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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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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Foreword

The world appears as a set of contradictions. High levels of government spending have prevented, for the present at least, a full-scale economic decline. But it is not clear that economic revival will be achieved soon nor the jobs and real economic growth which are needed to eradicate the poverty that still scars the globe. There are also contradictions over government spending. So, for example, whilst the US, UK and other governments face large scale opposition to their military interventions, it is social spending which is still questioned by many of their legislators. Barak Obama faced sustained opposition to the introduction of health reforms which will eventually give access to modern health-care to around 30million Americans. In the UK strikes are threatened in universities and the public service as a reaction to reduced spending whilst the government appears powerless to prevent the continued payments of bonuses to directors, even in banks which have been taken into public ownership. In addition, both the main parties in Britain are promising significant reductions in public spending to bring government debt down to a ‘sustainable’ level.

Greece appears to be the test case, with a series of general strikes in opposition to the draconian public spending cuts aiming to reduce the level of the government’s budget deficit. It is ironic that it was the toxic debts of the banks that led to the credit crunch and the resulting world recession. However, it is these same financial institutions who are now determining whether government debt, arising from the need to save their own banking and financial sector, is sustainable.

In this situation it is to be hoped that public sector financial managers and auditors will gain greater self-confidence. After two or three decades of criticism of so called public sector inefficiency and exhortations for the public sector to adopt private sector approaches, the experience of the global recession should lead to some serious re-thinking – a process which this Journal is attempting to play an active role.

The first paper of this issue, by Petri Vehmanen of the University of Tampere, Finland provides an insightful critique of the draft conceptual framework recently issued by the International Public Sector Accounting Standard Board. Petri observes that whilst the prime aim of private sector financial statements is to provide information for investors to make decisions about the entity, the prime purpose of public sector financial statements is to enhance accountability. This should be recognised and would result in the definitions of such prime elements as assets and liabilities being revised. His paper also recasts the qualitative characteristics of public sector financial statements. Petri concludes by saying that his proposals “are by no means radical”. However, they do provide a comprehensive and damning critique of the work of the International Public Sector Accounting Standard Board and so it is re-assuring that so few countries have yet to adopt their approaches to accrual accounting or indeed the cash basis of accounting.

Our second paper is a further part of the series of articles in which Norvald Monsen has outlined a uniquely public sector approach to accounting and book keeping – cameral accounting. This was developed in German speaking counties and, until now, has remained largely unknown to English readers. Norvald provides an overview of the main tasks of traditional public sector accounting, followed by a detailed exposition of administrative cameralistics, focusing on the closing of the accounts and budgetary comparisons. A commentary section then explains how the four tasks of traditional public sector accounting are taken care of within cameral accounting. This is finally compared with both traditional
commercial accounting and the new public sector accounting outlined in the International Public Sector Accounting Standards.

The next paper, by Hany H. Makhlouf, provides a useful introduction and overview of sovereign wealth funds. These funds managed by 23 countries, mainly those with significant income from natural resources, for example, oil, have been of increasing interest in recent years and are expected to grow in the future if, as expected the price of crude oil triples in price over the next 20 years. However, the global economic meltdown had a major impact on their success and led many to a re-think of their strategic approach.

Our next two papers consider two aspects of public sector audit. The first by Hussein Mohamed El-Nafabi considers the issue of corruption in Sudan and the important role of the Auditor General in the fight against it. The objective of this study is to address the perverse incentives for financial corruption and try to provide practical solutions. It is recognised that, as in many countries, financial corruption is deeply rooted and institutionalized and the fight against it is likely to be long and difficult. However, the paper ends with a series of recommendations to assist with this struggle.

In the next paper, Andy Wynne considers the key issue of independence for supreme audit institutions (auditors general in English speaking countries). Models of public sector ‘external’ audit type institutions are described for English and French speaking African countries. Neither approach can claim to fully meet international standards for independence, but different approaches to the provision of audit type services are considered to be acceptable. This emphasises the need to understand existing systems before external models are adopted as part of a reform process.

