procedures performed, and outputs of the processes the entity financial statements;
- the extent of IT involvement in period end financial reporting process
- who participates from management
- the locations involved in financial reporting process
- the types of adjusting and consolidating entries
- the nature and extent of oversight by management.

Design and Operating Effectiveness of Internal Controls in Entity’s Financial Statement: The auditor should evaluate the design effectiveness of controls by determining whether the
entity's controls, if they are applied as prescribed by persons possessing the necessary authority and competence to perform the control effectively, satisfy the entity's control objectives, and can effectively prevent, or detect and correct misstatements caused by errors or fraud that could result in material misstatements in the financial statements. A smaller, less complex entity might achieve its control objectives in a different manner from a larger, more complex organization. For example, a smaller, less complex entity might have fewer employees in the accounting function, limiting opportunities to segregate duties and leading the entity to implement alternative controls to achieve its control objectives. In such circumstances, the auditor should evaluate whether those alternative controls are effective. Procedures performed to evaluate design effectiveness may include a mix of inquiry of appropriate personnel, observation of the entity’s operations and inspection of relevant documentation. Walkthroughs that include these procedures ordinarily are sufficient to evaluate design effectiveness.

The auditor should test the operating effectiveness of controls by confirming that controls are functioning as designed and whether the persons performing the control possess the necessary authority and competence to perform the control effectively. Procedures performed to test operating effectiveness may include a mix of inquiry of appropriate personnel, observation of the entity’s operations, and inspection of relevant documentation, recalculation, and re-performance of the control.

**Box 2: Checklist**

1. Has the country clearly adopted an accounting system in totality?
2. Is the country preparing its financial reports according to some internationally accepted standards such as IPSAS or comparable standards?
3. Has the country developed its own accounting standards and presentation formats?
4. Has the country adopted one uniform accounting principle for preparing its financial reports?
5. Has the country developed comprehensive accounting policies and rules which are clearly documented?
6. Has the National Government established a comprehensive Chart of Accounts which is clear and unambiguous along with supporting notes?
7. Has the country established an Accounting Research and Advisory Unit which may advise on new requirements and take care of new challenges in the area of financial reporting?
8. Has the country developed process narratives, flow charts, organizational charts for various aspects of financial reporting?
9. Does the country undertake regular risk analysis with respect to financial reporting?
10. Has the country developed detailed accounting procedures based on the generally accepted reporting principles in the country?
11. Are these procedures properly documented in the form of a manual which can serve as guidance for operational staff?
12. Is the manual comprehensive or requires support from subsidiary manuals for completing the accounting framework?
13. Are all these documents widely available and on the web?
14. Is the financial reporting system using IT extensively for capturing the transactions at the base level?
15. Is the IT system application secured and linked with a backup database or it is some ad hoc combinations of basic excel sheets?
16. Are all the accounting rules properly embedded in the IT application?
17. Has the IT system evolved over a period of time with subsequent modifications to take care of changing needs?
18. Does IT system having proper internal controls inbuilt into it?
19. Are IT applications properly documented giving different level of details to different types of stakeholders?
20. Are IT applications and subsequent upgrades audited by independent information systems auditors?
21. Has the control structure in IT applications been properly studied before going for actual development?
22. Is manpower involved in preparing the financial statements skilled in financial reporting and is having clear understanding of the accounting principles and policies?
23. Is the manpower involved in generating financial statement skilled in both accounting aspects and IT applications?
24. Is the skill mix in these two areas adequate?
25. Is the manpower involved at the operational level for capturing data skilled; and can it supply accurate information to those who are entrusted with responsibility for compilation of accounts?
26. Are the financial reports audited before being presented to various stakeholders?
27. Are financial reports subjected to both internal and statutory audit?
28. Is auditing sufficiently embedded in the accounting cycle of the Government?
29. Are the auditors who are examining the accounts independent?
30. Is there a proper mechanism for monitoring implementation of the action required on audit findings and recommendations?

Conclusion
This evaluation model can be used to assess the effectiveness and authenticity of financial reporting processes and the reliability of final financial reports generated. The analysis and framework has been developed in a generic manner so that it can serve as a guiding document for any country wishing to undertake such evaluations. In our opinion, these parameters can provide reasonable assurance that a governmental financial reporting system is reliable. This evaluation framework can provide a starting point for assessing the status of any public sector financial reporting system and can serve as a guideline for a systematic approach to increasing the reliability of financial reporting. We would welcome comments from accountants who utilise this approach in their own countries. The model can then be refined based on this experience.
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Shortcomings of Government Financial Management: A Generational Accounting Critique

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Abstract
This paper examines the inter-generational financial dimensions and accounting implications of under-funding practices in the public sector. We explain why inter-generational financial disclosure has become such an urgent issue internationally, and discuss a generational accounting framework for calculating the necessary financial information to reveal the inequities and resource allocation problems afflicting public sector organizations. The main limitations, assumptions and applications of a generational approach to analyse the financial sustainability of public sector enterprises are briefly discussed.

Keywords: Generational accounting, public sector under funding practices

JEL Classifications: M41, L31, J18, and H55

Introduction
The public sector commands a substantial proportion of any nation’s total capital investment. However, unlike privately funded organizations, public sector organizations are typically under-funded in the sense that the government fails to pay the necessary contributions as they fall due. Moreover, the increasing importance of government and other public sector entities in providing either explicit or implicit insurance guarantees for pensions, social security and health care programs, which involve inter-temporal investment and consumption commitments, has significantly reduced the relevance and reliability of traditional financial statements, that are based on accrual-based accounting. This is because, under accrual-based accounting principles, the recognition and payment of their obligations related to various social programs and welfare services is effectively deferred until the relevant entitlement must be paid, which has important implications for general taxpayers who ultimately bear the cost of employer contributions towards government insurance programs. Thus, the liability created by population ageing and the associated under-funding shifts responsibility for payment away from the present generation of taxpayers onto future generations who must make up the funding shortfall as the benefits actually fall due. This effectively forces future generations of contributors or taxpayers to bear the burden of funding the retirement benefits of previous generations of beneficiaries. Under-funded government liabilities for public sector obligations constitutes a major expenditure in the management of social programs in many countries, but to date has not attracted much attention from accountants as it does not easily fit within an accrual-based accounting system, despite the recession causing many governments to further postpone their future obligations. Existing or proposed international standards continue to assume that obligations are only accountable if the service has already been provided and/or that the amount measured is limited to a ‘curtailment’ valuation. However, these standards, while applicable to private sector, may not apply to the public sector where governments are expected to make a continuing and ongoing commitment for
the future welfare and provision of health care, social security, pensions and other insurance-related commitments. The OECD has recently issued calls for greater disclosure of liabilities and contingent obligations (OECD, 2004, IMF 2009).

Given that behavioral persistence of under-funding practices of most insurance-related guarantee programs is typical of many OECD countries, a major unresolved accounting issue is their generational implications for affected stakeholders. However it is not at all clear that this form of inter-generational equity is a concern of governments. Under the Westminster Principle of government, governments are only accountable for, and elected on, the basis of policies during the elected term of their office. These principles can in turn induce governments of cash-strapped economies to take myopic views. For instance, the UK government recently consolidated the assets of a publicly unfunded pension scheme (Royal Mail), but argued that it was not required to be accountable for the obligations (e.g. Financial Times, 9 May 2009). Moreover, prior researchers have only tended to focus on the accrual accounting aspects of public sector under-funding practices. For example, Marks et al. (1988), Mitchell and Smith (1994) and Chaney et al. (1997) examine the determinants of pension funding in the US public sector by reference to short-term, legalistic measures of the obligations and assets.

However, while concluding that past under-funding practices are likely to continue in the future, prior USA-based researchers have not examined their inter-generational equity implications. This is because relevant US GAAP, as promulgated by the Government Accounting Standards Board (‘GASB’) requires, in accordance with accrual-based accounting principles, USA government insurance programs to recognise the periodic difference between the market value of pension fund assets and the under-funded element of the equivalent pension fund obligation (GASB, 1994, Para 22). However, recently the Federal Advisory Standards Accounting Board proposed amending this to allow for recognition at the point where the benefit is acquired rather than at the point where it is payable (FASAB, 2006). This is consistent with a lifecycle approach to investment and finance (Bodie, 2006). Only the US federal government has proposed the introduction of a ‘Statement of Social Insurance for Social Security’, which effective in 2007, will show forecast information for the present value of future benefit payments and future contributions, and the net actuarial imbalance in 75 years (FASAB, 2006, IPSAS 2005). However, the information does not extend to recognizing the ‘inter-generational liability’, nor does it articulate with the overall reported funding position of the US federal government. In addition, governments provide financial guarantees or insurance policies that oblige the government to make promised payments on a financial contract if the issuer fails to do so (Bodie and Merton, 1992). An example of such a guarantee is the Pension Benefit Guaranty Corporation. These guarantees are potentially valuable for the third party, and moral hazard behavior for under-funded pension obligations can lead to significant exposure by the government that is not currently recognised.

This paper proposes a generational accounting framework that is consistent with a life cycle perspective on the financial management of under-funded public sector liabilities. Generational accounting was motivated by the claim that the measured public deficit need bear no relationship to the underlying inter-generational stance of fiscal policy, and the tendency of governments to use short-term budget deficits as an instrument for long-term planning by excluding social security from the deficit (Kotlikoff, 1986, 1992, 1993). Auerbach, Gokhale and
Kotlikoff (1991) developed generational accounting, which is a method for estimating the economic impact of fiscal policy on different cohorts – including future ones – as distinguished by birth year and gender (Gokhale, 2009). However as generational accounting is also based on a prospective per capita lifetime net tax burden faced by different cohorts, it also presents a number of challenges for implementation in financial management contexts. This article first discusses the background, then summarises the major features of generational accounting, its applications, and identifies its limiting assumptions and potential applications, and finally discusses its policy implications.

The Institutional Context

In many countries, unlike the private sector, public sector insurance-related program activities are typically under-funded since the relevant program may either be totally unfunded or involve specified assets that at any particular time may not cover the equivalent liabilities for which the fund is responsible.

The under-funding generally arises in two ways (Mitchell and Smith, 1994). One method is to adopt unrealistic assumptions that reduce legally required contributions. For example the spread between the assumed rate of return on investments and the rate of assumed wage growth determines, in effect, the real discount rate applied to future liabilities. The other major form of under-funding arises because governments do not pay their contributions into the fund as they fall due. This practice, consistent with the behavioral persistence hypothesis, effectively shifts the burden for payment of present generations of workers onto future generations of taxpayers, who meet the shortfall because the government effectively pays benefits out of their (annual) contributions to the general revenue fund, including the net effect.

The continuation of this fiscal policy makes it doubtful whether future tax revenues will be sufficient to secure their obligations in many OECD countries (World Bank, 1994; Roseveare et al., 1996). Ageing populations in many countries (including Australia) imply an unreported tax burden on future generations. This is because, contrary to government accounting conventions, they must bear the burden of funding their own pension benefits as well as paying off accumulated deficits for the benefits of previous (and larger) generations of workers.

The non-payment or under-payment of contributions by governments result in various insurance-related programs totally unfunded, and thus represents a major form of public borrowing against the future. Continuation of past practices in government fiscal policy of under-funding public sector pensions may adversely affect future revenue-raising potentials of governments. It also puts at risk the income security of public sector retirees, which is critically affected by under-funding policies. Further, since the public sector workforce is maturing along with the rest of the population, these under-funding practices take on increasing importance as time passes (Mitchell and Smith, 1994). These practices have significant inter-generational financial consequences for at least three groups of stakeholders – present and future taxpayers, beneficiaries, and government policy makers. Thus, the demand for evaluating inter-generational effects of government policies is very important. However, although now used extensively by macro-economic policy makers, the application of these concepts to financial reporting by government and public sector entities has been largely overlooked.
At the whole of government or public sector reporting entity level, there is still a lack of financial disclosure in government financial reports that will allow users to make judgments about (i) the extent of aggregate under-funding, (ii) the implicit taxation burden placed on future generations and (iii) implications for inter-generational equity issues, despite OECD recommendations (Kotlikoff and Burns, 2004). Current deficit/surplus type government reporting conveys little information about the generational taxation consequences that arise from under-funding practices (Kotlikoff, 1993). The deficiency persists at whole of government financial reporting levels, despite the replacement of cash based accounting with accrual accounting conventions as the preferred model for government accounting in Australia. The accrual measures used in current reporting requirements continue to reflect a ‘stock’ view of the world at a point in time, rather than a ‘flow of required obligations’ perspective (Auerbach et al., 1991, 1992; Mitchell and Smith, 1994).

There are also limitations associated with relying on a single ‘stock’ funding ratio to assess the financial condition of government insurance programs. First, under-funding policy is dynamic and cannot be described by a short-term measure that entirely ignores its likely future consequences. Second, a single measure cannot identify the inter-generational distribution of the burden of fiscal pressure at any given time (Auerbach et al., 1994). Without dealing with these issues it is impossible to identify how the burden of fiscal pressure is distributed across generations, information often demanded by users of government financial reporting (e.g.: Henke, 1987; DioGuardi, 1995). Indeed, Copley et al. (1997) conclude that there is little reason to expect accrual-based accounting reforms to increase the citizen use of government financial reports.

The need for supplementary disclosure to reveal inter-generational aspects of government financial management policies is gaining recognition with public sector accounting standard setters. According to the GASB’s Statement of Objectives of Government Financial Reporting (GASB, 1987, Para 2), financial statements need to report on inter-period equity as a key element in demonstrating accountability in the government context. This view implies that public under-funding is undesirable and perceives financial reporting as a monitoring mechanism in promoting inter-period equity (Marks et al., 1988).

Under deficit/surplus accounting, governments sum up current period total dollar outlays and revenues of all kinds and express the difference between these as a ‘deficit’ or ‘surplus’. This form of accounting has resulted in public employee pension system borrowing being kept ‘off the books’ at the whole of government level (Mitchell and Smith, 1994).

**Financial and Generational Stability**

This section overviews the basic concepts related to financial and generational sensitivity of unfunded government programs related to social security, pensions and health care obligations. We first define the key concepts of financial and generational sustainability. We then briefly discuss the relative merits of this approach.

**Features of Fl and Gl**

Studies of generational accounting generally assume either economic assumptions and models or use accrual accounting as a baseline to develop generational accounts. Klumpes (2000) examines

Table 1: Studies Applying Generational Accounting to the Financial Sustainability of Governments and Public Sector Enterprises

<table>
<thead>
<tr>
<th>Topic</th>
<th>Authors</th>
<th>Context</th>
<th>Major findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pension underfunding by State governments</td>
<td>Klumpes (2001)</td>
<td>Analyzes the evolution of funding patterns of the State of New South Wales Superannuation scheme from 1995-2004.</td>
<td>Scheme has evolved from public to private sector. The impact of political visibility on the generational accountability of the SASB is examined over time.</td>
</tr>
<tr>
<td></td>
<td>Klumpes, McCrae and Tang (2005)</td>
<td>Project the burden of under-funded government employer pension obligations to three generational cohorts of public sector employees, based on a data set describing flow of funding characteristics of 12 federal, state and local Australian government funds.</td>
<td>The demographic trends imply a serious imbalance in equity across existing and future generations. Relative to accrual-based reporting practices, a statement of inter-generational equity provides additional insights into the generational visibility of public pension funds. Underfunding practices concerning hidden public pension obligations across the EU vary considerably across governments.</td>
</tr>
<tr>
<td>Unfunded health care systems</td>
<td>Klumpes (2001)</td>
<td>Analyze funding of Australian Medicare system</td>
<td>Australian Medicare is significantly underfunded and is financed by future generations.</td>
</tr>
<tr>
<td></td>
<td>Klumpes and Tang (2008)</td>
<td>Analyzes cost incidence of UK NHS system</td>
<td>A combination of fiscal and generational imbalances largely explains the underfunding of the NHS. Data are taken from both historical trends in expenditure and ageing as well as projected demographics. The analysis implies that there is significant inter-generational-inequity in the funding of NHS. UK NHS is significantly underfunded.</td>
</tr>
<tr>
<td>Unfunded social security systems</td>
<td>Klumpes (2003a)</td>
<td>Hidden obligations of EU states</td>
<td>EU states have significant variations in the level and extent of underfunding</td>
</tr>
</tbody>
</table>
However, all of these studies rely on accrual-accounting as the baseline, whereas other studies (e.g. Gokhale and Smetters, 2003, 2006; Gokhale, 2008) use economic models. Thus there is an inconsistency in models across these studies. Gokhale and Smetters (2003) introduce the concept of ‘fiscal imbalance’, which adds to a government entity’s current accounting-based liabilities the present value of the difference between all projected non-interest spending and all projected revenue. Following their approach, any government or public sector entity insurance-related guarantee program may be considered to be financially sustainable if today’s publicly held debt plus the present value of projected non-interest spending and the present value of projected non-interest spending is equal to the present value of projected government receipts. The spending and revenue projections are made under current policies. ‘Present values’ mean that amounts paid or received in relation to a government insurance guaranty program throughout the future are discounted at the long-term gilt yield in order to reflect their true value today. A financially sustainable policy can be sustained without changing either outlays or revenues. Hence a financially sustainable measure as of the end of year $t$ is defined as (Gokhale and Smetters, 2003, 8):

$$FI_t = PVE_t - PVR_t - A_t$$  \hspace{1cm} (1)

This definition is the excess of total expenditures over available resources in present value. $PVE_t$ is the present value of projected expenditures under current policies at the end of period $t$. $PVR_t$ is the present value of projected receipts under current policies, and $A_t$ is assets in hand at the end of period $t$.

For government insurance program funding policy to be financially sustainable, its FI must be zero. The government cannot spend and owe more than it will receive as revenue in present value. If the $FI$ measured under current policies is positive, those policies are unsustainable and policymakers will have to change them at some future point in time.

However the FI measure is not capable of providing the financial impact of all possible policy changes. This is because, any new policy that changes projected expenditures and revenues so that their increments are exactly equal in present value will provide offsetting increases in $PVE_t$ and/or $PVR_t$, leaving FI unchanged. However, such FI-neutral policies could transfer net tax
burden from living to future generations. Thus a complementary measure is needed to show such redistributions of financial burdens. The FI measure exclusively reflects the sustainability of a given policy, but another measure is needed to indicate how FI is distributed across population subgroups. Another measure is needed to indicate how much of the FI arises from older generations shifting tax burdens to younger (including yet unborn) generations. Gokhale and Smetters (2003) define this as the ‘generational imbalance’ (‘GI’):

\[
GI_t = PVE_t^L - PVR_t^L - A_t
\]  

\(PVE_t^L\) represents the present value of projected outlays that will be paid to current generations. \(PVR_t^L\) represents the present value of projected tax revenues from the same generations. \(A_t\) represents the insurance program’s current assets. Therefore GI captures that part of FI arising from all transactions with past and living generations throughout their lifetimes. The projected contribution to FI by future generations equals the difference between FI and GI.

While the FI measure captures many large unfunded payment obligations not included in traditional accounting perspectives on government insurance programs, the GI measure captures the redistributive effect of alternative policies. Under a pay-as-you-go financed government insurance program funding policy, the GI measure increases even though FI does not change. This implies that the imbalance on account of future generations decreases. It also suggests that policymakers must achieve two objectives simultaneously; first, reduce the FI to zero. Second, choose a policy that delivers the best trade-off in costs imposed on different generations.

**The FI/GI Framework - A Way Forward?**

The above institutional review suggests that in recent years, public sector accounting has increasingly utilized the accounting techniques and practices of the private sector through the greater reliance on accruals-based principles. Thus it is not surprising that concepts such as ‘cost’, ‘efficiency’, ‘economy’ and ‘effectiveness’ have entered into political discourse on the accountability of the public sector during this time. However a much neglected alternative line of economic reasoning argues instead that it is necessary to consider the impact of government policies across generations.