In the next paper Hassan A. G. Ouda returns to the issue of the introduction of accrual accounting. He describes a comprehensive model of the transition framework that aims at explaining the whole reform process including all relevant factors. The model takes into consideration the fact that the transition to accrual accounting is a major cultural, administrative and technical change and, in order to successfully be adopted, must take place in phases with a clear plan of progress established from the outset. However, the challenge of demonstrating the actual (as opposed to the assumed) benefits of moving to accrual accounting is not taken up in this paper.

In two relatively short articles, Michael Parry first proposes a definition of the modified cash basis of accounting and then describes the four dimensions of public financial management. We welcome this approach of relatively short articles addressing key issues in governmental financial management and would encourage other authors to follow Michael’s example in future issues.

As initiated in our last issue, we end this issue with a section introducing recent public financial management publications and other resources which we hope will be of interest to readers of the Journal. We would be pleased to receive reviews and suggestions of other resources which we should refer to in future issues.

If you would like to continue the debates raised in this issue please start thinking about contributions for the next issue of this Journal, the ICGFM blog or attend future ICGFM events. We look forward to hearing from you!

Andy Wynne    Doug Hadden    Jim Ebbitt
Editor    Vice President: Communications    President
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A Science-Based Approach to the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities

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Abstract
The International Public Sector Accounting Standards Board (IPSASB) has recently published a Consultation Paper on its Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities. The author considers that there are problems in the Consultation Paper, and the aim of this paper is to analyze conceptually four of the problems in detail. These are:

1. the meaning of the term “conceptual framework” in general purpose financial reporting by public sector entities
2. the objectives of financial reporting by public sector entities
3. the scope of financial reporting by public sector entities, and
4. the qualitative characteristics of information included in general purpose financial reports.

Conclusions are derived on each topic. The meaning of the term “conceptual framework” is understood as a set of coherent principles and underlying concepts that are formulated to enhance understanding rather than as a deductive conceptual system for which the truth is established empirically by applying scientific method. The two objectives of financial reporting (i.e., accountability and decision-usefulness) in the IPSASB Framework should be prioritized to cope with the tension that is inevitably between them. The scope of financial reporting by public sector entities is wider than that of business entities which has implications for the concept formation. This should be given additional attention. Finally, the most significant result of the paper is its revised system of the qualitative characteristics of information included in general purpose financial reports.

Keywords: Conceptual framework, scientific method, faithful representation, measurement, relevance, reliability

Introduction
The International Public Sector Accounting Standards Board (IPSASB) has recently published a Consultation Paper (IPSASB CP, 2008) covering the following four areas of its proposed conceptual framework:

- The Objectives of Financial Reporting
- The Scope of Financial Reporting
- The Qualitative Characteristics of Information Included in General Purpose Financial Reports (GPFRs), and
- The Reporting Entity.
The author considers that there are problems with the Consultation Paper and the aim this paper is to discuss the four most important problems and to propose some revisions. More specifically, the following four topics are covered:

1. The meaning of the term “conceptual framework” in the phrase “international conceptual framework for general purpose financial reporting (briefly, financial reporting) by public sector entities”;
2. The objectives of financial reporting by public sector entities;
3. The scope of financial reporting by public sector entities; and
4. The qualitative characteristics of information included in general purpose financial reports (GPFRs).

1. A conceptual framework may have two distinct meanings. Each meaning is communicated using different concepts and terminologies. The problem with the IPSASB Framework is that it takes the meaning for the conceptual framework from the one approach but the concepts and terminology from the other approach. This will result in misunderstandings. The most harmful of these is the illusion of certainty that the IPSASB Framework is likely to create.

2. The objectives of financial reporting by public sector entities are seen in the IPSASB Framework as providing information about the reporting entity useful to users of GPFRs for two kinds of purposes: accountability purposes and decision-making purposes (IPSASB CP, 2008, p.8). The problem lies with the breadth (or extensiveness) of these objectives. Accountability is related with the past, or more specifically, with the control of the managerial actions taken in the past while decision-usefulness is related with the future, that is, with the usefulness of information in forecasting relevant outcomes of future phenomena. There is a clear tension between these two perspectives. Financial statements report past events but may use valuations based on future costs or revenues; the choice does to some extent influence their usefulness for, respectively, accountability or decision making. Hence it is difficult to construct the financial statements of an entity without giving the priority to one perspective or the other. Thus it should be explicitly said which perspective is used in preparing these “general purpose” financial statements and which perspective is then accounted for by supplying additional information. Using the term “general purpose” is actually hiding the problem and the term is therefore somewhat misleading.

3. The scope of financial reporting encompasses the provision of financial and non-financial information about a total of five items including the two that are familiar from the business environment:

(1) economic resources and claims to those resources (the balance sheet) and
(2) the effect of transactions, other events and activities that change the economic resources and claims to those resources (the income statement and the statement of cash flows).

The additional three items are:

(3) the reporting entity’s compliance with relevant legislation or regulation and legally adopted or approved budgets used to justify the raising of monies from taxpayers and ratepayers;
(4) the reporting entity’s achievement of its service delivery objectives; and
(5) prospective financial and other information about the reporting entity’s future service delivery activities and objectives, and the resources necessary to support those activities.

The additional items make the scope of public sector financial reporting larger than that for private sector business entities and reflect the wider range of potential users of the GPFRs of public sector entities.

The problem is that the proposed conceptual framework does not sufficiently acknowledge that this wider scope may have implications for the definition and measurement of some key concepts, particularly the definition and measurement of an asset. In the context of business entities in the private sector the objective is to provide financial information about the reporting entity that is useful to present and potential equity investors, lenders and other creditors in making decisions in their capacity as capital providers. The context of public sector entities is more diverse (cf. IASB ED, 2008, p.14 and IPSASB CP, 2008, p.18) thus requiring further analysis of the definition and measurement of an asset.

4. The qualitative characteristics of information included in GPFRs are defined as the attributes that make that information useful to users for accountability purposes and for making various decisions. There are at least three problems concerning these attributes. The first of them, which is also acknowledged in the Consultation Paper, is that in practice all the given qualitative characteristics may not be fully achieved, and therefore a balance or trade-off between certain of them may be necessary (IPSASB CP, 2008, p.31). That, of course, is true and requires no further comment.

The second problem concerns the derivation of the qualitative characteristics. They are just enumerated in the Consultation Paper without an explicit attempt to derive them from the concept of usefulness. To describe the process, the Consultation Paper only explains that these qualitative characteristics have been “developed” after considering the qualitative characteristics in the IASB Framework (IASB ED, 2008). Obviously some “development” has been required. As the Consultation Paper indicates, the qualitative characteristics of information included in GPFRs must:

(a) respond to the objectives of GPFRs of public sector entities (which are to some extent different from those of the business entities in the private sector), and

(b) reflect a potentially broader scope of financial information than that which the IASB has currently identified (IPSASB CP, 2008, p.31).

Despite these deficiencies in the process of “developing” the qualitative characteristics, the process itself will not be further commented on in this paper. Instead the focus will be on the outcome, that is, on the qualitative characteristics themselves, wherein the third problem lies.

This is the terminology of the qualitative characteristics and the underlying concepts. The concept of faithful representation that has been borrowed from the theory of measurement should be replaced with the more familiar concept of reliability. Relevance and reliability should be regarded as the two fundamental qualitative characteristics of useful financial reporting information (cf. IASB ED, 2008, pp.35-38). The concept of verifiability should be considered subordinate to reliability and given its customary, more restricted scientific meaning (to be explained later). Moreover, to fill the resulting gap, the new concept of supportability should be introduced and defined. In addition, all the constraining factors should be regarded as elements of sufficiency (also to be explained later). Therefore, to ensure usefulness of the reported information, it should have the fundamental qualitative characteristics of relevance and reliability (or freedom from error, if preferred) under the
general constraint of sufficiency. These three key concepts are hierarchical (as will be explained later).