The currently implemented accrual-accounting principles assume that the primary focus and objective of financial reporting concerns the stewardship or custody of existing resources of public enterprises. By contrast, the FI/GI framework implies that the efficient and equitable management of government public finances involve a broader objective of achieving inter-generational altruism and therefore implies a form of ‘implicit social contracts or inter-generational trusteeship’. The same argument applies to public sector organizations, which are typically under-funded relative to private organizations as governments who guarantee their services fail to pay all necessary contributions as they fall due. Specifically, obligations related to various benefits, such as pensions, are deferred until the entitlement must be paid. Current taxpayers, although benefiting from the services provided by contemporary public sector, are not paying the full cost of them, as the cost of the benefit payments being accrued are postponed to a time when existing contributors will have retired. The cost of these benefits will instead be borne by future taxpayers, who will not have benefited from services provided by today’s public sector workforce. Of course this would not matter if the composition of the population was
unchanging. The problem arises because, in all industrialized countries a combination of falling birth rates and increasing longevity means that progressively fewer workers will be supporting each public sector retiree. The result is that future generations of taxpayers will be forced to bear the growing burden of funding the retirement benefits of previous generations of beneficiaries.

Relative to accrual-based accounting principles, we consider that the FI/GI framework perspective serves a broader objective in reporting on inter-generational equity. It also addresses Copley et al.’s (1997) concerns about the decision usefulness to the citizenry of the application of accrual-based accounting to the public sector, by providing information relevant to a broader users’ constituency of both current and future generations of taxpayers. Finally, we believe that a FI/GI framework is applicable to government insurance programs by recognizing explicitly those items that are required to bring an entity into generational balance. The FI/GI framework indicates the zero-sum nature of insurance related guarantee programs policy in the public sector, when viewed from an inter-generational perspective. Table 2 summarizes the major conceptual differences between accrual-based accounting and the FI/GI framework. An intuitive explanation is provided, below.

**Table 2: Major Conceptual Differences Between Generational and Accrual-based Perspectives in Government Financial Reporting**

<table>
<thead>
<tr>
<th>Conceptual Framework</th>
<th>Accrual-based Perspective</th>
<th>Generational-based Perspective</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Objective</strong></td>
<td>Report on inter-period equity (GASB, p. 22)</td>
<td>Provide information about inter-generational equity (AAS 31, p. 10)</td>
</tr>
<tr>
<td><strong>Intended Users</strong></td>
<td>Present and potential taxpayers</td>
<td>Current and future generations of taxpayers</td>
</tr>
<tr>
<td><strong>Recognition Criteria</strong></td>
<td>For each entity, revenues when earned and expenses when related good or service used</td>
<td>For each generation, net payments and receipts over lifetime</td>
</tr>
</tbody>
</table>

**Benefits and Costs of Generational Accounts**

In this section, we consider the relative benefits and costs of implementing generational accounts to an accrual system of accounts for acquitting inter-generational equity. From a conceptual perspective, Gokhale and Smetters (2003) argue that any government accounts concerning policies or commitments that involve inter-generational contracts should possess a number of desirable characteristics. The first is that they are forward-looking. Adopting new forward-looking performance measures would reveal a very different and more accurate picture of the government program’s financial status, as well as the size and nature of the needed policy adjustments.

A second desirable feature of a proper measure is that it should include all future years, i.e. calculated in perpetuity. By contrast, accrual-based accounting estimates do not completely account for the financial imbalances because of the arbitrary truncation of the projection horizon. If deficits beyond the forecast horizon are large and growing, then annuity-based estimates will severely understate the full magnitude of the financial sustainability of such programmes.
Gokhale and Smetters (2003, 19) argue that a third desirable feature of a financial measure is that it be complete – i.e. it should encompass the entire operations of the entity. Since most government entities operate to provide society with some form of either implicit or explicit insurance against risk, it is not at all clear that accrual-based accounting principles capture these contingencies given the standard accounting convention that any measured event can only arise from past transactions.

A fourth desirable property is that the measure should be based on current policy. For a proposed measure to be useful, it must characterize current policy. By contrast, accrual accounting adopts a ‘shutdown’ liability measure because it effectively assumes that the entity will not be in existence in future years, and therefore does not include future expected expenditures. By contrast, it is reasonable to assume that governments have the power to amend policies, e.g. taxes, expenditure.

A fifth criteria argued by Gokhale and Smetters (2003) is that the measure should correctly reflect the impact of all policy changes. This includes the fact that the measure should not change when policy changes are actuarially neutral for all generations. It must also accurately reflect all actuarially non-neutral policies. By contrast, a standard assumption underlying the accrual system of accounting means that revenues and expenses are recognised only at the time that the sales are made and the "input" used, etc., and not when the monetary consequences of such actions occur.

Finally, the sixth desirable feature argued by Gokhale and Smetters (2003, 20) is that the measure should be conceptually straightforward and possess properties that are easy to communicate. Under accrual accounting, the definition of an event is defined primarily by the time period in which a transaction occurs, e.g. the correct measurement of the effect of a sale requires that both the revenue (sale) and its associated expense (Cost of Goods Sold, COGS) should be recognised simultaneously (i.e. matched). By contrast, the generational accounting measure allows for a separation between the time when an item is recognised and the time when the service is acquitted. For example, health care, pensions and social security obligations arise whenever a citizen becomes entitled to that service, and grows over time at the rate of interest. Hence a change in the measure from one year to the next can be broken down into the amounts due to accumulated interest, policy changes, differences in economic outcomes relative to projections, and updates to economic assumptions used in making budget projections. The generational accounting measure is also simple because it equals the amount of fiscal imbalance that is due to current and past generations. However, other complementary measures could also be used, including ones that describe imbalances by narrowly defined birth cohorts, gender, rates and so on.

On the other hand, Gokhale (2009) identifies a number of criticisms of generational accounts. First, it measures the net costs of taxes and transfers but excludes the indirect benefits derived from government public goods and service purchase. If the benefits from government transactions accrue much later, then the average generational account facing future generations may not accurately reflect their treatment under current policies. Similar criticisms can be leveled at accrual accounting. In fact, the conservatism principle is intended to safeguard against
the natural tendency for ‘over optimism’ in presenting profit. We must recognise revenues only when they are certain (i.e. actual sales, not advance orders or advance receipts). On the other hand, we should be careful not to understate expenses (which would also cause profits to be too high). However from a government perspective, such principles may end up hindering rather than enhancing accountability, where the affected resources have implications for future use beyond the current horizon.

A second major criticism of generational accounting is that it does not factor in the costs and benefits from government insurance provision. However, Gokhale also cites other dynamic simulation studies which imply that generational accounts correspond reasonably well to welfare gains and losses arising from policy changes. By contrast, government guarantees have only very recently been subject to any attention by accrual-based accounting standards, and in any case are mostly generally regarded as ‘contingent events’, and therefore not certain in amount to be recognised on the balance sheet.

Gokhale (2009) notes a third major criticism of generational accounting, that it ignores economic responses when estimating policy adjustments for restoring generational balance. On the other hand, Gokhale (2009) also acknowledges that its ‘static’ estimates probably constitute a ‘lower bound of required adjustments’. By contrast, accrual-based accounts only account for efforts that are ‘realised’. For instance, consistent with private sector accounting practices, when a government entity makes a sale on credit, it cannot be sure that the cash value will ever be realised. So it is normal to set off a provision for bad debts against the debtors to reduce the net value of the asset, by allowing for a degree of non-payment by customers. Yet similar considerations cannot be applied to ‘future events’ e.g. ‘provisions’ cannot be made for future events.

A fourth limitation of generational accounts is that it employs a hypothetical policy for future generations. By contrast, current budgetary constraints mean that many government and public sector enterprises wish to measure the effects of keeping their policies unchanged. Gokhale and Smetters (2003) solve this issue and develop alternative fiscal and generational imbalance measures that do not involve hypothetical policies.

A fifth limitation of generational accounting is that it discounts future flows using a common discount rate whereas taxes and transfers may well be subject to different degrees of policy and/or economic uncertainties. Related, it may be appropriate to use different discount rates for different cohorts because they face different risks. To the extent that the discount rate is of concern, Gokhale (2009) notes that generational accounting studies often include sensitivity analysis under alternative assumptions, including alternative discount rates. By contrast, accrual-based accounts are only based on a specific set of actuarial assumptions; and it is generally left to the reader to interpolate how a change in assumption or policy might affect the reported numbers.

Summary, Conclusions, and Policy Implications
We propose a FI/GI framework approach developed by Gokhale and Smetters (2003) to provide a basis for sustainable financial management of the public sector insurance-related guarantee programs. The framework is shown to be more consistent with a life cycle perspective on public
sector investing and finance principles. We argue that the FI/GI approach is more applicable than existing accrual-based accounting systems to better understanding government funding policies and guarantee programs. In addition to enhancing transparency and accountability, it also provides a number of unique insights into the financial dimensions and accountability implications of insurance guarantee programs. We believe that disclosing this type of present-value based information can significantly extend the nature and scope of financial accountability of under-funded public sector funds to a broad set of stakeholders and thereby provide a useful supplement to current-value financial statements based on accrual-accounting principles. Such a framework is potentially applicable to a broader range of public sector entities whose liabilities and/or capital funding is subject to the effects of demographic transition (e.g. pay-as-you-go funded social security and health care schemes).

At a conceptual level, the framework that we propose questions the appropriateness of current, standard conventions of public sector accounting and accountability that are framed by reference to accrual-based accounting principles (e.g. Funnell and Cooper, 1999). Accordingly, we fully expect that the FI/GI framework will attract controversy and criticism from the broader professional and academic accounting and management communities for a number of reasons.

First, whereas accrual-based accounting principles imply a current or market-value basis of measuring a public sector entity’s existing assets obligations, generational accounting methodology implies instead a measurement system that is based entirely on ex ante information. This is because generational accounting is based on the annual estimates of lifetime cash contributions of each cohort to an entity, less the estimates of lifetime benefits receivable by them, all suitably discounted to their present values. Consequently, the calculations are not based on verifiable value but are based on far-reaching assumptions of life expectancy, incomes, economic growth, inflation and productivity. While many view market values as a de rigueur component of both the theory and practice of accounting measurement, present values are still viewed by many academics and professionals as being the province of actuarial science and economics.

A more fundamental criticism of generational accounting from a traditional accounting viewpoint concerns the fact that values of public fund net worth derived under each system have significantly different decision-making implications. A zero net value for a pension fund under accrual-based accounting principles implies that a public fund is just meeting its obligations. Thus, accrual-based accounting principles provide a basis for determining the fund’s overall net worth in terms of its aggregated assets and liabilities based on past funding policies. By contrast, a zero net present value of net contributions indicates that each generational cohort is just paying its way. Generational accounting models thus provide a basis for judging whether the continuation of current policies involves a prospective inter-generational redistribution of pension fund net worth. This emphasis on the stakeholder implications of the under-funding of public sector obligations contrasts with standard notions of public sector under-funding practices. For instance, the GASB standard identifies efficiency and effectiveness in the use of existing resources as the primary objective of financial reporting, rather than asking whether their mode of financing is equitable to participants and other stakeholders (Marks et. al., 1988).

These criticisms bear upon the wider academic debate as to whether equivalent accounting
principles should apply to both the private and public sector (e.g. Barton, 1999a). Indeed the
public sector increasingly is utilizing the accounting of the private sector. Thus cost, efficiency,
economy and effectiveness have entered into political discourse. By contrast, generational
accounting implies that a different form of accountability applies to the public sector, at least for
certain types of entity whose resources involve the allocation of risk among various generational
cohorts of participants.

There are at least three major policy implications. First, the FI/GI framework implies a serious
imbalance in equity which reflects the combination of the explicit liability to service very large
amounts of public spending and the implicit liability to pay substantial sums to existing and
future generations of public welfare beneficiaries. Second, our analysis raises serious questions
over the differential ability of levels of governments to maintain inter-generational equity in
their under-funded public sector services. Third, the FI/GI framework can apply to other
demographic and inter-generational equity sensitive public policy settings, such as environment,
long-term health care and the valuation of infrastructure. They can also be applied to other
private sector entities with inter-generational long-term insurance related obligations, such as
unfunded pension funds and health care obligations.

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Tang, L. and P. Klumpes (2009). Measuring Hidden Underfunded Pension Obligations of
Investigating Government Accounting Reform in the Greek National Health Service: Some Preliminary Evidence

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Abstract

Over the last few decades, several countries have introduced financial management reforms as part of New Public Management (NPM). In some countries this has included transforming traditional budgetary cash accounting systems with accrual accounting. For example, in 1997 the Greek government introduced an accrual based accounting system (ABAS) and double-entry book-keeping in its public hospitals.

The first goal of the paper is to provide an overview of the Greek government reform initiatives and evidence regarding the rate of adoption of the new accounting system in the health sector. The second goal is to present the perceived usefulness of the accounting information provided by the accounting reform and some implementation problems.

Our analysis is based on the results of a survey undertaken in 2008. A structured questionnaire was prepared and sent to the Finance Directors of all 132 Greek public hospitals.

Keywords: Accrual Accounting, Public Sector Accounting, success, benefits Public Hospitals, New Public Management.

Introduction

Over the last few decades, the public demand for radical improvement of public sector activities resulted in a wave of organizational, managerial and accounting reform in the public sector worldwide (Christiaens, 2008). Many of these reforms show a number of characteristics often summarized under the term New Public Management (NPM). NPM is a management philosophy used by governments to transform and modernize their public sector in order to enhance the efficiency, effectiveness and accountability of public services delivery by transplanting private sector management practices and techniques to the public sector (Lapsley, 1988; Potter, 2002; Van Helden, 2005).

According to Hood (1995), the NPM focuses on reducing the differences between the public and the private sectors by moving public sector practice closer to private sector practice, thus shifting the emphasis from process accountability towards a greater accountability in terms of outcomes and results.

Within the context of NPM, several countries have adopted financial accounting reforms at one or more levels of government sector by replacing or transforming their traditional budgetary cash accounting systems into systems that support accruals, an accounting basis that is widely used by business-like organizations, in order to increase their financial accountability and transparency and improve measurement of government sector performance (Pessina and Steccolini, 2007; Blidisel and Tudor, 2007; Brusca, 1997; Christiaens, 1999, 2001; Christiaens and Rommel, 2008; Christiaens and Peteghem, 2004; Hoque and Moll, 2001; Johnsen, 1999; Lapsley, 1994;
Montesinos and Vela, 2000; Paulsson, 2006; Pallot, 1997, 2001; Pettersen, 1999; Richardson and Cullen, 2000; Venieris and Choien, 2004; Ouda, 2002).

This change in public accounting towards accrual accounting seems necessary as the traditional budgetary cash accounting system is perceived nowadays as no longer satisfactory, mainly due to the lack of presenting an accurate financial picture and providing useful and adequate accounting information to facilitate the control, planning and performance evaluation process (Koen, 2007; Lapsley, 1999).

According to Christiaens et al. (2004, 2007) governmental accounting reform has often been the first step of government reform and that is why it can be considered as an important condition and prerequisite for the success of other consequent governmental reforms under the transformation wave of NPM, such as organizational and managerial reforms. Therefore, effective and successful implementation of the accounting reform plays an important and dominant role in the implementation and success of other NPM practices and techniques within public organizations. Without an adequate and successful implementation, all the anticipated gains, the presupposed objectives and expectations of the reform will be lost due to the fact that the new accounting system will not be able to provide relevant and accurate managerial and financial information to support it. (Christiaens and VanPeteghem, 2007).

Typically, a system’s implementation is perceived as successful when the system is accepted and used (Lucus, 1975; Robey, 1979; McGowan and Klammer, 1997); or when user satisfaction increases (Balley and Pearson, 1983; Ives et al., 1983; Doll and Torkzadeh, 1988). As Cerullo (1980) and Chong (2008) point out:

“from the practitioner’s perspective, users’ satisfaction, as an attitude towards the system change, may be the most important and widely used success factor because it will drive changes in decision making and use patterns.”

Within the context of NPM and following the example of numerous other countries in Europe and worldwide, the Greek public sector has encountered a number of financial accounting changes and reforms over the last ten years. As a result, in 1997 the Greek government started introducing the accrual based accounting system and double-entry bookkeeping method to some specific sectors of government activities in order to modernize its governmental accounting system. The most important examples of the Greek public sector entities where an accounting reform took place towards accrual accounting are: Social Securities funds (1997), Public law entities (1998), local government institutions; Municipalities, (1999) and finally public owned hospitals (2003).

In the international public sector accounting literature, the accrual accounting initiative is claimed to have a number of benefits, which can be grouped and summarised as follows: (i) identification of total cost of government programs and activities; better measurement of costs and revenues; enhancement of control process and transparency (ii) greater focus on outputs; focus on the long-term impact of decisions (iii) more efficient and effective use and management of resources and greater accountability (iv) reduction and better measurement of public expenditures (v) better presentation of the financial position of the public sector organizations.
(vi) better financial management; improvement of performance measurements and greater comparability of managerial performance between periods and organizations by calculating indicators on the basis of comprehensive and consistent financial and operational data (vii) greater attention to assets and more complete information on public organizations’ liabilities through better assets and liabilities management. (Mellett, 2002; and Olsen et al., 2001; Barrett, 1993; Evans, 1995; Pallot, 2000; Mellor, 1996; Brusca, 1997; Funnel and Cooper, 1998; Ryan, 1998; Chan, 2003; Guthrie, 1998; Jones, 2004; Barzelay, 1992; Moe, 1994; Venieris and Choen, 2004; Choen et all, 2007; Aucoin, 1995; Pessina and Steccolini, 2007; OECD, 2005; International Federation of Accountants - Public Sector Committee, 2000, 2002).

Yet reservations remain by a considerable body of researchers concerning the adoption of this accrual based accounting system (ABAS) by public organizations and believe that its implementation is often accompanied by a plethora of drawbacks and problems which eventually overcome its anticipated benefits; For them, the transition from the cash to accrual accounting system will only succeed in the coming years in business-like parts of government activities, such as Health Care organizations (Christiaens and Rommel, 2008). These problems may arise due to vague accounting objectives, standards and treatments that usually derive from unclear aspects of accounting legislation, such as assets identification and valuation, measurement of depreciation of physical assets and amortization of intangible assets, recognition of income and expenses, identification of opening balances (Christiaens, 2001; and Hepworth, 2003; Christiaens and Rommel, 2008; Jones and Pendlebury, 1991; Choen, Kaimenaki and Zorgios 2007; Ouda, 2008).

Except for overcoming and tackling these specific accounting issues, a second group of problems during the transition process is related to organizational and procedural factors (Cohen, 2007). Examples of these factors may include the (in)adequacy of information technology capability, the lack of experienced personnel resources to implement accrual accounting, the lack of accounting training resources, the absence of motivation and incentives for accrual accounting adoption and the insufficient political and Top Management Support and commitment, (Cohen et al., 2007; Pallot, 1997; Pendlebury and Karbhari, 1998; Guthrie, 1998; Stanton and Stanton, 1998; Newberry, 2002; Carlin and Guthrie, 2003; Hodges and Mellett, 2003; Brusca, 1997).

In order to reap the full benefits of switching to accrual accounting it is important to take into account the above frequently cited problems and shortcomings of public accounting reform in order to control and resolve them. Otherwise, the adoption and implementation of the ABAS may be delayed or impeded.

The purpose of this paper is to examine the accounting and finance officers’ perceptions of the Greek public hospitals regarding the implementation of the new accounting system based on accruals in the Health sector. Our study investigates the accounting benefits, problems and satisfaction level regarding the adoption and implementation of this new accounting system into the Greek public hospitals and is based on empirical evidence.
The importance of this paper derives from the fact that there has been limited empirical research examining the views and attitudes of practising accountants and finance officers of public hospitals entities regarding this initiative worldwide and especially in the Greek health sector.

The remainder of the paper proceeds as follows. The next section presents a short description of the Greek National Health System (NHS) and the financial accounting reforms that took place during the last twenty years. The third section presents the research questions and describes the methodology applied in this study. The presentation of the research results is found in section four. The conclusions drawn from the research are set out in the final section.