The structure of the paper is as follows. After this introduction there will be a more detailed discussion on each of the four problems mentioned and introduced in the above numbered list. The discussions will then be summarized in the concluding remarks after which there will be the list of references and an appendix where the scientific method is briefly reviewed.

**The meaning of an international conceptual framework**

The Consultation Paper does not define the phrase “international conceptual framework”, but it says enough to be able to conclude the intended meaning. The Consultation Paper explains that the IPSASB Framework will establish the concepts that underpin financial reporting by public sector entities that adopt the accrual basis of financial accounting (IPSASB CP, 2008, p.6). Generally speaking this description gives the concept of framework about the same meaning that, for example, Hendriksen and van Breda (1992, p.22) obviously have in mind when they define the concept of (accounting) theory:

“Accounting theory has been defined as a coherent set of logical principles that:

1. Provides a better understanding of existing practices to practitioners, investors, managers, and students.
2. Provides a conceptual framework for evaluating existing accounting practices.
3. Guides the development of new practices and procedures.”

Here the word “theory” refers to an agreed-upon coherent set of logical principles expressed in specific terms. The same applies to the word “framework”. The principles involved are selected to enhance understanding and thus facilitate communication. Such principles can never be refuted. There is no empirical evidence that could contradict with them. Therefore, the acceptance of any such theory is a matter of agreement rather than a matter of truth. This is in sharp contrast to what may be said about the more rigorous empirical theories. Their acceptance is based on the truth which must be established using the so called “scientific method”.

Thus the term “theory” has two distinct meanings. It may be understood as a framework consisting of a set of coherent principles and underlying concepts that are formulated to enhance understanding or it may be understood as a deductive conceptual system for which the truth is established empirically by applying the scientific method. To elaborate the difference between these two meanings, let us examine the scientific method and its key concepts.

The meaning of the scientific method is a complex matter because there are so many different techniques at the practical level. However, at the sufficiently general level one can identify a pattern in any empirical scientific research that may be called the “scientific method” (see, e.g., Cohen, 1964, p.79). In the heart of this pattern there is the continuing cycle that is illustrated in Figure 1 and discussed further in the Appendix using citations from the literature.

The cycle starts from observable empirical facts (phases 1 and 2). It continues with logical argumentation using those facts (phase 3) and theories or models (phase 4) to derive statements that are either theoretical propositions (phase 5a) or empirical propositions (i.e., hypotheses) (phase 5b). They offer a link back to observable real-world phenomena (phases 6 and 7). This link is crucial in the proper verification of empirical theories.
3. INPUTS
The first link to observation

4. EMPIRICAL THEORY
The construction or revision of the theory and the derivation of propositions

5a. OUTPUTS
Theoretical propositions that cannot be directly verified

5b. OUTPUTS
Propositions that claim something about the observable world

6. REAL-WORLD PHENOMENA,
i.e., empirical facts about the reality under study (experience)

7. OBSERVATION
Measurement refers to quantitative observation

8. VERIFICATION
Derived propositions are compared with measurements

9a. CONFIRMATION
The theory gains support (but is not proven true)

9b. REFUTATION
The theory is proved false (or the test setting inadequate)

10. REVISIONS
Improvements are to be continued indefinitely

2. OBSERVATION
Measurement refers to quantitative observation

1. REAL-WORLD PHENOMENA,
i.e., empirical facts about the reality under study (experience)

Figure 1: The continuing cycle of scientific method
Verification (phase 8) connects theoretical thinking back to observable phenomena. It provides the observer with empirical evidence that may or may not support the proposed theory. When the facts and hypotheses agree (phase 9a), the theory is said to be confirmed. It has gained empirical support. This does not mean, however, that it has been logically proven true because it is always possible that the very same empirical propositions could have been derived from some competing but different theory. When the facts and hypotheses disagree (phase 9b), the theory together with the test setting is said to be refuted (or “falsified”). It has been logically proven that something is wrong in the sense that positive results were not discovered and therefore revisions are needed (phase 10). This process continues indefinitely.

Regarding the implications of the scientific method, a few points are of particular importance. First, scientific method consists of an endless cycle, where one starts from empirical observation and ends in empirical observation. Second, from this it follows that the concept of measurement must be inextricably linked to empirical observation. Third, the process of verification cannot be properly carried out without true measurements (see phases 8, 9a, and 9b in Figure 1). Fourth, any attempt to verify without true measurements will lead to speculative information that does not meet the requirements of empirical science.

Thus it is concluded that the IPSASB Framework is not proposed as an application of the scientific method. The Framework is not an empirical theory that might be refuted by appropriate empirical evidence. Therefore it is misleading to adopt terms from the scientific method but not their meaning. Where scientific terms are being used their accepted meaning in scientific literature should also be accepted. To follow this principle the qualitative characteristics proposed in the Consultation Paper (IPSASB CP, 2008, pp.31-39) should be modified. The details will be discussed in the section preceding the concluding remarks.

**The objectives of financial reporting by public sector entities**

The Consultation Paper (IPSASB CP, 2008, p.18) recognizes that the objectives of financial reporting are at the core of the Framework and that financial reporting is not an end in itself. The ultimate purpose is to provide information useful to users of GPFRs which means that the document should specify (a) who the users are and (b) what kind of information the users are assumed to require.

(a) The Consultation Paper (IPSASB CP, 2008, p.18) gives a long list of potential users including taxpayers, citizens and other recipients of services from government as well as the legislature and oversight bodies. Users such as these are not given as users of general purpose financial reports by business entities in the private sector. For these reports the list of users is much shorter consisting typically only of equity investors, lenders and other creditors. More precisely, the objective of the reports by business entities in the private sector is to provide financial information about the reporting entity that is useful to present and potential equity investors, lenders and other creditors in making decisions in their capacity as capital providers (IASB ED, 2008, p.14).

It is obvious therefore that the number of different users of GPFRs by entities in the public sector is far greater than the number of different users in the private sector. What is not so obvious, however, is whether this fact has any impact on the kind of information that will be required by the users. That is, the number of different users of GPFRs would not be so important if different users found the same kind of information useful. Is this really the case?

(b) From the perspective of how information should be classified in terms of its usefulness to users the Consultation Paper identifies two categories of information. The first one consists of
information that is useful for accountability purposes, and the second one consists of information that is useful for decision making purposes, or more specifically, in making resource allocation, political and social decisions (IPSASB CP, 2008, p.8).

Two points should be noted. First, it was recognized long ago, in the accounting literature about private sector business entities, that an accounting theory or framework developed under the accountability view differs in many respects from a theory based on the decision-oriented view (e.g., Ijiri, 1975, pp.ix-xi). For example, while the decision-oriented view emphasizes the usefulness of information to decisions, the accountability view emphasizes the plausibility to evaluate the past performance of management on the basis of the accounting system as a whole, or while the decision-oriented view emphasizes unbiased information for decision making, the accountability view emphasizes such designs of accounting systems that make it difficult or impossible to produce biased information at all. It is evident that the potential benefits involved cannot be simultaneously maximized in a single accounting system, and therefore one view or the other must be given the priority. This, however, has not been done in the Consultation Paper. The issue has not even been discussed.

Second, there are many kinds of decisions and many kinds of information need. The Consultation Paper (IPSASB CP, 2008, p.20) claims that some of these needs are similar for entities in the private sector and entities in the public sector. To some extent this claim is probably true but in general the decision-making model for investors in the public sector is not as straightforward as it is in the private sector. In the latter the risk-adjusted return on investment is the overriding criterion (see, e.g., Ross and others, 2002, chapters 10 and 12). Potential investors in the private sector are typically seen to focus almost exclusively on the forecast future cash flows and the risk involved.