**The Greek National Health Service (NHS)**

Greek public hospitals have experienced a plethora of organizational, administrative and financial reforms since the mid-1980s in the name of improved efficiency, effectiveness, and accountability.

The Greek health care system can be characterised as a mixed system in which the National Health System (NHS), a compulsory social insurance scheme, and the voluntary private health insurance system co-exist. The Greek NHS was founded in 1983 by the Law 1397/83 which declared that health is a “social good” and all citizens should have the right to be offered high quality health care. Therefore, the objective of NHS was to provide free, equitable and universal health care coverage to all citizens, based on the principles of equity, equal access to health services and solidarity.

At the level of central government, the Ministry of Health and Social Cohesion (MHSC) is responsible for the provision of health care and the development and implementation of a national strategy for health. More specifically, the MHSC sets strategic priorities at a national level, defines the extent of funding for proposed activities, allocates the necessary resources, proposes legislative framework changes and undertakes the implementation of laws.

Despite the number of significant advances and improvements brought by the establishment of the NHS in 1983, still several challenges remain, such as the draft of a national action plan for public health, tackling high level pharmaceutical expenditures, the integration of primary care services, the modernization of hospital management by introducing market mechanisms, the decentralisation of the system and quality assessment. As a result, most of these proposals were enacted in a new organizational and administrative NHS reformation law 2889/01 in 2001. Several structural changes are included in this reform, such as the introduction of professional hospital Managers, the operation of 17 Regional Health Authorities (Pe.S.Y.P.) and the establishment of new managerial structures and businesslike (private-sector) efficiency tools and techniques in public hospitals like cost-improvement programmes, performance indicators, financial management information systems (FIS) and closed budgets to every department of the hospital separately (WHO, 2005). Under the spirit of NHS decentralisation the 17 Pe.S.Y.P³ are responsible for implementing national health policies at the regional level, coordinating regional activities and organizing and managing the delivery of health care and welfare services within their geographical area through the respective health care and welfare units (Hospitals, Health Centres, social care units, etc).
However, the decentralization efforts of the public hospital system under this reform have only focused upon the devolution of autonomy in terms of political and operational authority to Pe.S.Y.P, but not upon the devolution of financial authority to them. As a result, Pe.S.Y.P are not considered to be self-financed entities, as they do not have individual budgets to manage, and are primarily financed via the annual state budget. The MHSC continues to validate and approve all financial transactions and events, including health care expenses and revenues, leaving Pe.S.Y.P with no essential financial and decisive authority.

Health care expenditures in Greece are funded mainly through the central annual government budget (general taxation 30.4%), the numerous state insurance funds (compulsory employer and insured people contributions 25.9%), private health insurance schemes (voluntary payments 2.3%) and out-of-pocket payments (for the remaining 41.6%). In 2006, Greece’s total spending on health accounted for 9.1% of GDP, slightly above the median of 8.9% in OECD countries as portrayed graphically in Figure 1, of which an extremely high 4.1% accounted for private health spending. Yet its per capita GDP is one of the lowest and its citizens the least satisfied with the health services they are provided (OECD, 2002).

**Figure 1. Health Expenditure as a Share of GDP, OECD Countries 2006 GDP**

Regarding the public health care system funding, the NHS budget is set annually by the General Accounting Office (GAO) of the Ministry of Economy and Finance, which is the central budget authority in Greece, based on historical data. Taxes (direct and indirect) finance about the 70% of all public hospital funding, whereas the remaining 30% is derived from a mixture of social security contributions and out-of-pocket payments. Tax revenue is often used to fill the gap between the officially determined level of social security funding (by fixed per diem or per-case reimbursement fees) and the actual cost of the provided services. Primary health care centres are financed through the budget of the hospital to which they belong administratively.
Hence, the Greek NHS can be characterised as a “dual-mixed” system, in which elements from both the Bismarck (increased importance of social insurance in funding health care) and the Beveridge (health care primarily funded by state budget) models co-exist.

Health care services in the public sector (mainly secondary and tertiary health care) are provided in 132 general and specialized public hospitals that operate within the NHS. The public owned hospitals of NHS have a total capacity of 34,134 beds according to data presented in Table 1.

Moreover, 195 Health Centres operate in rural areas. Rural Surgeries, attached to the Health Centres, provide primary health care services. The Health Centres also provide emergency services, short hospitalisation and follow up of recovering patients, dental treatment, family planning services, vaccinations, and health education.

<table>
<thead>
<tr>
<th>Regional Health Authorities</th>
<th>No of Beds</th>
<th>No of Hospitals</th>
<th>(%)</th>
<th>No of Health centers</th>
<th>(%)</th>
<th>No of social care units</th>
<th>(%)</th>
<th>No of Employees</th>
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<tr>
<td>1&lt;sup&gt;s&lt;/sup&gt;</td>
<td>9,291</td>
<td>27</td>
<td>20.45%</td>
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<td>6</td>
<td>6.52%</td>
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<td>11.79%</td>
<td>14</td>
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<td>13</td>
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<td>9</td>
<td>9.78%</td>
<td>6,747</td>
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<tr>
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<td>34,134</td>
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<td>100%</td>
<td>195</td>
<td>100%</td>
<td>92</td>
<td>100%</td>
<td>98,218</td>
</tr>
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</table>

Accounting Reform in the Greek Public Health Sector

Traditionally, Greek governmental budgeting and accounting systems at all three levels of public governance – central, regional and local – is regulated by law and not by an independent standard-setting professional body and is still being based upon the cash principle of accounting.

Similarly, the governmental accounting regulations applying to Greek public hospitals – which date back to 1974 with the legislative decree 496/74 – were also based on an old budgetary and single-entry book-keeping accounting system and had a primarily cash basis accounting approach.

More specifically, the main purpose and concern of the public hospitals’ budgetary cash accounting system was to recognize transactions and other events only when cash was received or paid, to record them in the authorised budgets, driven by budgetary principles, and finally to control the execution of the budget approved by the governmental decision makers. On the other hand, little attention was given to providing a complete picture of the financial position and financial performance of public hospitals.
The Greek management literature has long pointed out the need for reforming this budgetary cash accounting system in the health public sector and has indeed supported the switch to accrual accounting (Ballas and Tsoukas, 2000; Venieris and Koen, 2003). Traditional budgetary cash accounting has long been viewed as ‘outdated’, no longer satisfactory and making a significant contribution to the inefficiency and ineffectiveness of the Greek public sector because it does not permit the disclosure of the full picture of the economic activity and financial position of the public hospitals (Lüder and Jones, 2003).

The initial efforts of introducing the accrual basis of accounting in public hospitals in Greece commenced in 1997 under the Law 2519/97. This Law presented for the first time the government’s attempt and intention to introduce a double-entry bookkeeping accounting system and cost management methodologies in public hospitals based on the accrual basis.

For this purpose, the development and preparation of an Official Health Sector Accounting Plan (HSAP), aimed at developing the conceptual framework for accrual accounting in public hospitals, was assigned by the Ministry of Economy and Finance to the national Council of Accounting (ESYL) and to the Chamber of Finance (OEE).

The HSAP mainly included broad guidelines regarding principles for accrual basis accounting implementation, similar to those applied to the private sector, the charts of accounts, asset classification, examples of journal entries, templates of the layout and the content of the published financial statements (i.e. balance sheet, income statement, cash flow statement, The Statement of Income Distribution, Budget report and Actual report) and some suggested financial ratios (Venieris and Koen, 2004).

Furthermore, a pilot implementation project, under the experimentation clauses of the HSAP, commenced in 1999 in order to test the suitability of the new accounting system and its readiness for full implementation. Five public owned hospitals that would implement the HSAP as pioneers were selected.

The governmental efforts to reform the accounting system of the health sector escalated in 2003, after taking the pilot implementation experiences into account and making the necessary modification and amendments to the HSAP, when a law, the Presidential Decree 146/03 (P.D. 146/03), was passed. The P.D. 146/03 enforced the mandatory adoption of the new accounting system, based on accrual accounting, to all public hospitals that are part of the Greek NHS and established the necessary guidelines and accounting standards for financial reporting. However, the previous traditional budgetary cash accounting system was not totally abandoned but instead, the public hospitals just added the ABAS separately and most of the budgetary accounting principles were maintained (Christiaens, 2001). The new accounting framework of the P.D. 146/03 defined three accounting systems that should work in parallel under three independent accounting cycles, the financial accounting cycle, the budgeting cycle and the cost accounting cycle, within the same general ledger and while each one would still retain its autonomy. The legislator believed that the solution of introducing this combined approach for accrual accounting and double-entry budgetary cash accounting through three separate accounting systems should be the most beneficial in order to reap the best of the two accounting principles, as each one has its own strengths and weaknesses. The simultaneous existence of the two accounting bases,
accrual and cash, was evaluated as necessary due to different accounting objectives and processes of the three accounting systems. The financial accounting system is aiming at reporting the financial position and the yearly profit and loss of hospitals, the budgeting system is aiming at authorizing and controlling the public spending (Christiaens and Rommel, 2008) and the cost accounting system is aiming at collecting, measuring, calculating and presenting the cost of different organizational functions and services by using the accounting data of the financial accounting cycle.

The P.D. 146/03 pointed out that the deadline for the implementation of accrual financial accounting in public hospitals was the 1st of January 2005, while the deadline for cost accounting introduction was the 1st of January 2006.

The last government accounting reform took place with the Law 3599 that was issued in 2007 and enforced the compulsory adoption of the accounting principles which are internationally accepted (IPSAS7) in public hospitals. The Law 3599/07 encourages public hospitals to harmonize national requirements with the IPSAS in order to prepare and present its financial accounting statements under the principles and accounting standards of IPSAS started from the fiscal year of 2008, but without presenting any specific guidelines and details about the compliance.

Research Objectives

In order for the new accounting system to be effectively used in public hospitals, a better understanding of the derived accounting benefits, satisfaction, problems as well as reasons for non-adoption need to be investigated and developed. Therefore the following five research questions will be studied:

RQ1: To what extent have Greek public health care organizations implemented the new accounting system set out in the PD 146/03?

RQ2: What are the reasons for not yet adopting the new mandatory accounting system set out in the PD 146/03?

RQ3: What are the accounting benefits and implementation problems regarding the adoption of accrual-based accounting system?

RQ4: Are the accounting and finance officers satisfied with the new accounting system implementation?

RQ5: Is there a relation between satisfaction, accounting benefits, problems, accrual implementation cost, years of accrual accounting adoption, education level of accounting staff and hospital size?
Methodology

The principal area of investigation is to present the status quo of accounting reform adoption in Greek Public hospitals as well as the implementation problems and the perceived usefulness of the enhanced financial information provided by ABAS for decision-making purposes. To determine all the above a survey using questionnaires was conducted during 2008 in all Greek public hospitals in order to gather the necessary data. The questionnaire was sent by e-mail and Fax to 132 finance directors working within the public hospitals accounting and finance departments, on the understanding that they are users who know in depth how the new accounting system is used and operated in their organizations. Eventually, out of 132 distributed questionnaires, 54 were returned. As a result the response rate was 41% covering all the regions of the country (see Table 2).

Fifty-four finance directors returned the questionnaire, yielding a total response rate of 41%. Responses of the questions included in the questionnaire form were provided either on a yes/no type or on a five-point Likert scale ranging from 1 to 5, with (1) indicating “full disagreement” and (5) indicating “full agreement”, and (3) “neither agree nor disagree” being at the midpoint. (In some cases 1 corresponds to the lowest degree and five to the highest). SPSS version 17 was used, in order to analyze the data collected via the survey questionnaire, as the most common statistical package. Moreover, it is important to note that the sample representativeness was tested and the result of the statistical test, chi-square, goodness-of-fit, show that the sample’s distribution is not significantly different from the distribution within the total population of 132 Greek hospitals. (Chi-square: 2.0; p = 0.91)

Table 2. Coverage Ratio of answered questionnaires per Regional Health Authorities

<table>
<thead>
<tr>
<th>Regional Health Authorities</th>
<th>Total Number of Hospitals</th>
<th>No of Hospitals answered the questionnaire</th>
<th>% of Hospitals answered the questionnaire</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st Attiki</td>
<td>27</td>
<td>11</td>
<td>(40.7%)</td>
</tr>
<tr>
<td>2nd Peiraia- Aigaio</td>
<td>20</td>
<td>8</td>
<td>(40%)</td>
</tr>
<tr>
<td>3rd Makedonia</td>
<td>17</td>
<td>10</td>
<td>(59%)</td>
</tr>
<tr>
<td>4th Anat. Makedonia &amp; Thraki</td>
<td>15</td>
<td>5</td>
<td>(33%)</td>
</tr>
<tr>
<td>5th Thessalia - Sterea Ellada</td>
<td>13</td>
<td>4</td>
<td>(31%)</td>
</tr>
<tr>
<td>6th Peloponisos - Ionia Nisia - Dytiki Ellada</td>
<td>31</td>
<td>13</td>
<td>(42%)</td>
</tr>
<tr>
<td>7th Kriti</td>
<td>9</td>
<td>3</td>
<td>(42%)</td>
</tr>
<tr>
<td>Total number</td>
<td>132</td>
<td>55</td>
<td>(41%)</td>
</tr>
</tbody>
</table>

Prior to the presentation of the research findings, we would like to refer to the demographic characteristics of the public hospitals that are comprised in the sample. Table 3 shows the hospitals profile, such as, geographical, financial turnover, number of employees, number of beds and finally type of Health organization.

Table 3. Demographic Characteristics of public hospitals sample

<table>
<thead>
<tr>
<th>Geographical Area</th>
<th>Frequency</th>
<th>(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Attiki - Peiraia- Aigaio</td>
<td>19</td>
<td>(35.18)</td>
</tr>
<tr>
<td>Makedonia &amp; Thraki</td>
<td>15</td>
<td>(27.7)</td>
</tr>
<tr>
<td>Thessalia - Sterea Ellada</td>
<td>4</td>
<td>(7.4)</td>
</tr>
</tbody>
</table>
Survey Results

Implementation rate of Accrual Based Accounting Systems (ABAS)

The survey revealed that the financial ABAS has been adopted and used by 45 out of 54 (83.3%) public hospitals, which is a quite satisfactory adoption rate. On the other hand, the introduction of management accounting practices has not yet seriously progressed, as only 10 out of 54 (18.5%) hospitals have developed and implemented an operating cost accrual accounting system. According to our survey data, another 32 (60%) hospitals are in the process of developing and implementing a cost accounting system that will be completed by the year 2010. Despite the fact that the deadline, imposed by the Presidential Decree 146/03, concerning cost accrual accounting system implementation was formally the 1st January, 2006, the remaining 12 (23%) hospitals answered that the introduction of such an accounting system was not an option for them even in their future plans (Table 4).

Table 4. Implementation Rate of accrual accounting systems

<table>
<thead>
<tr>
<th></th>
<th>YES</th>
<th>NO</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial accrual accounting</td>
<td>45</td>
<td>9</td>
<td>54</td>
</tr>
<tr>
<td>system (N = 54)</td>
<td>(83.3%)</td>
<td>(16.7%)</td>
<td>(100%)</td>
</tr>
<tr>
<td>Cost accrual accounting system</td>
<td>10</td>
<td>44</td>
<td>54</td>
</tr>
<tr>
<td>(N = 54)</td>
<td>(18.5%)</td>
<td>(81.5%)</td>
<td>(100%)</td>
</tr>
</tbody>
</table>
Reasons for not implementing Accrual Based Accounting Systems (ABAS)

Although, the international literature suggests (Lawson, 2005; Cardinaels et al., 2004; Begun et al., 2003) that complex-dynamic organizations, such as hospitals, may especially benefit more from an accurate and refined cost system for cost reduction efforts, that is not the case for Greece (implementation rate = only 18.5%).

The low reform capacity exhibited by the Greek public hospitals regarding the ABAS and mainly the cost ABAS can be explained by the following eight reasons cited in Table 5. Respondents were asked to indicate the extent to which they agreed with each of the following statements on a five point Likert scale, with a response of one (1) indicating strong disagreement and a response of five (5) indicating strong agreement.

Table 5. Results of respondents regarding reasons for non-adoption of Accrual based Accounting System (ABAS)

*Notes: scale 1 = strongly Disagree to 5 = strongly Agree

<table>
<thead>
<tr>
<th>Reasons for non-adoption</th>
<th>Mean</th>
<th>St deviation</th>
<th>Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of adequate resources</td>
<td>4.00</td>
<td>1.118</td>
<td>1</td>
</tr>
<tr>
<td>Current Funding and Reimbursement system</td>
<td>3.89</td>
<td>1.269</td>
<td>2</td>
</tr>
<tr>
<td>Absence of fines for non-adoption</td>
<td>3.78</td>
<td>0.972</td>
<td>3</td>
</tr>
<tr>
<td>High legal framework complexity</td>
<td>3.56</td>
<td>0.882</td>
<td>4</td>
</tr>
<tr>
<td>High designing and implementation cost</td>
<td>3.44</td>
<td>1.333</td>
<td>5</td>
</tr>
<tr>
<td>Lack of IT systems</td>
<td>3.00</td>
<td>1.425</td>
<td>6</td>
</tr>
<tr>
<td>Lack of Top Management commitment</td>
<td>2.63</td>
<td>1.323</td>
<td>7</td>
</tr>
<tr>
<td>Satisfaction with existing accounting system</td>
<td>2.33</td>
<td>1.414</td>
<td>8</td>
</tr>
</tbody>
</table>

Survey respondents have quoted a number of reasons for non-adoption of accruals by their healthcare entities. As indicated in Table 5, the most important appear to be first the “Lack of adequate resources” (Mean 4.00) as the development of such a system is labour-intensive and a time-consuming process that requires strong financial and human resources. Secondly, the “Current re-imbursement system” (Mean 3.89) in the Greek public health sector is another obstacle contributing to the delay of the ABAS adoption. The reimbursement system can be classified as retrospective and output-based, de-motivating the hospital’s management to reflect actual cost in patient billings. Cost data and information are not an important factor in pricing decisions due to the fact that the health care payers (government, insurance funds) simply pay back not the true cost of health services provided but a fixed per diem price based on a pre-defined legal pricing scheme. Furthermore, another leading reason that has an effect on the low adoption level of ABAS implementation is the absence of an enforcement system to impose fines in case of non-compliance with the adoption timetables set out by the legislation (Mean 3.78). Last but not least, another reason explaining the low adoption rate of accrual accounting system by Greek public hospital entities, is the perceived high complexity of the imposed legal accounting framework by establishing two accounting regimes, accrual and cash accounting, as well as the cost of running these two accounting systems in parallel (Mean 3.56 and 3.44 respectively).
In contrast, the reasons that do not seem to have a strong influential impact on the delay of ABAS implementation are the need to create a new IT system in order to process accruals data (Mean 3.00), the support and commitment of hospitals’ Top Management team (Mean 2.63), and finally, the satisfaction of employees with the traditional budgetary cash accounting system (Mean 2.33).

**Perceived Benefits of Accrual Based Accounting Systems (ABAS)**

Table 6 presents the perceptions of financial managers and chief accountants regarding the usefulness of the new accounting system in producing and presenting adequate accounting information for decision-making purposes.

Respondents were asked to indicate the extent to which they agreed with each of the statements on a five point Likert scale, with a response of one (1) indicating strong disagreement and a response of five (5) indicating strong agreement.