This model of how investors are assumed to behave in the private sector has been so influential that it has even effected the definition of an asset which is now typically defined in terms of “future economic benefits” that “are expected to flow to the entity” (IASB Framework, par. 49(a)). What is important here is that eventually all the future economic benefits are assumed to flow to the entity in the form of cash and cash equivalents. The IASB Framework (par. 53) formulates this as follows: “The future economic benefit embodied in an asset is the potential to contribute, directly or indirectly, to the flow of cash and cash equivalents to the entity.”

Are these definitions also appropriate in the conditions where entities operate in the public sector where the major function is service delivery which by its nature is not expressed in monetary terms? The answer must be “no”, and this is also acknowledged in the definition of an asset in IPSAS 1 (paragraph 7) which defines assets somewhat differently as “resources controlled by an entity as a result of past events and from which future economic benefits or service potential [emphasis added] are expected to flow to the entity”.

However, the mere addition of the phrase “service potential” into the definition of an asset does not eliminate the fundamental problem of having assets so closely tied to the future cash flows. The problem is only transferred from the definition of an asset to its measurement. This is also evident in IPSAS 1 (paragraph 11), which explains that “assets that are used to deliver goods and services in accordance with an entity’s objectives but which do not directly [emphasis added] generate net cash inflows are often described as embodying service potential.” Does this mean that eventually service potential, too, will generate cash inflows in terms of which the measurement of service potential should be made? At any rate it is obvious that in financial statements service potential cannot be reported in its “natural units.
of measurement”, for example, in the number of books in a library or in the number of students educated in an elementary school. Instead, what is typically looked for in the measurement of service potential is some indirect monetary measure of its value. In Ijiri’s (1975, p.74) words non-basic resources must be measured in terms of the some basic resource which is typically cash in any modern economy. This brings the focus back to cash flows. Whether they are anticipated future cash inflows as indicated in the definition by the IASB or, for example, current or past outflows is a question that should be further discussed.

To summarize, the objectives of financial reporting by business entities in the private sector are very closely tied to the forecast future cash flows and the related risk while the objectives of financial reporting by entities in the public sector are more diverse. This is likely to have two implications. First, as the Consultation Paper acknowledges, the scope of financial reporting by entities in the public sector must be wider than that of business entities in the private sector. Second, and this is not acknowledged in the Consultation Paper, for entities in the public sector the definition and measurement of the key concepts such as economic resources and claims to those resources may have to be distinguished even more clearly from those for entities in the private sector. That is, it may be questioned whether it is informative at all to talk about resources (and consequently assets) in terms of direct or even indirect forecast future cash flows. It may be preferable to replace these output-based (i.e., benefit-based) definitions with input-based (i.e., sacrifice-based) definitions where assets would be defined in terms of unexpired costs. The attribute “unexpired” means that there are future benefits being expected but the amounts may be unknown or difficult to specify to the extent that is preferable to define and measure the concept of asset in terms of incurred costs rather than expected future economic benefits or service potential.

The scope of financial reporting by public sector entities

For public sector entities the scope of financial reporting encompasses the provision of financial and non-financial information about the total of five items (see the third topic in the introduction). The first one is related to the balance sheet (economic resources and claims to those resources). The second one is concerned with the income statement and the statement of cash flows (the effect of transactions, other events and activities that change the economic resources of the reporting entity and claims to those resources during the reporting period, including cash inflows and outflows and financial performance). The last three items widen this traditional scope of financial reporting. They consist of the reporting entity’s compliance with relevant legislation, the reporting entity’s achievement of its service delivery objectives, and prospective financial and other information about the reporting entity’s delivery activities and objectives as well as the resources necessary to support those activities.