**Table 6. Results of respondents' perception regarding the usefulness of the financial information provided by Accrual based Accounting System (ABAS)**

<table>
<thead>
<tr>
<th>Perceived Benefits</th>
<th>1*</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>Mean</th>
<th>St deviation</th>
<th>Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improved Monitoring of assets and liabilities</td>
<td>0.0%</td>
<td>0.0%</td>
<td>8.9%</td>
<td>55.6%</td>
<td>35.6%</td>
<td>4.27</td>
<td>0.618</td>
<td>1</td>
</tr>
<tr>
<td>Improved financial disclosure and measurement of the true and accurate financial position</td>
<td>0.0%</td>
<td>2.2%</td>
<td>11.1%</td>
<td>44.4%</td>
<td>42.2%</td>
<td>4.25</td>
<td>0.751</td>
<td>2</td>
</tr>
<tr>
<td>Improve the consistency and comparability of financial information reported</td>
<td>4.4%</td>
<td>2.2%</td>
<td>15.6%</td>
<td>42.2%</td>
<td>35.6%</td>
<td>4.02</td>
<td>1.011</td>
<td>3</td>
</tr>
<tr>
<td>Improved Decision-making process based on accurate, relevant, and reliable information</td>
<td>2.2%</td>
<td>13.9%</td>
<td>6.7%</td>
<td>37.8%</td>
<td>40.0%</td>
<td>3.98</td>
<td>1.108</td>
<td>4</td>
</tr>
<tr>
<td>Provides enough financial data to facilitate the control process</td>
<td>2.2%</td>
<td>11.1%</td>
<td>20.0%</td>
<td>40.0%</td>
<td>26.7%</td>
<td>3.87</td>
<td>1.079</td>
<td>5</td>
</tr>
<tr>
<td>Improved financial transparency and accountability</td>
<td>2.2%</td>
<td>13.3%</td>
<td>26.7%</td>
<td>24.5%</td>
<td>28.9%</td>
<td>3.62</td>
<td>1.173</td>
<td>6</td>
</tr>
<tr>
<td>Improved resource planning and allocation</td>
<td>6.7%</td>
<td>17.8%</td>
<td>26.7%</td>
<td>24.4%</td>
<td>24.4%</td>
<td>3.42</td>
<td>1.234</td>
<td>7</td>
</tr>
<tr>
<td>Better measurement of financial performance</td>
<td>13.3%</td>
<td>11.1%</td>
<td>22.2%</td>
<td>31.1%</td>
<td>22.2%</td>
<td>3.38</td>
<td>1.319</td>
<td>8</td>
</tr>
</tbody>
</table>
Respondents have quoted a number of benefits regarding the accrual accounting adoption. As indicated in Table 6, the most important perceived benefits of the new accounting system appear to be the “Improved Monitoring of assets and liabilities” (Mean 4.27), the “Improved disclosure of the true and accurate financial position” (Mean 4.25), the “Improved consistency and comparability of financial information reported” (Mean 4.02) the “Improved decisions based on accurate, relevant, and reliable information” (Mean 3.98) and the “Improved financial transparency and accountability” (Mean 3.62).

Conversely, the merits that do not seem to have influenced the respondents to a great extent and received the lowest rating are: the “Improved resource planning and allocation” (Mean 3.38), the “Better measurement of financial performance” (Mean 3.38), the “provision of useful product costing information” (Mean 3.31), and finally, the “Reduction of public expenditures” (Mean 2.93).

Firstly, these low scores are due to the fact that the current budgeting system can be labeled as incremental, based on historical data, without fostering a strategic allocation of resources; secondly, that most of the hospitals examined in this paper have not yet implemented some kind of management accounting practice based on the accrual principle; and thirdly, that the simultaneous operation and coexistence of cash and accrual principles in a new system, where the cash accounting still dominates in the major function of decision making while accrual accounting follows, has resulted in many data inconsistencies and conflicts in the hospitals context.

Finally, statistically significant differences exist between the responses of healthcare entities that use accrual accounting systems and those that do not. The average response by ABAS adopters (Mean 3.72) was significantly (p = 0.01; t = 4.62) higher than for non-adopters (Mean 3.21). As might be expected, ABAS adopters and users more strongly agreed as to the benefits of those systems than non-users.

**Obstacles faced in implementing of Accrual Based Accounting Systems (ABAS)**

Although, the general perception, discussed earlier, is that deployment of accrual accounting systems brings substantial benefits to public healthcare entities, the analysis of the empirical evidence showed that the majority of the survey’s respondents (62.2%) stated, as displayed in table 7, that the implementation process of the new accounting system was very difficult and a time consuming project accompanied by many organizational difficulties and implementation obstacles.
Table 7. Results of respondents’ perception regarding the difficulties encountered in designing and implementing Accrual based Accounting System (ABAS)

<table>
<thead>
<tr>
<th>Percentage of Hospitals</th>
<th>1*</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>Mean</th>
<th>St deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The implementation process of ABAS (N=45)</td>
<td>40.0%</td>
<td>22.2%</td>
<td>28.9%</td>
<td>4.4%</td>
<td>4.4%</td>
<td><strong>2.11</strong></td>
<td><strong>1.133</strong></td>
</tr>
<tr>
<td></td>
<td>(18)</td>
<td>(10)</td>
<td>(13)</td>
<td>(2)</td>
<td>(2)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Notes: measured on scale 1 = very difficult to 5 = Very easy.

More specifically, following the results of the empirical survey, the most frequent problems and obstacles faced by the public hospitals regarding the ABAS implementation are the ones presented in Table 8 below.

Table 8. Results of respondents’ perception regarding problems and difficulties of adopting and implementing Accrual based Accounting System (ABAS)

<table>
<thead>
<tr>
<th>Problems</th>
<th>Percentage of Hospitals</th>
<th>Mean</th>
<th>St. deviation</th>
<th>Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of adequate resources and manpower</td>
<td>15.6% 40.0% 44.4%</td>
<td>2.29</td>
<td>0.733</td>
<td>1</td>
</tr>
<tr>
<td>Data collection regarding accrual implementation</td>
<td>13.3% 48.9% 37.8%</td>
<td>2.24</td>
<td>0.679</td>
<td>2</td>
</tr>
<tr>
<td>Lack of knowledge and expertise to implement such a system</td>
<td>20.0% 37.8% 42.2%</td>
<td>2.22</td>
<td>0.765</td>
<td>3</td>
</tr>
<tr>
<td>Personnel’s reluctance to change</td>
<td>13.3% 53.3% 33.3%</td>
<td>2.20</td>
<td>0.661</td>
<td>4</td>
</tr>
<tr>
<td>Lack of accounting training</td>
<td>17.8% 48.9% 33.3%</td>
<td>2.16</td>
<td>0.706</td>
<td>5</td>
</tr>
<tr>
<td>Overrun of initial estimated cost of implementation</td>
<td>17.8% 51.1% 31.3%</td>
<td>2.13</td>
<td>0.694</td>
<td>6</td>
</tr>
<tr>
<td>Absence of clear accounting objectives, standards</td>
<td>22.2% 46.7% 31.1%</td>
<td>2.09</td>
<td>0.733</td>
<td>7</td>
</tr>
<tr>
<td>Lack of staff motivation and financial incentives</td>
<td>20.0% 73.3% 6.7%</td>
<td>1.87</td>
<td>0.505</td>
<td>8</td>
</tr>
</tbody>
</table>
The results in Table 8 confirm the main findings reported in the existing literature, and reveal that the most highly-rated problems regarding the adoption of the accrual basis of accounting appeared to be the “Adequacy of requested resources” (Mean 2.31), the “Lack of knowledge and expertise to implement such a system” (Mean 2.22) and the “Personnel’s reluctance and resistance to change” (Mean 2.20). The areas that were indicated by the public hospitals sample as the ones being the less problematic are the “Insufficient political and Top Management Support and commitment” (Mean 1.82) and the “Selection of the appropriate accounting software” (Mean 1.67).

The above mentioned difficulties, hampering the implementation process of the accrual based accounting system in the Greek public health sector, are also found in the public sectors of other developed countries (Christiaens, 2001; Hepworth, 2003; Brusca, 1997; Pendlebury and Karbhari, 1998; Jones and Puglisi, 1997; Guthrie, 1998; Pallot, 1997; Montesinos and Vela, 2000; Monsen, 2002; Stanton and Stanton, 1998; Newberry, 2002; Goldman and Brashares, 1991; Hodges and Mellet, 2003; Hoque and Moll, 2001; Cohen et al., 2007).

**Satisfaction with of Accrual Based Accounting Systems (ABAS)**

In order to answer our third research question, “Are the accounting and finance officers satisfied with the new accounting system implementation?” we examined the following hypothesis:

\[ H1: \text{Individuals report positive attitudes towards the implementation of accrual accounting system} \]

In order to measure the degree of employees’ satisfaction with their new accrual accounting system two questions were used with answers being either of the yes/no type or provided on a 5-point Likert scale ranging from “strongly unfavourable” (1) to “strongly favourable” (5) with "neither agree nor disagree” (3) being at the midpoint.
As shown in Table 9, eighty percent (80%) of the respondents stated that the implementation of the new accounting system was worth-pursuing for their health care entities. This also explains why the variable “satisfaction with the accrual accounting adoption” was rated highly with a mean of 3.84 (standard deviation 1.224) on a five-point scale.

Typically, system implementation is perceived as successful when the system is accepted and used (Lucus, 1975; Robey, 1979; McGowan and Klammer, 1997), or when user satisfaction level increases (Balley and Pearson, 1983; Ives et al., 1983; Doll and Torkzadeh, 1988).

The approach that Shields (1995) has adopted was to allow the user to rate the degree of success with whatever definition they themselves deemed relevant. It has been argued, for example, that if a user perceives satisfaction with an information system *per se*, then the system is successful, consequently user satisfaction can be a proxy for system success (McGowan and Klammer, 1997; McGowan, 1998).

Moreover, McGowan (1998) has argued that if users’ attitudes towards a system are unfavourable, it is likely that they will not accept it nor use it. He posited that: “*measures that describe the users’ reactions to the innovation, such as attitudes and satisfaction, are appropriate surrogates for assessing the success of an information system*”. This perception of the notion of system success has provided the most robust basis for Accounting Information Systems (AIS) success measurement in research up to date (including management accounting practises such as Activity Based-costing system), and is therefore the one adopted in this study.
The results presented in Table 10 indicate support for Hypothesis 1. The one-sample t-test suggests that, on average, the participants of this study report favorable attitude towards the implementation of ABAS (Mean. 3.84) at a 0.01 level of significance (t = 4.62). The mean attitude towards accrual accounting success level is significantly higher than the median response of three (3).

**Table 10. Attitude toward Accruals implementation**

<table>
<thead>
<tr>
<th>Hypothesis number</th>
<th>Dependent Variable*</th>
<th>N</th>
<th>Mean</th>
<th>Std. Dev.</th>
<th>t-value*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Attitude</td>
<td>45</td>
<td>3.84</td>
<td>1.224</td>
<td>4.628*</td>
</tr>
</tbody>
</table>

*significant at the 0.01 level

a Variable scaling (1= strongly favorable, 5 = strongly unfavorable)
b Test value (mean < 3)

The high cost of implementing an accounting system is considered to be a top concern to many researchers regarding the successful implementation of a new accounting system (Lawson, 2005; Udpa, 1996; Canby, 1995).

Furthermore, with regards to the factor of the “cost” of implementing an accrual based accounting system, the majority of the respondents (75.6 %) to this survey did consider that the benefits of the accrual accounting information are equal or superior to the cost of elaborating it. In comparison, only 24.4 percent of the respondents indicated that the implementation cost of the new accounting system was high or very high.

**Table 11. Results of respondents’ perception regarding the cost of implementing the ABAS**

<table>
<thead>
<tr>
<th>Percentage of Hospitals</th>
<th>1*</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>Mean</th>
<th>St deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The cost accrual accounting system</td>
<td>33.3%</td>
<td>31.1%</td>
<td>11.1%</td>
<td>22.2%</td>
<td>2.2%</td>
<td><strong>2.29</strong></td>
<td>1.218</td>
</tr>
<tr>
<td>(N=45)</td>
<td>(15)</td>
<td>(14)</td>
<td>(5)</td>
<td>(10)</td>
<td>(1)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Notes: measured on scale 1 = very low to 5 = very high.

Moreover, public hospitals that have at least two years experience with the new accounting system are assumed to have gathered the relevant experience necessary to be familiar with the accrual concept. These hospitals are expected to have resolved most of the accounting and implementation problems emerged during the accrual accounting system installation and to have progressively overcome most of these difficulties as they are getting familiarized with it. Thus, hospitals with “long-term experience” in accrual accounting are assumed to exhibit a higher satisfaction level with the new accounting system. As shown in Table 12, 57.8 percent of the respondents replied that they have just introduced the new accounting system in their organizations, compared to 42.2 percent of hospitals with experience of more than two years of accrual accounting adoption. The number of years since adoption is included in our study as a variable in order to capture at least some of the variation due to timing issues (Christiaens, 2001; Cohen et al., 2007).
Table 12. Length of time using ABAS

<table>
<thead>
<tr>
<th>Years</th>
<th>Number of Hospitals</th>
<th>Frequency</th>
<th>(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td>7</td>
<td>15.6</td>
</tr>
<tr>
<td>2</td>
<td></td>
<td>19</td>
<td>42.2</td>
</tr>
<tr>
<td>3</td>
<td></td>
<td>5</td>
<td>11.1</td>
</tr>
<tr>
<td>4</td>
<td></td>
<td>4</td>
<td>8.9</td>
</tr>
<tr>
<td>5</td>
<td></td>
<td>3</td>
<td>6.7</td>
</tr>
<tr>
<td>6</td>
<td></td>
<td>2</td>
<td>4.4</td>
</tr>
<tr>
<td>7</td>
<td></td>
<td>1</td>
<td>2.2</td>
</tr>
<tr>
<td>8</td>
<td></td>
<td>2</td>
<td>4.4</td>
</tr>
<tr>
<td>9</td>
<td></td>
<td>2</td>
<td>4.4</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>45</td>
<td>100</td>
</tr>
</tbody>
</table>

The last two factors of the RQ4, *education level*, indicating general professionalism of accounting staff, and hospital *size*, are described as implementation barriers affecting the successful implementation of accounting systems at Lüders’s (1990) contingency model. Accordingly, these factors are included in our study in order to quantify its impact and effect on the implementation success of accrual accounting.

Table 13. Accounting Dept. personnel’s education type and level

<table>
<thead>
<tr>
<th>Education Type</th>
<th>Secondary Education</th>
<th>Post-secondary Education</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Undergraduate studies</td>
<td>Postgraduates studies</td>
<td></td>
</tr>
<tr>
<td>Education Level</td>
<td>Low</td>
<td>Medium</td>
<td>High</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Education Type</th>
<th>Secondary Education</th>
<th>Post-secondary Education</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>57.8%</td>
<td>39.2%</td>
<td>2.2%</td>
</tr>
</tbody>
</table>

As displayed in Table 13, the “education” variable has been categorized in two types: secondary education comprising high schools, secondary schools and post-secondary education or higher education, which includes undergraduates and postgraduate studies provided by colleges, universities and institutes of technology.

Findings of this survey indicate that the education level of the majority of the accounting department employees in the hospitals examined is quite low. Indeed, most of the accounting employees (57.8 percent) within these hospitals are graduates of the secondary education level – only 2.2 percent hold a postgraduate degree, such as Master’s or Ph.D (high education level).

Finally, the variable “size” is included in our study in order to examine its impact on the satisfaction level of accrual accounting implementation. This variable has been incorporated in other referenced governmental accounting studies without exhibiting clearly its exact impact on accrual accounting implementation processes. Some researchers believe that larger public organizations are positively associated with the level of system implementation success (Christiaens, 1999, 2001). Other studies have found no significant relation whatsoever (Evans and Patton, 1983; Robbins and Austin, 1986). Contrary, there have even been studies where a negative relationship has been observed. (Luder, 1990; Cohen and Kaimenakis, 2007). In our study, the number of beds has been chosen as indicative of the size of the hospital in question, in contrast to the total amount of revenues, assets or number of employees. This is due to the different nature of the public organizations’ goals and objectives when compared with those of private sector (see table 14).
Table 14. The number of Hospitals by size using ABAS

<table>
<thead>
<tr>
<th>Hospitals size</th>
<th>Frequency</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small hospital</td>
<td>18</td>
<td>40.0</td>
</tr>
<tr>
<td>Medium hospital</td>
<td>11</td>
<td>24.4</td>
</tr>
<tr>
<td>Large hospital</td>
<td>16</td>
<td>35.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>45</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

In order to answer our last research question (Is there a relation between satisfaction, accounting benefits, problems, accrual implementation cost, years of accrual accounting adoption, education level of accounting staff and hospital size?), we have constructed a correlation matrix to examine if statistically significant correlations and associations exist between the above mentioned variables (see Table 15).

From the analysis of the bivariate correlation it is evident that accounting benefits, implementation problems, implementation cost, size and education level are significantly highly correlated with the satisfaction variable. More specifically, the correlation among satisfaction and accounting benefits exhibits a positive high level Pearson correlation coefficient of $r = 0.804$ ($p<.001$). However, the correlations among satisfaction and implementation problems and the cost of accrual accounting system reveal a high level negative and statistically significant Pearson correlations coefficients of $r = -0.506$ ($p<.001$) and $r = -0.750$ ($p<.001$) respectively.

Regarding the variables of hospital size (measured in terms of bed size) and education level of accounting employees, a statistically significantly mid level positive correlation can be observed with the satisfaction variable (with $r = 0.371$ ($p<.005$) and $r = 0.306$ ($p<.005$) respectively).

These findings further confirm the strong relation among the above-mentioned variables in the context up to date. However, a negative path coefficient – without exhibiting any statistically significant correlation – can be observed between the years of accrual accounting experience and satisfaction.

The same conclusions can be drawn from the analysis of Spearman correlation coefficients.

Table 15. Pearson and Spearman correlation matrix for all the variables.

<table>
<thead>
<tr>
<th>Variables (N = 45)</th>
<th>Satisfaction</th>
<th>Benefits</th>
<th>Shortcomings</th>
<th>Size</th>
<th>Cost</th>
<th>Years</th>
<th>Education</th>
</tr>
</thead>
<tbody>
<tr>
<td>Satisfaction</td>
<td>1.000</td>
<td>0.672**</td>
<td>-0.505**</td>
<td>0.371*</td>
<td>-0.678**</td>
<td>-0.135</td>
<td>0.310*</td>
</tr>
<tr>
<td>Benefits</td>
<td>0.804**</td>
<td>1.000</td>
<td>-0.410*</td>
<td>0.495**</td>
<td>-0.574**</td>
<td>-0.054</td>
<td>0.157</td>
</tr>
<tr>
<td>Shortcomings</td>
<td>-0.506**</td>
<td>-0.468*</td>
<td>1.000</td>
<td>-0.357*</td>
<td>0.611**</td>
<td>0.063</td>
<td>-0.091</td>
</tr>
<tr>
<td>Size</td>
<td>0.371*</td>
<td>0.493**</td>
<td>-0.354*</td>
<td>1.000</td>
<td>-0.259</td>
<td>0.023</td>
<td>-0.186</td>
</tr>
<tr>
<td>Cost</td>
<td>-0.750**</td>
<td>-0.690**</td>
<td>0.633**</td>
<td>-0.266</td>
<td>1.000</td>
<td>0.004</td>
<td>0.111</td>
</tr>
<tr>
<td>Years</td>
<td>-0.135</td>
<td>-0.063</td>
<td>0.068</td>
<td>0.023</td>
<td>0.014</td>
<td>1.000</td>
<td>0.116</td>
</tr>
<tr>
<td>Education</td>
<td>0.306*</td>
<td>0.242</td>
<td>-0.124</td>
<td>-0.191</td>
<td>-0.122</td>
<td>1.010</td>
<td>1.000</td>
</tr>
</tbody>
</table>

Notes: The correlations above the diagonal correspond to Spearman two-tailed correlations. The correlations below the diagonal correspond to Pearson two-tailed correlations.

**Significance at 1% level (two-tailed); * Significance at 5% level (2-tailed)
Conclusions

In this paper we have presented the “journey” of introducing and implementing an accounting and management reform in the Greek NHS and examined its diffusion rate. When it comes to the financial transaction cycle of the accrual accounting system, our findings, based on a sample of 54 public hospitals, indicate that the adoption rate (83%) of accruals is quite satisfactory. However, the adoption rate (18.5%) of the accrual based cost accounting system has not yet seriously progressed 6 years after the declared NHS accounting reform (P.D. 146/03), despite the steep rise in the cost of providing healthcare services in Greece during the last ten years and the pressure to identify the causes of this increase. The highest ranked reasons for non-adoption of ABAS are: the absence of an enforcement system by the state, the lack of adequate resources to support the implementation process of accruals, the current health sector reimbursement system which results in deviations between the true cost of services and price (provoking huge deficits to the public health sector), and last but not least the complexity and high cost of running two accounting systems in parallel, resulting in matching problems between them.

Furthermore, the present study investigates the accrual accounting benefits and drawbacks derived from accrual accounting system implementation. More specifically, the majority of the respondents agree that the ABAS is useful in producing adequate information regarding the overall financial picture to users and stakeholders, the evaluation of hospital performance, the real level of liabilities, the determination of the full costs of services delivered, improvement in hospital fixed assets management and the decision making process.

On the other hand, according to our survey results, a number of difficulties have been identified in the implementation of ABAS of which the most important are the adequacy of resources, the personnel’s shortage of knowledge on accrual accounting principles and standards, the personnel’s resistance to change, the lack of adequate training and the absence of financial incentives for the adoption of accrual basis accounting.

Moreover, regarding the relationship amongst satisfaction and accounting benefits, problems, accrual implementation cost, years of accrual accounting adoption, education level of accounting staff and hospital size our findings reveal that Greek public healthcare entities are more likely to exhibit higher satisfaction levels with accruals if they are of a significant size, employ accounting staff of a higher educational level, encountered fewer obstacles and problems during implementation and have a general perception that accruals brings substantial benefits to a healthcare entity organization without a high cost.

The healthcare entities with long-term experience in accrual accounting were not found to have any significant impact on satisfaction level, maybe due to time fluctuations.

Finally, in order to meet the economic challenges faced by the health industry, and to provide low-cost and high-quality services, healthcare entities need to develop stringent control over their operations. Essential tools for accomplishing this goal are the financial and cost accrual accounting systems.
Notes

1. New Public Management is a management philosophy used by governments since the 1980s to modernize its public sector. New Public management is a broad and very complex term used to describe the wave of public sector reforms throughout the world since the 1980s. The main hypothesis in the NPM-reform wave is that more market orientation in the public sector will lead to greater cost-efficiency for governments, without having negative side effects on other objectives and considerations (WIKIPEDIA).

2. There are three major categories of health providers:
   a) The National Health System with its public hospitals, health centers, rural surgeries, and emergency pre hospital care.
   b) The insurance funds health services with their representative units and polyclinics
   c) The private sector providing health services through its private hospitals, diagnostic centers, independent practices, surgeries and laboratories.

3. Each Pe.S.Y.P is a public entity, managed by an administrative board and chaired by a Director appointed by the Minister of Health and Social Cohesion. The Director is responsible to control and supervise all the health care units within its catchment area. The law 3329/05 changed the 17 Pe.S.Y.P. and created 17 Administrations of Health Regions (D.Y.PE.). After two years, under the Law 3529/07, the number of the D.Y.Pe was reduced from seventeen (17) to seven (7).

4. Organization for Economic Co-operation and Development

5. Public hospitals outside the NHS include 13 military hospitals financed by the Ministry of Defence, 5 hospitals Social Security Institution (IKA) financed by the Ministry of Employment and Social Security and 2 university teaching hospitals financed by Ministry of Education and operated under the authority of the National & Kapodistrian University of Athens.

6. IFAC PSC defines accrual accounting in the following way in its Handbook of International Public Sector Accounting Pronouncements (IFAC, 2002): “A basis of accounting under which transactions and other events are recognized when they occur and not only when cash or its equivalent is received or paid. Therefore, the transactions and events are recorded in the accounting records and recognized in the financial statements of the periods to which they relate. The elements recognized under accrual accounting are assets, liabilities, net assets/equity, revenue and expenses” (p. 679).

7. The International Federation of Accountants – International Public Sector Accounting Standards Board (the IPSASB) develops accounting standards for public sector entities referred to as International Public Sector Accounting Standards (IPSASs).

8. Gupta (1999) used the following definitions to determine the level of correlation:
   • A high level of correlation is implied by a correlation coefficient that is greater than 0.5 in absolute terms.
   • A mid level of correlation is implied if the absolute value of the coefficient is 0.2 0.5.
A low level of correlation is implied if the absolute value of the coefficient is less than 0.2.

References


International Federation of Accountants (IFAC) (2002), Financial reporting by national governments, Public Sector Committee, Study 1, New-York, March 2002


Nigeria’s Economic Competitiveness in the African Context

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Abstract
This paper addresses two key issues. First, we provide a set of basic facts on the current state of Nigeria’s economic competitiveness. Using the World Economic Forum’s Global Competitiveness Index, we identify Nigeria’s main competitive strengths and weaknesses. Comparisons with selected African and other countries provide an idea of Nigeria’s economic preparedness to move to a more advanced stage of development. Second, the paper focuses on the fact that in spite of huge oil resources, the nation’s economic competitiveness remains very low. We note the role of expenditure policy in managing the volatility of oil revenue/wealth, which has implications for economic development in Nigeria. We then highlight the areas on which the country should focus in order to achieve higher economic competitiveness, sustainable growth and enduring prosperity for its citizens. These include measures at the macro, micro, state, and regional levels, in addition to adopting sound and prudent fiscal policy, productive investments (especially on infrastructure and human capital), and diversification of the economy.

The initial version of this paper was presented at the Plenary Session of the 2008 Annual Conference of the Nigerian Economic Society, Abuja, 26-28 August 2008. The views expressed in this paper are those of the authors and in no way represent those of their respective employers.

Keywords: Economic competitiveness, competitiveness index, poverty incidence, oil-dependence.

Introduction
At least until recently, Nigeria continued to make progress with its economic reform programme, based on increased oil prices and the National Economic Empowerment and Development Strategy (NEEDS), aimed at accelerating economic growth, reducing poverty, and achieving the Millennium Development Goals (MDGs).

The recent oil boom and reform programme had led to significantly-improved macroeconomic results, with a modest gross domestic product (GDP) growth and lower inflation (see Figure 1 and Table 1). The performance of the Nigerian economy in recent years has benefited both from the high world price of oil and better economic fundamentals resulting from economic reforms. Real GDP growth rate averaged 6 percent during the period 2002-06. This solid growth rate, however, still falls short of the NEEDS target rate of 10 percent required to achieve many of the MDGs. Moreover, after peaking at about 10 percent in 2003, real GDP growth slowed to 6.5 percent in 2005 and to 5.3 percent in 2006, due to the disruptions in oil production in the Niger Delta.
However, Nigeria’s economy continues to be vulnerable to external shocks, given its heavy dependence on oil. Plummeting oil prices in the second half of 2008 and ongoing unrest in the Niger Delta reduced oil production in the country. However, the non-oil sector’s strong performance during the year led to overall estimated growth of 6.4% in 2008, despite a decline in oil output. Projections carried out by the African Development Bank in May 2009 indicate a fall in Nigeria’s economic growth to 2.8% and 2.7% in 2009 and 2010, respectively. Other economic fundamentals – fiscal balance, external current account balance and trade balance – are also projected to worsen in 2009 (see Table 1).

**Figure 1: Nigeria: Inflation Rate, Exchange Rate, Real Per Capita GDP Growth Rate, and Crude Oil Price**

![Figure 1: Nigeria: Inflation Rate, Exchange Rate, Real Per Capita GDP Growth Rate, and Crude Oil Price](image)

Source: Authors using CBN Statistical Bulletin Data, Various Years.

**Table 1: Nigeria: Evolution of Key Macroeconomic Indicators**

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008(e)</th>
<th>2009(p)</th>
<th>2010(p)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP Growth (%)</td>
<td>5.3</td>
<td>8.2</td>
<td>21.2</td>
<td>9.6</td>
<td>6.6</td>
<td>6.5</td>
<td>6.0</td>
<td>6.5</td>
<td>6.4</td>
<td>2.8</td>
<td>2.7</td>
</tr>
<tr>
<td>Consumer Price Inflation (%)</td>
<td>6.9</td>
<td>18.9</td>
<td>12.9</td>
<td>14.0</td>
<td>15.0</td>
<td>17.9</td>
<td>8.2</td>
<td>5.4</td>
<td>11.6</td>
<td>10.1</td>
<td>2.7</td>
</tr>
<tr>
<td>Overall Fiscal Balance, including Grants (% of GDP)</td>
<td>5.9</td>
<td>-5.3</td>
<td>-3.3</td>
<td>0.0</td>
<td>8.1</td>
<td>9.4</td>
<td>7.7</td>
<td>0.4</td>
<td>0.0</td>
<td>-12.3</td>
<td>10.0</td>
</tr>
<tr>
<td>Trade Balance (% of GDP)</td>
<td>27.3</td>
<td>12.8</td>
<td>3.2</td>
<td>11.6</td>
<td>19.9</td>
<td>21.9</td>
<td>18.6</td>
<td>16.3</td>
<td>13.5</td>
<td>2.9</td>
<td>-9.4</td>
</tr>
</tbody>
</table>

Source: African Development Bank Database and CBN, Annual Report, 2008 (e) estimate (p) projection

Recent official figures indicate that Nigeria’s poverty levels have reduced (Table 2). According to a recent survey, the proportion of people living below the poverty line declined from 70 percent in 2000 to 54.4 percent in 2004, though unofficial figures based on household surveys give higher national poverty figures. Rural areas bear the brunt of poverty, with the poverty rate in excess of 63 percent (see also, Anyanwu, 2005). Nevertheless, income inequality is higher in
urban areas than in rural areas; the Gini coefficients for urban and rural areas in Nigeria are 0.55 and 0.53, respectively.

**Table 2: Nigeria: Trends in Poverty Levels, 1980-2004**

<table>
<thead>
<tr>
<th>Year</th>
<th>Poverty Incidence</th>
<th>Estimated Total population (million)</th>
<th>Population in Poverty (million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>28.1</td>
<td>65</td>
<td>18.26</td>
</tr>
<tr>
<td>1985</td>
<td>46.3</td>
<td>75</td>
<td>34.73</td>
</tr>
<tr>
<td>1992</td>
<td>42.7</td>
<td>91.5</td>
<td>39.07</td>
</tr>
<tr>
<td>1996</td>
<td>65.6</td>
<td>102.3</td>
<td>67.11</td>
</tr>
<tr>
<td>2004</td>
<td>54.4</td>
<td>126.3</td>
<td>68.7</td>
</tr>
</tbody>
</table>


The above table shows the national incidence of relative poverty as the percentage of the population with an income of less than two-thirds of the average per capita expenditure in Nigeria.

Before the global financial crisis, progress was also made in the areas of financial-sector reform (through banking sector consolidation, but recently there was a major rescue of five banks due to their significant non-performing loans), debt management (especially the Paris Club deal), foreign reserves accumulation (which has recently reduced substantially to finance imports due to falling oil revenues), and exchange rate stability (which has been unstable since the last quarter of 2008). The recent increases in world oil prices have enabled the government to pay off its remaining external debt, following the 60 percent debt relief (amounting to about $18 billion) provided by the Paris Club of creditor nations.

The Central Bank of Nigeria targets the exchange rate as well as inflation. The naira has fluctuated within a narrow range against the US dollar. The differential between the official exchange rate and the parallel market dropped to below 5 percent before the second half of 2008. However, the large depreciation in the naira exchange rate at the end of the year continued in 2009, thus jeopardizing the stability of the exchange rate and increasing inflation.

In mid-2008, before oil prices plunged, Nigeria’s foreign reserves reached the equivalent of about 10 months of imports, strengthening investor sentiment. As oil prices collapsed, however, reserves also dropped from about $67 billion at mid-2008 to $51.55 billion at the end of the year, falling to $49.9 billion at the end of August 2009.

The Nigerian equity market boomed in 2007 and early 2008 with a rate of return of 74.7 percent, well above those in South Africa and Ghana, but then plunged in the second half of 2008 along with falling oil prices and the spread of international financial contagion. Market capitalization as a percentage of GDP fell from 56% in 2007 to 39.7% at the end of 2008. By August 2009, the stock market index was only a third of its peak in early 2008. The crisis in the Nigerian financial system is ultimately due to the potent combination of the world financial shocks, Nigeria’s excessive dependence on oil, a frail domestic financial system, and deficient regulatory oversight.
Thus, notwithstanding the achievements and positive developments of the recent past, Nigeria does not display the same dynamism in terms of growth rates as other leading emerging markets such as India and China. Nigeria’s annual GDP growth rates are still unimpressive compared to 10.1 percent and 7.8 percent for China and India, respectively, over the 2000s. Nigeria’s economy continues to appear particularly vulnerable to external downturns, given its heavy dependence on oil to fund the public sector. The sharp fall in oil prices will further stunt Nigeria’s growth, forecast to fall to 2.8 percent and 2.7 percent in 2009 and 2010, respectively. However, Nigeria’s GDP growth rate of 6% a year in the 2000s was slightly higher than comparable countries, for example: Indonesia (5.1%), Bangladesh (5.6%), and Pakistan (5.1%).

Indeed, the Nigerian economy is still confronted with many serious challenges, notably the high level of poverty, inefficient delivery of social services, high youth unemployment, poor infrastructure facilities, endemic (chronic and deep-rooted) corruption, and widespread insecurity and crime. All of these problems lower the quality of life and undermine the business environment. It is not surprising that Nigeria’s progress on social and human development indicators is still very poor (Table 3), hence much still remains to be done to achieve many of the Millennium Development Goals. For example, in 2006, Nigeria’s ranking in the United Nations’ Human Development Index (HDI) fell one place, to 159th out of 177 countries. Nigeria’s HDI is currently below the average for sub-Saharan African countries.

There have been some improvements. For example, infant mortality (per 1000 live births) declined from 140 in the 1970s to 101 in 2005. Similarly, the under-five mortality rate (per 1000 live births) declined from 265 to 197 during the same period. Nigeria is however among the 12 countries in the world reporting the highest under-five mortality rate among children, accounting for 50 percent of child deaths in Sub-Saharan Africa. This puts Nigeria far behind five African countries – Algeria, Egypt, Libya, Morocco and Tunisia – which reduced their child mortality rates by at least 45 percent between 1990 and 2006, putting them on track to meet the child survival target of reducing under-five mortality by two-thirds by 2015. However, Nigeria still lags behind Bangladesh, Indonesia and Pakistan with respect to key social indicators (see Table 3).

### Table 3: Social Indicators in Nigeria and some Comparator Countries

<table>
<thead>
<tr>
<th>Social Indicators 2007</th>
<th>Nigeria</th>
<th>Bangladesh</th>
<th>Indonesia</th>
<th>Pakistan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population (m)</td>
<td>147.98</td>
<td>158.57</td>
<td>225.63</td>
<td>162.48</td>
</tr>
<tr>
<td>GNI per capita (US$)</td>
<td>920</td>
<td>696</td>
<td>1650</td>
<td>860</td>
</tr>
<tr>
<td>Life expectancy at birth</td>
<td>47</td>
<td>64</td>
<td>71</td>
<td>65</td>
</tr>
<tr>
<td>Infant Mortality (per 1,000 live births)</td>
<td>97</td>
<td>47</td>
<td>25</td>
<td>73</td>
</tr>
<tr>
<td>Mortality rate under 5 (per 1,000)</td>
<td>189</td>
<td>60</td>
<td>31</td>
<td>90</td>
</tr>
<tr>
<td>Total fertility rate</td>
<td>5</td>
<td>3</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Adult Literacy</td>
<td>72</td>
<td>53</td>
<td>92**</td>
<td>54**</td>
</tr>
<tr>
<td>Gross primary school enrolment</td>
<td>97</td>
<td>103*</td>
<td>114</td>
<td>84**</td>
</tr>
<tr>
<td>Gross secondary school enrolment</td>
<td>32</td>
<td>44*</td>
<td>66</td>
<td>33</td>
</tr>
</tbody>
</table>

* Figures for 2004
** Figures for 2006

Source: The World Bank, WDI Online.
Although manufacturing has strengthened in recent years, the sector still accounted for less than 5 percent of GDP in 2006. The low share of the manufacturing sector in GDP reflects long-standing problems of competitiveness. The loss of competitiveness of Nigerian industry manifested during the oil-boom period of the early 1970s with the resulting real appreciation of the exchange rate, which led to a surge in imports. The inability to compete through imports can also be traced to high costs of production caused by poor infrastructure and a deficient business environment. The problems include: power shortages, poor transport infrastructure, widespread insecurity and crime, lack of access to finance, corruption, and inefficient trade-facilitation institutions. The woefully inadequate electricity supply is generally judged to be the most critical constraint, for example, by the World Bank’s investment climate survey. According to the World Bank Enterprise Surveys, the number of power outages in a typical month in 2007 was 26.75 in Nigeria compared to only 9.70 in Ghana. With such frequent and long-lasting power cuts in Nigeria, manufacturers rely increasingly on expensive generators. This problem is particularly acute for small and medium-sized enterprises (SMEs).

**Figure 2: Summary Evolution of Nigeria’s Oil-Dependent Economy**

<table>
<thead>
<tr>
<th>Oil receipts wasted</th>
<th>Stop-start reforms</th>
<th>Towards liberalization</th>
</tr>
</thead>
</table>

- High borrowing
- Large-scale infrastructure projects
- Limited IMF style structural reform program
- “Guided deregulation”, import liberalization, privatization
- Emergence of oil industry and mismanagement of oil revenues
- Price of oil fell
- Economic decline and debt crisis
- Structural reform program
- Vision 2020
- NEEDS
- Independence followed by military coups
- Gen. Babangida grabs power in bloodless coup
- Transfer to civilian rule
- Ethnic and religious tensions
- Falling standards of living, rising inequality
- Improving conditions but endemic poverty

NB: CAGR=Compound Annual Economic Growth Rate.

Source: Chowdhury, Landesz, Santini, Tejada, and Visconti (2008)

Against such a background, this paper addresses dual issues. First, it attempts to provide a set of basic facts on the current state of Nigeria’s economic competitiveness. Using the World Economic Forum’s methodological framework of the Global Competitiveness Index (World Economic Forum, 2007), we identify Nigeria’s main competitive strengths and weaknesses and highlight the areas on which the country should focus in order to achieve sustainable growth and
enduring prosperity for its citizens. Comparisons with selected African and other comparator countries will further provide an idea of Nigeria’s economic preparedness to move to a more advanced stage of development.

This paper assesses the current state of Nigeria’s competitiveness and its potential for sustained growth using the broad methodological framework offered by the Global Competitiveness Index (GCI), developed for the World Economic Forum by Professor Xavier Sala-i-Martin of Columbia University. Besides identifying the drivers of competitiveness, the GCI offers a unique tool that can help prioritize policies and actions according to a country’s specific stage of development. Through the lens of the GCI, we take a snapshot of Nigeria to suggest areas that should be given priority in the design of a national competitiveness strategy.

Second, the paper focuses on the fact that in spite of huge oil resources, the nation’s economic competitiveness remains very low. We note the role of expenditure policy in managing the volatility of oil revenue/wealth, which has implications for economic development in Nigeria.

**Measuring Nigeria’s Competitiveness**

**Introducing the Global Competitiveness Index**

Competitiveness remains a concept that is not well understood, despite widespread acceptance of its importance (Porter, 2002). To understand competitiveness, the starting point must be the sources of a nation’s prosperity. A nation’s standard of living is determined by the productivity of its economy, which is measured by the value of goods and services produced per unit of the nation’s human, capital and natural resources. Productivity depends both on the value of a nation’s products and services, measured by the prices they can command in open markets, and the efficiency with which they can be produced. True competitiveness then, is measured by productivity. Productivity allows a nation to support high wages, a strong currency and attractive returns to capital, and with them a high standard of living.