Defined in this way the scope is much wider than that of financial reporting for business entities in the private sector. This is to be expected since it reflects the wider range of potential users of GPFRs of public sector entities. There is a problem, however, because the proposed framework does not acknowledge that the wider scope may have implications to the definition and measurement of some key concepts. For example, as indicated above, the concept of economic resource and consequently the concept of asset may have to be reconsidered. What is relevant for an asset in the conditions of business entities in the private sector where the objective is to provide financial information about the reporting entity that is useful to present and potential equity investors, lenders and other creditors in making decisions in their capacity as capital providers may not be relevant in the conditions where public sector entities are operating (cf. IASB ED, 2008, p.14 and IPSASB CP, 2008, p.18).
This problem is closely related to the above concern about the tension between the two major kinds of accounting systems, that is, systems that are designed to support accountability (and control) and systems that are designed to support various kinds of decisions. It was claimed that both kinds of systems may have their benefits but the benefits cannot be simultaneously maximized in a single accounting system, and therefore one approach or the other must be given the priority. If this is accepted then one should stop calling these financial statements “general purpose” financial statements. They would simply be financial statements based on selected premises. Only financial reporting that also consists of supplementary information could be labeled as being designed for general purposes.

For entities in the public sector, it may be argued that the priority should be given to the accountability purposes. Assets (being economic resources) and liabilities (being claims to those resources) should then be defined keeping this priority in mind. Moreover, the objectives should also be slightly modified to reflect the priority. The formulation could be as follows:

The objectives of financial reporting by public sector entities are to provide information in the form of financial statements and supplementary information about the reporting entity useful to users of this information for: (a) accountability purposes; and (b) making resource allocation, political and social decisions. The balance sheet and the income statement are to be constructed giving priority to the accountability perspective.

What has been said above does not necessarily change the scope of financial reporting. The scope only establishes the boundary around the transactions, other events, and activities that may be reported in GPFRs (IPSASB CP, 2008, p.6). It is the implications of the wider scope of financial reporting by public sector entities that should be acknowledged in one way or the other. Currently there are no signs of such implications being recognized.

The qualitative characteristics of information included in GPFRs

The qualitative characteristics of information included in GPFRs are defined as the attributes that make that information useful to users for accountability purposes and for making various decisions (IPSASB CP, 2008, p.31). Three problems concerning these attributes were mentioned in the introduction to this paper (topic 4) but only the third one will be discussed here. It will be suggested that the terminology of the qualitative characteristics of information and the underlying concepts should be modified and then portrayed hierarchically as illustrated in Figure 2. In addition, to evaluate whether the information to be disclosed really has the required qualitative characteristics, their presence should be considered in a process comparable to that of the scientific method.

These suggestions are likely to raise some concerns. Why should one apply these qualitative characteristics rather than the ones proposed by the Consultation Paper? And why should the application follow the proposed process rather than some other pattern? The answer is simple. The author proposes the qualitative characteristics and the process as a hypothesis believing that the hypothesis will stand the test in the sense that its application will eventually result in information more useful to its users than the information obtained by competing procedures, for example, the Conceptual Framework proposed by the IPSASB. Admittedly no empirical evidence is given here to support the hypothesis, but according to the scientific method that is no obstacle to proposing a hypothesis, or as Homans and Curtis (1970, p.23) put it:
“Hypothesis may mean simply a guess, a hunch, an assumption which points to a possibly fruitful line of work. Hypothesis may mean a statement of uniformity… Hypothesis, also, may mean a conceptual scheme.”

Thus, as a hypothetically fruitful set of guidelines, the Consultation Paper (IPSASB CP, 2008, p.7 and p.9) identifies the following qualitative characteristics of information included in GPFRs of public sector entities: relevance, faithful representation, understandability, timeliness, comparability, and verifiability. Materiality, cost and achieving an appropriate balance between the qualitative characteristics are then given as pervasive constraints on that information. Relevance is considered to encompass confirmatory value, predictive value, or both (IPSASB CP, 2008, p.32). Faithful representation is claimed to be attained when the depiction of economic or other phenomena is complete, neutral, and free from material error (page 33). The only indication of a hierarchy is the distinction between the attributes that are called the qualitative characteristics of information and the attributes that are called the constraints on that information.