The World Economic Forum has been studying national competitiveness for almost three decades. During that period it worked with leading academics, always taking into account relevant new ideas, literature and evidence. The GCI was introduced in 2004. It defines competitiveness as the set of factors, policies, and institutions that determines the level of productivity in a country. Enablers and indicators of competitiveness include domestic investment, trade (exports and imports), net foreign direct investment, and domestic innovation. *Productivity* describes how efficiently available resources are used and therefore the growth performance of an economy (see Sala-i-Martin et al., 2007; Porter, Ketels, and Delgado, 2007). Thus what is assessed is the potential of an economy to achieve sustained economic growth over the medium to long-term. But the micro-foundations of such productivity include three interrelated elements: the sophistication and capabilities with which domestic companies or foreign subsidiaries compete, the quality of the microeconomic business environment in which they operate, and the state of development clusters that provide benefits through the proximity of related companies and institutions. Therefore, the index provides a methodological framework to assess the set of institutions, policies, and factors that determine the level of productivity of a country and identifies a large number of macro and microeconomic drivers of growth.
The GCI builds on the awareness that competitiveness is an extremely complex phenomenon that cannot be explained by one or two causes; rather, competitiveness and sustained growth are determined by the interrelationships among several and diverse factors. Figure 3 shows the 12 pillars of competitiveness identified by the GCI.

**Figure 3: The 12 Pillars of Competitiveness**

Source: Sala-i-Martin et al (2007)

Nigeria is currently placed in the factor-driven stage, together with 43 other countries, the majority of which are in Africa, but behind Botswana, Libya, and Tunisia which are in transition from stage one to stage two, and far behind Algeria, Mauritius, Namibia, and South Africa which are in stage two – the efficiency-driven stage of development.

The 12 pillars play a crucial role for all countries as drivers of competitiveness, but their importance differs according to each country’s stage of development. Different pillars affect different countries in different ways. The elements driving productivity, and therefore competitiveness, change as countries move along the development path (see Figure 6). Accordingly, the GCI classifies countries into three specific stages of development: factor-driven, efficiency-driven and innovation-driven. In the factor-driven stage, countries compete on the basis of their factor endowments, primarily unskilled labour and natural resources, and their economies are centred on commodities and/or basic manufactured products. At this stage of development, competitiveness rests mainly on efficient and transparent public and private institutions (pillar 1), well-developed infrastructure (pillar 2), good macroeconomic fundamentals (pillar 3), and a healthy and literate labour force (pillar 4). The detailed components of these pillars are presented later below when examining Nigeria’s performance in each of these categories.
The four pillars of factor driven economies are:

- **Institutions**: fairness of public institutions, government efficiency, security and its costs to businesses, and corporate governance;
- **Infrastructure**: quality and development of general and specific infrastructure;
- **Macroeconomic stability**: quality of the macroeconomic environment;
- **Health and primary education**: health of the population and the quality of and access to basic education.

**An Appraisal of Nigeria’s Competitiveness Landscape through the Lens of the Global Competitiveness Index**

This section draws on the findings of the recent GCI, especially in the *Global Competitiveness Report 2007-2008*. To provide benchmarks relevant to Nigeria’s progress and challenges, comparisons are made with selected African and/or relevant countries and regions. The examination of this performance and the comparison with peers provides a useful starting point from which to identify areas of focus and corrective policies and actions.

Table 4 shows rankings and scores for Nigeria and selected resource-rich African countries in the overall GCI 2007-2008 as well as for each sub-index and pillar. Nigeria ranked 95th among 131 countries in the most recent GCI computation – in the same position as the 2006-07 exercise.

Figure 5 provides a snapshot of Nigeria’s competitiveness by pillar in the GCI for 2007-2008 (see also: Geiger, 2007). Indeed, Nigeria’s performance in each of the 12 pillars (Figure 6) reveals a series of important flaws. The country is plagued by weak and deteriorating infrastructure, institutions, health and primary education, and serious security problem and corruption (see also: Figure 7). Rankings in health and primary education (124 out of 131), infrastructure (119 out of 131), higher education and training (109 out of 131), institutions (103 out of 131), and technological readiness (97 out of 131), among others, would seem particularly alarming. These problems must be tackled if the country is to fulfil its competitive potential.
Table 4: The Global Competitiveness Index 2007-2008: Nigeria, Other Resource-Rich African Countries

<table>
<thead>
<tr>
<th>Country/Economy</th>
<th>Rank(out of 131)</th>
<th>Overall Score (1-7)</th>
<th>Basic requirements</th>
<th>Efficiency enhancers</th>
<th>Innovation enhancers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Rank</td>
<td>Score</td>
<td>Rank</td>
</tr>
<tr>
<td><strong>Oil-Exporting Countries</strong></td>
<td></td>
<td></td>
<td>49</td>
<td>4.7</td>
<td>97</td>
</tr>
<tr>
<td>Algeria</td>
<td>81</td>
<td>3.9</td>
<td>119</td>
<td>3.5</td>
<td>116</td>
</tr>
<tr>
<td>Cameroon</td>
<td>116</td>
<td>3.4</td>
<td>130</td>
<td>2.9</td>
<td>130</td>
</tr>
<tr>
<td>Chad</td>
<td>131</td>
<td>2.8</td>
<td>67</td>
<td>4.4</td>
<td>123</td>
</tr>
<tr>
<td>Libya</td>
<td>88</td>
<td>3.9</td>
<td>108</td>
<td>3.7</td>
<td>77</td>
</tr>
<tr>
<td>Nigeria</td>
<td>95</td>
<td>3.7</td>
<td>75</td>
<td>4.2</td>
<td>83</td>
</tr>
<tr>
<td><strong>Mineral-Exporting Countries</strong></td>
<td></td>
<td></td>
<td>121</td>
<td>3.5</td>
<td>128</td>
</tr>
<tr>
<td>Botswana</td>
<td>76</td>
<td>4.0</td>
<td>128</td>
<td>3.0</td>
<td>125</td>
</tr>
<tr>
<td>Mauritania</td>
<td>125</td>
<td>3.3</td>
<td>128</td>
<td>3.0</td>
<td>93</td>
</tr>
<tr>
<td>Mozambique</td>
<td>128</td>
<td>3.0</td>
<td>60</td>
<td>4.5</td>
<td>93</td>
</tr>
<tr>
<td>Namibia</td>
<td>89</td>
<td>3.8</td>
<td>61</td>
<td>4.5</td>
<td>36</td>
</tr>
<tr>
<td>South Africa</td>
<td>44</td>
<td>4.4</td>
<td>107</td>
<td>3.7</td>
<td>99</td>
</tr>
<tr>
<td>Tanzania</td>
<td>104</td>
<td>3.6</td>
<td>124</td>
<td>3.4</td>
<td>110</td>
</tr>
<tr>
<td>Zambia</td>
<td>122</td>
<td>3.3</td>
<td>124</td>
<td>3.4</td>
<td>110</td>
</tr>
</tbody>
</table>

**FIGURE 5: Nigeria’s competitiveness index**

(2007-2008)

<table>
<thead>
<tr>
<th>Twelve (12) pillars’ Analysis</th>
<th>Nigeria</th>
<th>Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall rank (out 131)</td>
<td>Score (1-7)</td>
<td>Score (1-7)</td>
</tr>
<tr>
<td>Global Competitiveness Index 2007-2008</td>
<td>1395</td>
<td>3.69</td>
</tr>
<tr>
<td>Global Competitiveness Index 2006-2007</td>
<td>12802</td>
<td>3.49</td>
</tr>
<tr>
<td>Basic requirements</td>
<td>108</td>
<td>3.66</td>
</tr>
<tr>
<td>1st pillar: Institutions</td>
<td>103</td>
<td>3.33</td>
</tr>
<tr>
<td>2nd pillar: Infrastructure</td>
<td>119</td>
<td>2.20</td>
</tr>
<tr>
<td>3rd pillar: Macroeconomic stability</td>
<td>28</td>
<td>5.58</td>
</tr>
<tr>
<td>4th pillar: Health and primary education</td>
<td>124</td>
<td>3.55</td>
</tr>
<tr>
<td>Efficiency enhancers</td>
<td>77</td>
<td>3.76</td>
</tr>
<tr>
<td>5th pillar: Higher education and training</td>
<td>109</td>
<td>3.00</td>
</tr>
<tr>
<td>6th pillar: Goods market efficiency</td>
<td>65</td>
<td>4.19</td>
</tr>
<tr>
<td>7th pillar: Labor market efficiency</td>
<td>75</td>
<td>4.22</td>
</tr>
<tr>
<td>8th pillar: Financial market sophistication</td>
<td>56</td>
<td>4.48</td>
</tr>
<tr>
<td>9th pillar: Technological readiness</td>
<td>97</td>
<td>2.64</td>
</tr>
<tr>
<td>10th pillar: Market size</td>
<td>52</td>
<td>4.03</td>
</tr>
<tr>
<td>Innovation enhancers</td>
<td>69</td>
<td>3.60</td>
</tr>
<tr>
<td>11th pillar: Business sophistication</td>
<td>74</td>
<td>3.98</td>
</tr>
<tr>
<td>12th pillar: Innovation</td>
<td>66</td>
<td>3.22</td>
</tr>
</tbody>
</table>


The most problematic factors for doing business

- Inadequate supply of infrastructure: 18.4%
- Access to financing: 17.4%
- Corruption: 14.3%
- Policy instability: 9.9%
- Inflation: 8.8%
- Inefficient government bureaucracy: 5.9%
- Crime and theft: 5.7%
- Poor work ethic in national labor force: 3.4%
- Tax regulations: 3.4%
- Government instability/coups: 3.3%
- Foreign currency regulations: 3.1%
- Inadequately educated workforce: 2.7%
- Tax rates: 2.3%
- Restrictive labor regulations: 1.4%

Note: From a list of 14 factors respondents were asked to select the five most problematic for doing business in their country and to rank them between 1 (most problematic) and 5. The bars in the figure show the responses weighted according to their rank.

**Figure 6: Nigeria’s Competitiveness Index in detail (2007-2008)**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Rank / 131</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1st pillar: Institutions</strong></td>
<td></td>
</tr>
<tr>
<td>Property rights</td>
<td>100</td>
</tr>
<tr>
<td>Intellectual property protection</td>
<td>96</td>
</tr>
<tr>
<td>Diversion of public funds</td>
<td>120</td>
</tr>
<tr>
<td>Public trust of politicians</td>
<td>95</td>
</tr>
<tr>
<td>Judicial independence</td>
<td>78</td>
</tr>
<tr>
<td>Favoritism in decisions of government officials</td>
<td>106</td>
</tr>
<tr>
<td>Wastefulness of government spending</td>
<td>106</td>
</tr>
<tr>
<td>Burden of government regulation</td>
<td>48</td>
</tr>
<tr>
<td>Efficiency of legal framework</td>
<td>81</td>
</tr>
<tr>
<td>Transparency of government policymaking</td>
<td>62</td>
</tr>
<tr>
<td>Business costs of terrorism</td>
<td>122</td>
</tr>
<tr>
<td>Business costs of crime and violence</td>
<td>120</td>
</tr>
<tr>
<td>Organized crime</td>
<td>124</td>
</tr>
<tr>
<td>Reliability of police services</td>
<td>115</td>
</tr>
<tr>
<td>Ethical behavior of firms</td>
<td>94</td>
</tr>
<tr>
<td>Strength of auditing and reporting standards</td>
<td>86</td>
</tr>
<tr>
<td>Efficacy of corporate boards</td>
<td>36</td>
</tr>
<tr>
<td>Protection of minority shareholders’ interests</td>
<td>74</td>
</tr>
<tr>
<td><strong>2nd pillar: Infrastructure</strong></td>
<td></td>
</tr>
<tr>
<td>Quality of overall infrastructure</td>
<td>113</td>
</tr>
<tr>
<td>Quality of roads</td>
<td>115</td>
</tr>
<tr>
<td>Quality of railroad infrastructure</td>
<td>94</td>
</tr>
<tr>
<td>Quality of port infrastructure</td>
<td>111</td>
</tr>
<tr>
<td>Quality of air transport infrastructure</td>
<td>105</td>
</tr>
<tr>
<td>Available seat kilometers (hard data)</td>
<td>54</td>
</tr>
<tr>
<td>Quality of electricity supply</td>
<td>126</td>
</tr>
<tr>
<td>Telephone lines (hard data)</td>
<td>115</td>
</tr>
<tr>
<td><strong>3rd pillar: Macroeconomic stability</strong></td>
<td></td>
</tr>
<tr>
<td>Government surplus/deficit (hard data)</td>
<td>8</td>
</tr>
<tr>
<td>National savings rate (hard data)</td>
<td>6</td>
</tr>
<tr>
<td>Inflation (hard data)</td>
<td>101</td>
</tr>
<tr>
<td>Interest rate spread (hard data)</td>
<td>85</td>
</tr>
<tr>
<td>Government debt (hard data)</td>
<td>0</td>
</tr>
<tr>
<td><strong>4th pillar: Health and primary education</strong></td>
<td></td>
</tr>
<tr>
<td>Business impact of malaria</td>
<td>122</td>
</tr>
<tr>
<td>Malaria incidence (hard data)</td>
<td>113</td>
</tr>
<tr>
<td>Business impact of tuberculosis</td>
<td>104</td>
</tr>
<tr>
<td>Tuberculosis incidence (hard data)</td>
<td>115</td>
</tr>
<tr>
<td>Business impact of HIV/AIDS</td>
<td>108</td>
</tr>
<tr>
<td>HIV prevalence (hard data)</td>
<td>119</td>
</tr>
<tr>
<td>Infant mortality (hard data)</td>
<td>126</td>
</tr>
<tr>
<td>Life expectancy (hard data)</td>
<td>123</td>
</tr>
<tr>
<td>Quality of primary education</td>
<td>113</td>
</tr>
<tr>
<td>Primary enrollment (hard data)</td>
<td>121</td>
</tr>
<tr>
<td>Education expenditure (hard data)</td>
<td>121</td>
</tr>
</tbody>
</table>

In addition, Nigeria has not improved much since the 2007-08 exercise. In the 2008-09 ranking, the country ranked 94th out of 134 countries (see Table 5 for a comparative view with peers). The country’s greatest area of strength remains the macroeconomic environment (ranked 26th), with windfall oil revenues contributing to large (although declining) government budget surpluses, and a high national savings rate. In addition, financial markets were judged relatively sophisticated by regional standards (ranked 54th).

**Table 5: Ranking and Score of Nigeria and Comparator Countries**

<table>
<thead>
<tr>
<th>Country/Economy</th>
<th>GCI 2008-2009 rank*</th>
<th>GCI 2008-2009 score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>55</td>
<td>4.25</td>
</tr>
<tr>
<td>Nigeria</td>
<td>94</td>
<td>3.81</td>
</tr>
<tr>
<td>Pakistan</td>
<td>101</td>
<td>3.65</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>111</td>
<td>3.51</td>
</tr>
</tbody>
</table>

* Out of 134 countries

Figure 8 and Table 6 demonstrate the serious problem of infrastructure, especially that of electricity, which has been identified by entrepreneurs as the greatest constraint to doing business in Nigeria.
In addition, as demonstrated by its low levels of ICT penetration, the country is not harnessing the latest technologies for productivity enhancements. Also, the rankings show that Nigeria is not taking the opportunity presented by the windfall oil revenues to upgrade the citizen’s access to basic health care and education, and to make improvements in other areas such as infrastructure.

**Figure 8: Nigeria: Top 10 Most Serious Constraints Perceived by Entrepreneurs**

![Chart showing top 10 constraints perceived by entrepreneurs in Nigeria.]


**Table 6: The Challenge of Infrastructural Shortage in Nigeria**

<table>
<thead>
<tr>
<th>INFRASTRUCTURE</th>
<th>MACRO DIMENSION</th>
<th>MICRO DIMENSION</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Nigeria</td>
<td>Region</td>
</tr>
<tr>
<td>Number of power outages in a typical month</td>
<td>28.7</td>
<td>5.3</td>
</tr>
<tr>
<td>Value lost due to power outages (% of sales)</td>
<td>8.9</td>
<td>3.7</td>
</tr>
<tr>
<td>Delay in obtaining an electrical connection (days)</td>
<td>7.7</td>
<td>26.3</td>
</tr>
<tr>
<td>Delay in obtaining a mobile telephone connection (days)</td>
<td>7.6</td>
<td>26</td>
</tr>
<tr>
<td>Products shipped to supply domestic markets lost due to breakage or spoilage (%)</td>
<td>3.2</td>
<td>1.3</td>
</tr>
<tr>
<td>Firms using the Web in interaction with clients/suppliers (%)</td>
<td>9.7</td>
<td>25.4</td>
</tr>
</tbody>
</table>


Another area of poor performance is corruption, which though had improved recently but remains a huge developmental challenge. The 2008 corruption perception index (CPI) by Transparency International indicates that Nigeria ranked 121 out of 180 countries with a score of 2.7 compared with Denmark which ranked first with a score of 9.3 and Somalia, which came last (180th) with a score of 1.0. Table 7 demonstrates the perception by entrepreneurs on the problem of corruption in Nigeria in relation to doing business.
The problem of crime and the associated frequent religious riots/terrorism, and Niger Delta militancy also pose security challenges to the country, thus hindering socio-economic growth and development. Table 8 illustrates the problem of crime in Nigeria.

### Table 8: The Problem of Crime in Nigeria

<table>
<thead>
<tr>
<th>CRIME</th>
<th>MACRO DIMENSION</th>
<th>MICRO DIMENSION</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Nigeria Regional</td>
<td>Small Medium Large Exporter Non-exporter Domestic Foreign</td>
</tr>
<tr>
<td>Firms paying for security (%)</td>
<td>69.4</td>
<td>68.8</td>
</tr>
<tr>
<td>Losses due to theft, robbery, vandalism, and arson against the firm (% of sales)</td>
<td>4.1</td>
<td>3.2</td>
</tr>
<tr>
<td>Security costs (% of sales)</td>
<td>2.8</td>
<td>2.2</td>
</tr>
</tbody>
</table>

Table 9: Nigeria: Selected Comparative Socio-Economic Indicators

<table>
<thead>
<tr>
<th>Basic Indicators</th>
<th>Year</th>
<th>Nigeria</th>
<th>Africa</th>
<th>Developing Countries</th>
<th>Developed Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Population (millions)</td>
<td>2008</td>
<td>151.5</td>
<td>985.7</td>
<td>5 523.4</td>
<td>1 226.3</td>
</tr>
<tr>
<td>Urban Population (% of Total)</td>
<td>2008</td>
<td>48.5</td>
<td>39.2</td>
<td>44.0</td>
<td>74.4</td>
</tr>
<tr>
<td>GNI per Capita (US $)</td>
<td>2007</td>
<td>930</td>
<td>1 226</td>
<td>2 405</td>
<td>38 579</td>
</tr>
<tr>
<td>Human Develop. Index (Rank among 174 countries)</td>
<td>2006</td>
<td>154</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>Popul. Living Below $ 1 a Day (% of Population)</td>
<td>2000</td>
<td>71.2</td>
<td>34.3</td>
<td>25.0</td>
<td>...</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Demographic Indicators</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Population Growth Rate - Total (%)</td>
<td>2008</td>
<td>2.3</td>
<td>2.3</td>
<td>0.3</td>
<td>1.2</td>
</tr>
<tr>
<td>Life Expectancy at Birth - Total (years)</td>
<td>2008</td>
<td>47.2</td>
<td>54.5</td>
<td>76.7</td>
<td>67.5</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Health &amp; Nutrition Indicators</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Physicians (per 100,000 people)</td>
<td>2003</td>
<td>25.9</td>
<td>39.6</td>
<td>78.0</td>
<td>287.0</td>
</tr>
<tr>
<td>Births attended by Trained Health Personnel (%)</td>
<td>2006</td>
<td>48.6</td>
<td>51.2</td>
<td>59.0</td>
<td>99.0</td>
</tr>
<tr>
<td>Access to Safe Water (% of Population)</td>
<td>2006</td>
<td>47.0</td>
<td>64.3</td>
<td>84.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Percent. of Adults (aged 15-49) Living with HIV/AIDS</td>
<td>2007</td>
<td>3.1</td>
<td>4.5</td>
<td>1.3</td>
<td>0.3</td>
</tr>
<tr>
<td>Child Immunization Against Tuberculosis (%)</td>
<td>2007</td>
<td>53.0</td>
<td>83.0</td>
<td>89.0</td>
<td>99.0</td>
</tr>
<tr>
<td>Public Expenditure on Health (as % of GDP)</td>
<td>2005</td>
<td>1.2</td>
<td>2.4</td>
<td>1.8</td>
<td>6.3</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Education Indicators</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Enrolment Ratio (%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Primary School - Total</td>
<td>2006</td>
<td>92.5</td>
<td>99.6</td>
<td>106.0</td>
<td>101.0</td>
</tr>
<tr>
<td>Primary School - Female</td>
<td>2006</td>
<td>88.5</td>
<td>92.1</td>
<td>103.0</td>
<td>101.0</td>
</tr>
<tr>
<td>Secondary School - Total</td>
<td>2006</td>
<td>74.5</td>
<td>43.5</td>
<td>60.0</td>
<td>101.5</td>
</tr>
<tr>
<td>Adult Illiteracy Rate - Total (%)</td>
<td>2007</td>
<td>28.0</td>
<td>38.0</td>
<td>21.0</td>
<td>1.0</td>
</tr>
</tbody>
</table>

Sources: ADB Statistics Department Databases; World Bank: World Development Indicators; UNAIDS; UNSD; WHO, UNICEF, WRI, UNDP; Country Reports
Note: n.a.: Not Applicable; …: Data Not Available

As noted earlier, Nigeria’s progress on many social and human development indicators is poor. Much is thus needed in all areas to achieve many of the MDGs. Table 9 clearly illustrates these social and human development challenges.

Nigeria’s Poor Economic Competitiveness In Spite of Huge Oil Resources

Nigeria’s poor economic competitiveness in spite of its huge resources is paradoxical. The rather poor economic performance has created a wide expectation gap (Achua, 2009), requiring further economic analysis. Nigeria discovered oil in 1956 and began to export it in 1958. Since then oil has become the dominant factor in Nigeria’s economy. The Nigerian government gained an extra $390 billion in oil-related fiscal revenue over the period 1971–2005, or 4.5 times 2005 gross domestic product (GDP), expressed in constant 2000 dollars (see Budina, Pang and van Wijnbergen, 2007; Budina and van Wijnbergen, 2008). However, the Nigerian anti-corruption commission estimates that some $380 billion of this oil money was stolen or squandered between 1960 and 1999. Oil currently accounts for about 90 percent of total exports and approximately four-fifths of total government revenues. Figure 9 presents Nigeria’s high oil dependence for the period, 1970 to 2008.
The potential for the oil finds, production and exports to transform the economy and the lives of the poorest people is clearly significant. Oil is central to the economic growth and fiscal situations of an increasing number of countries. However, for many oil-producing countries, the resource curse, oil price volatility, oil-related social and political conflicts and poor oil revenue management have largely eroded the significant gains from higher but volatile export revenues.

Essentially, the resource curse refers to the inverse association between development and natural resource abundance. It has often been asserted that petroleum, in particular, brings trouble – waste, corruption, consumption, debt overhang, deterioration, falling apart of public services, wars, and other forms of conflicts, among others (see African Development Bank, 2007). Thus, natural resource-abundant countries tend to grow slower than expected – considering their resource wealth – and, in many cases, actually grow slower than resource-scarce countries.

**Figure 9: Nigeria: Indicators of Oil Dependence, 1970 - 2008**

A common thread in explaining the resource curse – along with the other broad explanations provided above – is the central role of government behaviour. The key issue is how governments administer resource wealth and how they use natural resource revenues. Since the oil discoveries in the early 1970s made Nigeria one of the world’s top 10 oil exporters, the Nigerian economy has followed the boom/bust cycles of the world oil market. Yet the many years of oil money have neither brought high economic competitiveness nor has it brought the population an end to poverty. They have also not, at least until recently, enabled the economy to break out of what seems like perennial stagnation in the non-oil economy.
The irony arises more when one considers the huge levels of expenditure, though fluctuating, incurred using the oil resources. This speaks volumes regarding the poor quality of such huge expenditure. Indeed, Nigeria has had periods of excessive spending and periods of under-spending (Figure 10) until it started an explicit expenditure smoothing policy in 2004. As Figure 10 shows, there has been a close link between government expenditure and volatile current oil revenues. Figure 10 shows that changes in government expenditure have generally mirrored oil revenues. When oil prices unexpectedly drop, it is often difficult and costly to adjust expenditure downward, although, in fact, the need to do so may be larger than the actual decline in revenues triggering the need for adjustment in the first place. This is because Nigeria had a peculiar problem concerning international capital market access. Its need to borrow was lowest when oil prices were high, and was high when prices were low. However, its borrowing capacity was inversely related to its borrowing need because the value of its de facto collateral – oil wealth – also peaked when prices were high and dropped when they were low. Indeed, there is a high correlation (0.97 – significant at 1 percent significance level) between oil revenues and government expenditures in Nigeria for the period 1970 to 2008.

Figure 10: Nigeria: Percentage Change in Oil Revenue versus Percentage Change in Total Federal Government Expenditures, 1970-2008

Source: Authors using data from the CBN Statistical Bulletin and Annual Reports, Various Years.

Conclusions and Policy Implications

In this paper, we have addressed two key issues. First, we have provided a set of basic facts on the current state of Nigeria’s economic competitiveness. Using the World Economic Forum’s methodological framework of the Global Competitiveness Index, we identified Nigeria’s main competitive strengths and weaknesses. Comparisons with selected African and other comparator countries provide an idea of Nigeria’s economic preparedness to move to a more advanced stage of development. The key issues discussed in the paper include:
Nigeria had made significant progress on macroeconomic policy – these gains have to be sustained against the temptations of short-term benefits from intervention

- Pressure on sustainable fiscal policy as government expenditures mirror oil revenues, in spite of which Nigeria still has poor economic competitiveness – and in spite of the recent budget rules on spending of oil revenues

Progress on social infrastructure and political institutions remains much more modest and fragile

- Evidence shows that poor physical infrastructure (especially electricity) remains the bane of Nigeria’s economic competitiveness and overall development
- Though recent data shows some progress on reducing corruption, Nigeria remains among the worst affected countries globally
- Nigeria remains in the bottom group of African countries (and its international comparators) on indicators of governance
- Social and human development issues, including basic health care and education, remain great development challenges

Second, the paper focused on the fact that in spite of huge oil resources, the nation’s economic competitiveness remains very low. We noted the role of expenditure policy in managing the volatility of oil revenue/wealth, which has implications for economic development in Nigeria.

Thus the areas on which the country should focus in order to achieve higher economic competitiveness, sustainable growth and enduring prosperity for its citizens can be highlighted. These are summarized in Figure 11 below at the macro, micro, state, and regional levels.

**Figure 11: Nigeria: Measures to Raise Economic Competitiveness**

**Nigerian Competitiveness Agenda**

<table>
<thead>
<tr>
<th>Macro</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Maintain sound <strong>macroeconomic policy</strong></td>
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<tr>
<td>- Implement effective <strong>anti-corruption efforts</strong></td>
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<tr>
<td>- Improve basic <strong>social and education services</strong></td>
</tr>
<tr>
<td>- Enhance <strong>personal security</strong></td>
</tr>
<tr>
<td>- Address weaknesses in the <strong>physical infrastructure</strong></td>
</tr>
<tr>
<td>- Modernize <strong>business rules and regulations</strong></td>
</tr>
<tr>
<td>- Move <strong>financial sector development</strong> to the next level</td>
</tr>
<tr>
<td>- Develop a long-term <strong>diversification strategy</strong> based on cluster development</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Micro</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Create <strong>effective economic strategies</strong> at the regional level</td>
</tr>
<tr>
<td>- Align <strong>regional institutions</strong> with a competitiveness agenda</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>States</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Tack a leadership role in <strong>cross-national economic collaboration</strong> to enhance competitiveness</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Regional integration</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Stronger <strong>political institutions</strong> will be essential to make progress in these areas</td>
</tr>
</tbody>
</table>

Source: Porter (2009)
Nigeria also needs to channel fiscal revenues from oil towards pro-poor investments. Some countries such as Norway and the Gulf (Middle Eastern) countries have successfully used their oil wealth to stimulate growth for poverty reduction. They have done this by levying taxes on extraction of natural resources and channelling the proceeds to poverty reducing investments. This can include earmarking certain oil resource revenues for marginalized groups – often those living near the oil fields themselves or people of the oil-bearing communities, especially in the Niger Delta so as to reduce militancy, crime, and insecurity.

It is also important that the country maximizes the productivity of existing oil resources through complementary productive public investments. Oil, like most types of other natural resources requires complementary investments to effectively generate growth and development. Many such investments are unlikely to be financed by the private sector and require public support. Examples include physical infrastructure such as electricity, irrigation facilities which can sharply increase agricultural productivity, transport infrastructure which can provide access to markets and inputs, etc. But effective checks and balances as well as monitoring would be required in such investments to reduce corruption and unproductive expenditures.

Another important policy will be promoting diversification of the economy away from oil. Developing a successful modern economy based on oil exports is, in principle, feasible, given the right institutions and policies, as the examples of OECD countries such as Canada, Australia or the Scandinavian countries demonstrate. It is, however, critical to use oil resources to develop more diversified economic structure. There are some policies that are helpful in fostering diversification. These include establishing a conducive business environment and providing sufficient incentives to invest in non-oil sectors. A conventional measure is to use the tax system to assist the development of the non-oil sector. In addition to tax policy, there is also the need for structural reforms, including financial sector and administrative reforms, to facilitate the diversification of economic activity. In Nigeria, there is large scope to reduce the burdens imposed by an often corrupt bureaucracy, which in addition to strengthening the financial system, would help to create a more level playing field and decrease barriers to entry.

Lastly, political reforms and good governance are the *sine qua non* to using oil for sustainable development and to improve the economic competitiveness of Nigeria. Future oil management must be based on deepened reforms, expanded energy access in support of the Millennium Development Goals (MDGs), increased domestic value added, transparency and a long-term vision. There is a need for transparency and accountability all along the supply chain and on the spending side. A lot of revenue leakage occurs during the building of infrastructure and execution of other government projects. However, experience on how to manage fluctuating income with price volatility is needed. But, without government will, effective oil revenue management will never happen. Public dialogue and local management of resources with inclusion of civil society is also crucial. A political and social contract for managing oil revenues, based on democratic participation and transparent economic governance is essential. The success of such governance will depend on political stability, government legitimacy, a long policy horizon, high domestic savings and – in particular – powerful non-oil political constituencies.
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Literature Reviews

The Political Economy of Government Auditing: Financial Governance and the Rule of Law in Latin America and Beyond

Carlos Santiso
Routledge (2009)
Reviewed by Andy Wynne – andywynne@lineone.net

This book provides a welcome analysis of the role that government auditing can play in the quest for greater transparency and accountability in the management of public finances across the Global South. Whilst Carlos Santiso’s detailed analysis is limited to three countries in South America, his insights will be of great value for all those interested in the role of government auditing (and as global citizens we should all be in this position).

Carlos examines what he terms autonomous audit agencies in Argentina, Brazil and Chile. These three countries illustrate the three main models of such agencies – parliamentary or auditor general; accounts court (cour des comptes); and the Germanic or board. He takes a political economy approach that addresses the context in which audit agencies are embedded. Reforming autonomous audit agencies, Carlos concludes, must consider the trajectory of state building, the role of law in public administration and the quality of governance.

His careful analysis of the key relationship between the audit agency and parliament highlights the challenges which any of the models may have. Carlos explains this relationship as follows:

\[
\text{[Autonomous audit agencies] are essentially oversight agencies which depend on accountability institutions to enforce accountability on government. Accountability institutions are those state powers endowed with the constitutional prerogatives to hold government to account. In the constitutional model of separation of powers, those accountability institutions are the legislative and the judiciary (page 57).}
\]

As a result, Carlos argues that:

\[
\text{Therefore, a central paradox of [autonomous audit agencies] resides in that their effectiveness depends both on their independence from government and the efficacy of their functional linkages with the legislatures and the courts (page 58).}
\]

This raises the important issue of who an audit agency should be independent from. Many commentators merely state that the audit agency should be independent or autonomous to use Carlos’s term. Carlos considers carefully which institutions the audit agency needs to be free to criticise without fear of suffering repercussions (line ministries and especially the ministry of finance), but also those institutions (primarily the legislature) where a positive and constructive inter-relationship is key to the success of the agency. But even here the relationship may be complex as it depends on politicians acting in an a-political or selfless manner. Something which can be incredibly difficult to achieve in many countries!
Due to his choice of countries, Carlos does not consider the added complexities of, for example, French African countries. Here there are usually two types of audit agencies neither of which may have strong relationships with their parliaments. The first of these is the traditional French style accounts court (cour des comptes) whose main role is to try (in a judicial sense) the public accountants who play such a key role in the French approach to public expenditure management. The other agency is the general state inspection (inspection générale d'État) which is often dismissed as not being independent of the executive, as in some countries it is a tool of the president or prime minister.

However, many other audit agencies do not have adequate independence, for example, an INTOSAI survey undertaken in 2000 found that of 113 Supreme Audit Institutions around 70 had their primary accountability to parliament whilst in near 40 cases it was to the head of state. Similarly AFROSAI-E (the regional body for English speaking Africa) found in 2001 that only 5% of their members considered that they had adequate independence. In Botswana, Lesotho and Zimbabwe the Auditor General’s annual reports are submitted to the Minister of Finance to pass on to parliament, whilst in Zambia the report is submitted to the president. Similarly, the Auditors General in Ghana, Nigeria and Tanzania, for example, are appointed by the president of these countries (as are the heads of most accounts courts, including that in France). Similarly the president of an accounts court will typically be appointed by the president of the country will submit their annual report to the president to pass on to parliament.

Six Francophone governments have designated their general inspector of the state as their Supreme Audit Institution whilst 10 have designated a court (or chambre) des comptes. Thus the following are all members of INTOSAI and so are the Supreme Audit Institution for their countries:

- Burundi - Inspection Générale des Finances
- Cameroun - Contrôle Supérieur de l’État
- Centrafrique - Inspection Générale d’État
- Guinée (Conakry) - Inspection Générale d’État
- Mali - Contrôle Générale des Services Publics
- Niger - Contrôle Générale des Services Publics
- Togo - Inspection Générale d’État.

These two types of audit agency, accounts court and general state inspection, may in fact be complementary. The accounts court concentrates on issues of regularity (especially legality) whilst the general state inspection may take on a wider role including performance or value for money audit. With this role it may be thought that the role of the general state inspection would be welcomed by many reformers who support this move for audit agencies, but in most cases the general state inspection has been ignored. Carlos shows the great variety of approaches to the organisation, remit and work of audit agencies. If, as has been shown in practice, it is so difficult for traditional audit agencies to adopt performance audit, why not establish a second agency with this specific responsibility.

The distinction between internal and external audit may also be blurred. Carlos points out that some audit agencies may undertake ex ante compliance control, or pre-audit as it is termed in many English speaking African countries, where it is the staple work of the internal auditors. In
French speaking African countries the general finance inspection (Inspection Générale des Finances) is generally considered to be the internal audit function. The general finance inspection reports to the ministry of finance on the quality of financial management in other ministries. However, these countries also have the function of the contrôleur financier who undertakes a similar role to internal audit in Anglophone countries.

Each agency has its own role and several countries have established general state inspections in recent years (for example, Benin and Djibouti) and Togo is establishing an accounts court in addition to its general state inspection. Mali has gone further. In 2002, it established a Bureau du Vérificateur Général (Office of the Auditor General on the Canadian model). This agency has been created to complement the roles of its existing accounts court and general state inspection (Contrôle Générale des Services Publics).

Relationships may also change over time, so, for example, Carlos points out the case of Brazil where:

_The logic of external auditing gradually shifted from being an instrument of executive control of the bureaucracy to becoming an instrument of legislative restraint on the executive (page 97)._  

In French African countries this could also occur with a move from the general state inspection being a mechanism for the president to control of the bureaucracy to the accounts court (or auditor general) being an instrument of parliaments. With these complexities it is re-assuring that Carlos believes that his research “does not find a direct correlation between the model of external audit agency and the effectiveness of external auditing (page 123).

The key findings from his comparative analysis are:

1. Effective autonomous audit agencies improve the credibility of the budget and the quality of governance.
2. External audit agencies are part of the broader system of checks and balances in government financial management.
3. Independence is critical to guarantee impartiality, but should not be an end in itself.
4. Shortcomings in government financial accountability reflect deeper dysfunctions in the relations between external audit agencies and legislatures.
5. External audit systems are in transition, seeking to redefine their role in fiscal control and their contribution to public management.

This book provides the details of these findings and a wide variety of audit practices, but as importantly describes how these practices developed over time in conjunction with other public institutions. As such it is an invaluable source of information for anyone who is involved in the reform of audit agencies in Latin America or other parts of the world. This will include audit staff, but also the rest of us as global citizens.
“The Challenge of Reforming Budgetary Institutions in Developing Countries”
Richard Allen
Reviewed by Andy Wynne – andywynne@lineone.net

Some staff with the World Bank, IMF and other donors are taking slow steps in re-assessing the effectiveness of their dominant prescriptions for public sector financial management over the last decade. This has often included large scale mega-reforms such as a Medium Term Expenditure Framework (MTEF), an Integrated Financial Management Information System (IFMIS) and decentralisation.

Richard Allen has been part of this process from the beginning. In this paper he now recognises that the development of sound budgetary institutions in countries such as France, the U.K. and the U.S. has taken a very long time—200 years or more—and is still evolving. Institutional reform is also likely to be very slow in developing countries since the budget is especially prone to rent-seeking influences. This paper discusses the currently fashionable emphasis on complex, multiannual PFM reform strategies, which have been strongly promoted by the donor community; and advocates a simpler approach grounded on Schick’s important principle of “getting the basics right.”

Richard’s conclusions are first, reforming public financial management is a frustratingly slow business. In developing countries, the progress of modernizing budgetary institutions needs to be measured in small steps. Major reforms such as introducing a new treasury system or a medium-term budget framework can take a decade or longer. Second, governments, donors and multilateral institutions almost always underestimate the difficulties and challenges, and overestimate the capacity of government to deliver reforms. They fail to learn from the lessons of the past.

Whilst not criticising his own institution (the IMF) directly he has some trenchant views on technical aid to governments in the Global South. Many technical aid providers, Richards says, have a vested interest in maintaining existing approaches and instruments. Developing countries should not be regarded as a laboratory or playground for the donors. Fresh thinking is required but there is not much incentive for change since technical aid providers are not sufficiently held to account for the imperfections of the models they use, and the advice they offer.

Other examples of similar hard hitting criticisms over the last year are Salvatore Schiavo-Campo (see http://blog-pfm.imf.org/pfmblog/files/MTEFpaperFinal.doc) and Bill Dorotinsky on the ICGFM Blog (see http://icgfm.blogspot.com/2008/12/public-financial-management-reform.html).

The global recession appears to have provided a welcome space for those who do not accept the current orthodoxy. Such criticism is necessary to try and increase the degree of success with public financial management reforms. It is hoped that the current upturn does not end this opportunity. The lessons of Richard’s paper are important and need to impact directly on reform plans in many countries.
“A Review of PFM Reform Literature”
Carole Pretorius & Nico Pretorius
Reviewed by Andy Wynne – andywynne@lineone.net

This review of literature on experience with Public Financial Management Reform was commissioned by DFID on behalf of the Dutch Ministry of Foreign Affairs, the Swedish International Development Cooperation Agency (Sida), the Canadian International Development Agency (CIDA) and the African Development Bank (AfDB). It aims to synthesise the main theoretical approaches and findings from evaluations of PFM reform programmes, and to identify knowledge gaps. The literature reviewed includes academic and technical articles, development practitioner guides, manuals, handbooks and websites.

The review seeks to address two sets of information: an overview of models and approaches, and a review of reform experience. It did not prove possible to relate reform experience to the models presented, which represents a significant shortcoming in our understanding of PFM reform. In reality, the links between theoretical and practical approaches are weak – in the case of the newer approaches, reform experience has pre-dated the models, and indeed informed their development. The evaluations reviewed here did not make use of theoretical models to inform their evaluation frameworks. It would therefore contribute to the PFM evaluation literature if the forthcoming evaluation was to base its design framework explicitly on recent theoretical models, and our understanding of the institutional basis of each model.

“Taking Stock: What do PEFA Assessments Tell Us About PFM Systems Across Countries?”
Paolo de Renzio
Reviewed by Andy Wynne – andywynne@lineone.net

The Public Financial Management (PFM) Performance Measurement Framework, an indicator-based assessment tool developed by the Public Expenditure and Financial Accountability (PEFA) initiative, was launched in 2005 and has been applied so far in over 60 countries. PEFA reports provide detailed accounts of the performance of PFM systems along various dimensions. This paper is based on the results of the 57 PEFA assessments completed as of August 2007. It looks at comparative cross-country PFM performance, overall and across the different budget dimensions defined by the PEFA methodology (out-turns, cross-cutting features, budget cycle), and analyses differences linked to certain country characteristics which might have an influence over PFM system performance, using both bivariate and multivariate analysis. It is based on a numerical conversion of the letter-scores used in the assessments, a methodology which can be considered controversial but which nevertheless yields some interesting results.
Where the Other Half Lives: Lower Income Housing in a Neoliberal World
Sarah Glynn (Editor)
Pluto Press (2009)
Reviewed by Stewart Smyth - s.smyth@dcu.ie

In a similar manner to they way the current economic crisis (with its asset bubble, pyramid schemes and banks being bailed-out) reminds us of past economic crises stretching back over the past century and a half, this collection of essays shows how the clock has been turned back on the housing needs of the poorest in our world. Neoliberalism has attempted (and in many ways succeeded) in returning housing for the poor to the era when the deserving poor received basic homes and the rest were left to rot. Years of under-funding and neoliberal policies have lead to the residualisation of what was once a tenure of first choice for many and an important expression of collective solidarity in many societies. However, all is not just despair partly because of the framework Sarah Glynn adopts and more importantly the actions of tenants groups and housing activists, there is hope that is captured in this book.

Glynn’s framework brings together two aspects of the research on social housing. Firstly, she adopts David Harvey’s work on neoliberalism as the guiding framework in which to explain the reforms that social housing has been subjected to over the last 30 years. Central to this framework is an understanding that the neoliberal project has sought to shift power and wealth from the poorest in our society to the richest. This process though is laden with contradictions, not least of which is the resistance generated by social movements and housing activists to changes in social housing. Secondly, the framework is then utilised in a series of chapters by other contributors, to analyse and explain the changes to social housing in a number of different countries. The outcome of which is a comprehensive assessment of the impact of neoliberalism on a key human need across several national boundaries.

In the first three chapters, Glynn develops a framework within which to analyse the changes in recent decades to social housing. Largely based on the UK Glynn’s arguments develop along three strands. Firstly, there is a historical look at social housing throughout the 20th century. Two important factors are highlighted that remain pertinent today – those in charge have only invested in social housing building as a respond to movements (or the threat of) from below and, secondly despite this pressure UK (and other) governments have only ever seen social housing as an expedient, rather than integral service central to the welfare state. Secondly, Glynn sets the housing policies of the last thirty years in the context of the rise of neoliberalism. Glynn illustrates how Harvey’s formulation, that neoliberalism’s achievement “has been to redistribute, rather than to generate, wealth and income” in favour of the rich and powerful and at the expense of the poor, has been achieved in social housing. Central to this process has been the commodification of the social housing stock through privatisations (e.g. PFIs and stock transfers) and the introduction of the tenants’ right-to-buy schemes. Glynn shows how this has benefited speculation from a new breed of “investors” and growing corporate organisations (such as housing associations) that buy up former municipal housing on the cheap. In the process, the best quality public housing has been taken into private hands leaving a residual stock of often the poorest estates in the worse physical conditions. At this point, the third strand appears; gentrification through regeneration. Thus, central government has reduced social housing to a
residual service, often with the active support of local government bodies, who now come along with plans to regenerate areas based on notions of housing market failure. Local residents are moved out, those who may have bought their own homes are forced out by the use of compulsory purchase orders (CPOs). The area (often in a prime location), is then handed over to a private development scheme who have only minimal responsibilities placed on them to provide social housing, which can in any case often be avoided through payments to the local authority. Meanwhile the original tenants have no right of return.

It is this process of gentrification through regeneration that many find particularly invidious and has become a front on which campaigners and academics has engaged. For example, Chris Allen has documented the regeneration of housing in Liverpool in lead up to the “City of Culture” in 2008. In an echo of the Engels’ description of the attitudes of wealthy in Manchester in the 1840s, Allen reports a senior housing renewal manager in Liverpool commented “people driving into the city must have a more pleasant outlook than the one that is currently there”. Thus through the euphemisms of housing market failure and regeneration working class communities are disbursed and private developers gain access to prime land.

Having established a framework centred around the neoliberal agenda the middle chapters apply it to the circumstances in different economies. What quickly becomes apparent is that though different countries all have different starting points and there are also subtle differences in the way neoliberal reforms are pursued, the direction of travel is the same for all. Thus, two inter-related neoliberal processes – the rolling back of the state and the rolling out of neoliberal provision – are evident in the case studies of countries with such differing welfare traditions as Sweden and the USA. A second point is also highlighted in the manner in which this dual process is pursued by governments, who will attempt to divide tenants groups thus reducing effective opposition; play on pessimism by arguing there is no alternative, and reduce the cause of “problem estates” to one of “faulty design” thus ignoring all other socio-economic factors such as poverty, cuts in provision and racism. There is little or no open discussion of policy consequences (e.g. the impact on existing communities of regeneration); there is almost no control of the regeneration processes by local communities and existing tenants (the one exception to this is the requirement for a tenants’ ballot before municipal housing in the UK can privatised). The language often used by policy-makers and others is drawn from the Orwellian school of “newspeak”, as forcefully argued in the case study on the USA. In this respect, sections of academia have been complicit, as the furore over Chris Allen’s work shows. Allen has accused academics of imposing middle class values onto working class communities and not understanding (either through ignorance or deliberate avoidance) the nature of those communities.

Despite all the foregoing, the book is not left on a pessimistic note. After the case studies, Glynn contributes the final two chapters charting the history of housing campaigns (mainly in Britain) and the prospects for a revival of social housing. Glynn locates social housing policy as an outcome of both campaigns over housing and broader class struggles. These campaigns come in different forms such as the court cases against the use of CPOs or the refusal of locally elected politicians to implement central government policies. Housing campaigns come in a variety of forms from the direct action of the post-war squatters to Les Enfants de Don Quichotte tent encampments set up in French cities in 2006-07 to highlight the plight of the homeless. Or the
Defend Council Housing (DCH) campaign in Britain that has brought together tenant activists and groups, politicians and trade unions to campaign against the privatisation of municipal housing and in favour of increased funding for this tenure. The variety of forms of resistance raises the question of which strategy and tactics should be adopted. Here Glynn does state her position in favour of organising campaigns from below and to link the question of housing to broader issues. However, this is argued in a rather abstracted manner and deserves a more detailed consideration.

One other small criticism concerns the focus on developed economies in the case studies. Readers of this journal in particular will note the absence of the experience of housing activists in developing and poor countries. However, this could be rectified in a subsequent volume. That said, “Where the other half lives” strengths far outweigh these weaknesses and the book represents an important contribution to the literature on the impacts of neoliberalism on housing the poorest. As such, its audience is not just those involved in housing but anybody looking for an alternative to the current neoliberal hegemony.
Invitación a posibles Autores

La revista *International Journal on Governmental Financial Management* (IJGFM) es un diario con enfoque académico, profesionales y para el debate de las varias disciplinas involucradas en la gestión financiera gubernamental. El cual incluye la contabilidad, la auditoría, el proceso presupuestario, la gestión de la deuda, información tecnológica, capacitación de impuesto y la coordinación de la tesorería.

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- identifiquen problemas o debilidades. A través de las opiniones dominantes de la reforma de la gestión financiera en el sector público; y
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Los manuscritos deberán ser enviados como anexo a un mensaje electrónico dirigido al redactor, Andy Wynne ([andywynne@lineone.net](mailto:andywynne@lineone.net)) con copia a [icgfm@icgfm.org](mailto:icgfm@icgfm.org).

Ideas de artículos son bienvenidas y pueden ser utilizadas con el editor antes de sumisión del artículo en su totalidad. El editor estará dispuesto a responder a cualquier pregunta con respecto a la sostenibilidad del documento para posible publicación.

Los autores deben asegurar que el trabajo no viola ningún derecho de autor existente y que no contiene material de una naturaleza difamatoria o escandalosa. Al entregar una redacción a la revista, el autor exonera a la editora y a los redactores contra cualquier violación de tal garantía o restricciones de derecho.
El material publicado en la revista podrá ser reproducido sin el consentimiento del redactor o del Consorcio y se alienta la reproducción, traducción y distribución del mismo.

**Formato y estilo**

Los manuscritos deben incluir:

- no más de 20 páginas en espacio sencillo (o de 10.000 palabras);
- un sinópsis de no más de 150 palabras – que debe resumir el propósito, la metodología y las conclusiones del artículo;
- el título, el(los) nombre(s) del (de los) autor(es), el cargo que ejerce(n) y la afiliación institucional que tiene(n) (universidad, ministerio, etc.), su dirección electrónica y cualquier mención necesaria.
- los autores deberán escribir de una manera no sexista o discriminatoria, utilizando, por ejemplo, (para) él/ella, él o ella, etc.
- un uso limitado de abreviaturas para facilitar la lectura
- referencias apropiadas (vea abajo) a la literatura sobre el tópico para respaldar los hechos, las aserciones y las opiniones; todas las citaciones deben venir acompañadas de una referencia completa.
- las notas de rodapié, identificadas en el texto con un número superescrito no deben incluir citaciones a la literatura, y deben estar ubicadas al final del trabajo, antes de la bibliografía.

**Referencias en el texto**

Las referencias en el texto a libros, artículos, etc. deben incluir el nombre del autor, el año de publicación y las páginas específicas de las citaciones directas (p. ej., Mickey & Donald, 1968, p. 1). Para más de dos autores, la citación debe ser abreviada así: (Kramdon y otros, 1988, p. 1). Citaciones múltiples al mismo autor en el mismo año deben ser diferenciadas dentro del texto (y en la bibliografía al final) por las letras a, b, c, etc. después del año de publicación. Términos en latín, por ejemplo, *et al.*, *ibid* o *op. cit* deben evitarse.

**Bibliografía**

Debe incluirse una bibliografía al final del texto con los detalles de todos los libros, artículos y otros trabajos que hayan sido referenciados en el texto. Estos deben ser puestos en orden alfabético de acuerdo al apellido (patronímico) del primer autor. Deben incluirse los siguientes detalles: nombre (apellido, nombre de pila e/o iniciales), título y subtítulo completos, lugar de publicación, editora, fecha y referencias a páginas (para citaciones específicas) Las referencias a artículos de revistas deben incluir el volumen y el número de la revista.

Donde sea posible, los detalles de la dirección electrónica deben incluirse para el respaldo adicional en el Internet. En este caso, la fecha de consulta del material debe ser indicada.

La presentación de las referencias debe seguir la siguiente convención:

1. **artículos:**


2. libros:


3. citaciones de libros compilados:


4. libros traducidos:

5. referencia a un informe:

6. referencias a material del Internet:
http://icgfm.blogspot.com (6 Septiembre 2008)

Cuadros, diagramas, figuras e tablas
Todos estos deben denominarse “figuras” y ser numerados consecutivamente en números arábigos con un breve título en letra mayúscula, con etiquetas, etc. El texto debe indicar donde aparece la figura.

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Oficina Nacional de Auditoría de China

Nos complacería también recibir correspondencia de otros que estén dispuestos a ayudar con el trabajo editorial de la Revista. El trabajo consistiría en revisar potenciales contribuciones, indicando si deben ser aceptadas para publicación y haciendo recomendaciones editoriales para mejorar la calidad de los materiales enviados.

Tenga la bondad de contactar al redactor, Andy Wynne (andywynne@lineone.net) si le gustaría comentar sobre el papel de la junta editorial y cualesquier sugerencias que usted pudiera ofrecer.
Invitation aux Auteurs Potentiels

Le Journal International sur La Gestion des Finances Publiques [International Journal on Governmental Financial Management (IJGFM)] organise un forum pour les praticiens, les universitaires et le public général pour discuter des différentes disciplines impliquées dans la gestion des finances publiques. Ces disciplines comprennent la comptabilité, l’audit, la budgétisation, la gestion des dettes, la technologie de l’information, la fiscalité et la gestion de la trésorerie.

Nous aimerions être en mesure de publier des articles et des commentaires qui vont :

- encourager la collaboration entre les professionnels et autres concernés par la gestion des finances publiques
- contribuer à la promotion des principes et normes de la gestion des finances publiques, en particulier par le biais de la description des bonnes pratiques existantes
- identifier les problèmes ou les faiblesses à travers la critique des points de vue actuellement dominants dans le domaine des reformes de la gestion des finances publiques; et
- assister les gestionnaires financiers du secteur public à identifier leurs propres solutions aux défis courants.

Nous reservons un accueil particulier aux contributions venant de personnes ou groupes de personnes travaillant dans les pays en développement. Nous invitons les auteurs potentiels à consulter les anciens numéros du journal à l’adresse : http://www.icgfm.org/digest.htm

Le Journal ne fait pas de commentaires avec identités voilées (où à la fois l’identité de l’auteur et celle de la revue ne sont pas révélées) comme l’approche standard. L’objectif est d’offrir des commentaires confidentiels sur les contributions soumises et de faire des suggestions éditoriales (aussi détaillées que possible) afin d’aider l’auteur à produire un article pouvant être publié. La revue avec identité voilée peut être offerte à tout auteur individuel sur demande.

Le Journal publie essentiellement en anglais. Toutefois, pour la période d’essaie tout au moins, nous allons accepter pour publication des articles en français et en espagnole. Ces articles ne seront pas traduits. Ils seront publiés dans leur langue d'origine. Tous commentaires de la part de nos lecteurs sont les bienvenus.

Soumission de manuscrits

Nous ne faisons pas payer la soumission ou la publication d’articles.

Les manuscrits devront être adressés en fichiers attachés au directeur de publication : Andy Wynne andywynne@lineone.net avec copie à : icgfm@icgfm.org

Les idées d'articles sont les bienvenues et peuvent être discutées avec le directeur de publication avant la soumission du texte de l’article. Le directeur de publication est heureux de répondre aux demandes de renseignements informels sur la pertinence des articles en vue de leur publication éventuelle.
Les auteurs doivent garantir que le travail ne porte atteinte à aucun droit d'auteur et ne contient pas de matériel de nature diffamatoire ou scandaleuse. Par la soumission d'un article au Journal, l'auteur exempté le directeur de publication et les éditeurs contre toute violation d'une telle garantie ou des restrictions de droit d'auteur.

Les matériels publiés dans le Journal peuvent être reproduits sans le consentement du directeur de publication ou du Consortium et de la reproduction ; la traduction et la distribution sont encouragées.

**Format et Style**

Les manuscrits doivent inclure :

- pas plus de 20 pages à interligne simple (ou 10.000 mots)
- un résumé n’excédant pas 150 mots – il doit récapituler l’objectif, la méthodologie et les principales conclusions de l’article
- le titre, le(s) nom(s) de(s) auteur(s), la position/le poste et l’institution d’affiliation (ministère, université, etc.), l’adresse email et les remerciements éventuels
- l’auteur ne doit pas utiliser des termes ou styles sexistes ou discriminatoires, comme par exemple "elle/lui" ou "il/elle"
- un usage limité des abréviations pour faciliter la lecture
- des références appropriées (voir ci-dessous) à la littérature sur le sujet pour soutenir les faits, les affirmations et les opinions ; toutes citations doivent être référencées correctement
- les notes de bas de page, identifiées dans le texte par un numéro en exposant, ne doivent pas comprendre des citations, et doivent être listées à la fin de l’article juste avant la bibliographie

**Référencement du texte**

Les références aux livres, articles, etc., à l’intérieur du texte doivent inclure les noms des auteurs, l’année de publication, et le numéro de page s’il s’agit de citation directe (par exemple : Mickey & Donald, 1968, p.24). Pour les articles dont le nombre d’auteurs est supérieur à deux, la citation doit être abrégée de manière suivante : (Kramdon et autres, 1988, p.1). Plusieurs citations du/des même(s) auteur(s) dans la même année doivent être distinguées dans le texte (et dans la bibliographie) par a, b, c, etc., après l’année de publication. Les termes latins tels que : *et al, ibid, op cit* doivent être évités.

**Bibliographie**

Une bibliographie doit être incluse à la fin du texte, et contenant les détails de tous les livres, articles, etc., dont il a été fait référence dans le texte. La bibliographie doit contenir uniquement les références citées dans le texte. Ces références doivent être ordonnées alphabétiquement suivant le nom de famille du premier auteur. Les détails suivants doivent être inclus : l’auteur et ses initiales, le titre complet et les sous-titres, le lieu de publication, l’éditeur, la date, et les références des pages (pour les citations directes). Les références aux articles de journal doivent inclure le volume et le numéro du journal.
Dans la mesure du possible, les détails des adresses internet des matériels disponibles sur l’internet doivent être fournis. Dans ce cas, la date à laquelle le matériel a été lu doit être mentionnée.

La présentation doit répondre à la convention suivante :

7. **articles** :
   

8. **livres** :


9. **citations provenant de livres publiés** :


10. **livres traduits**


11. **reference à un rapport** :


12. **références aux matériels sur l’Internet**

   

**Graphiques, Diagrammes, Figures, Tableaux**

Ils doivent être tous appelés figures, numérotés de manière consécutive en chiffre arabe, avec un bref titre en majuscule, libellés, axes, etc. Le texte doit indiquer le lieu d’emplacement de la figure.

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Toutes autres personnes disposées à nous assister dans les travaux d’édition du Journal peuvent nous contacter. Les travaux consistent en la révision des contributions potentielles en suggérant si elles peuvent être acceptées pour publication et en faisant des recommandations éditoriales qui permettront d’améliorer la qualité des soumissions.

Veuillez prendre contacte avec Andy Wynne - andywynne@lineone.net – si vous souhaitez discuter du rôle du comité de rédaction et de quelque proposition d’amélioration.
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 developing countries. We invite potential authors to review past issues of the journal at: 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.

Authors must warrant that the work does not infringe any existing copyright and does not contain material of a libellous or scandalous nature. By submission of a paper to the Journal, the author
indemnifies the publisher and editors against any breach of such warranty or copyright restrictions.

Material published in the Journal may be reproduced without the consent of the editor or the Consortium and reproduction, translation and distribution is encouraged.

**Format and Style**
The manuscripts should include:

- no more than 20 single spaced pages (or 10,000 words);
- an abstract not exceeding 150 words - it should summarize the purpose, methodology, and major conclusions of the article;
- the abstract should be followed by four or five key words that will assist in indexing the paper;
- the title, the authors name(s), position/post and institutional affiliation (ministry, university, 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 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.

**Bibliography**
A bibliography 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 bibliography should only include references cited in the text. These should be arranged in alphabetical order according to the surname of the first 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 material which is available on the Internet. In this case the date the material was read should be provided.

The layout should adhere to the following convention:
1. articles:


2. books:


3. citations from edited books:


4. translated books


5. reference to a report.


6. references to material on the Internet


**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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Dublin City University, Ireland

Sylvia Temu  
University of Dar es Salaam, Tanzania

Mathew Tsamenyi  
University of Birmingham, UK

Owen Zhang  
China National Audit Office

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@limeone.net), if you would like to discuss the role of the editorial board and for any input you could provide.