Here the following system of qualitative characteristics is proposed as a competing hypothesis. To ensure the usefulness of the information in financial reports, it should have the fundamental qualitative characteristics of (1) relevance and (2) reliability (or freedom from error) under the general constraint of (3) sufficiency. The two fundamental qualitative characteristics may be seen to encompass several enhancing qualitative characteristics (cf. IASB ED, 2008, pp.38-41). For relevance they are (1a) confirmatory value, (1b) predictive value, (1c) understandability, (1d) timeliness and (1e) comparability. Similarly for reliability the enhancing qualitative characteristics are (2a) verifiability and (2b) supportability. The two fundamental qualitative characteristics of relevance and reliability are not absolute but show in degrees. Therefore the general constraint of sufficiency must be introduced and adopted. It consists of the requirement to achieve a balance between the ideal requirement of (3a) completeness and the following moderating elements: (3b) neutrality, (3c) materiality and (3d) cost-benefit-reasonableness.

(1) Relevance
The relevance of information is defined in the Consultation Paper as follows (IPSASB CP, 2008, p.32):

“Information is relevant if it is capable of making a difference in achieving the objectives of financial reporting  that is, in the discharge of the entity’s accountability obligations or in the decisions made by users of GPFRs.”

(1a) Confirmatory value and (1b) Predictive value
The above definition is a good one, particularly because it is so comprehensive. It encompasses both confirmatory value and predictive value as properly mentioned in the Consultation Paper. In addition, it encompasses even more making thus redundant (or at least subordinate) the attributes understandability, timeliness and comparability as proposed in the Consultation Paper.
Figure 2: The qualitative characteristics of information in GPFRs

- **RELEVANCE**
  - Is information capable of making a difference in achieving the objectives?

- **RELIABILITY**
  - Is information free from error?

- **CONFIRMATORY VALUE**
- **PREDICTIVE VALUE**
- **UNDERSTANDABILITY**
- **TIMELINESS**

- **VERIFIABILITY**
- **SUPPORTABILITY**

- **SUFFICIENCY**
  - Is there a balance in terms of the selected dimensions?

- **COMPLETENESS**
- **NEUTRALITY**
- **MATERIALITY**

Is the balance achieved?

- **REVISE INFORMATION**
- **DISCLOSE INFORMATION**
Understandability
The understandability of information (defined on page 35 as the quality of information that enables users to comprehend its meaning) is redundant to relevance. How could information be relevant to a person without first being understandable to him or her? In precisely the same way that understandability is dependent on a person’s education and knowledge, relevance, too, is dependent on such matters. The Consultation Paper (IPSASB CP, 2008, p.35) explains that understandability may be enhanced in many ways. For example, comparability is said to enhance understandability. Precisely in the same way it may be said that understandability enhances relevance. Therefore, relevance may be said to encompass understandability, that is, understandability may be considered an enhancing qualitative characteristic of relevance.

Timeliness
The timeliness of information (defined on page 35 in terms of having information available to users before it loses its capacity to be useful for accountability and decision-making purposes) is redundant to relevance for the same reason. No matter how potentially useful a piece of information may be, this potential will be lost if the piece of information is not available at the proper point in time. Therefore, the attribute of timeliness is also a distinct feature of relevance rather than a parallel qualitative characteristic of financial information. In other words, timeliness, too, may be regarded as an enhancing qualitative characteristic of relevance.

Comparability
The comparability of information (defined on page 36 as the quality of information that enables users to identify similarities in, and differences between, two sets of phenomena) is also redundant. In other words, comparability is encompassed by relevance. This should be evident if one considers the opposite. How could a piece of information be relevant if there were no way whatsoever to compare it with any other piece of information? For example, the piece of information saying that X has the value of 20 per cent is meaningless as long as one is unable to compare it with something else. Therefore it cannot be relevant, either. The situation would change essentially, if one learned that the value of X is typically less than a half of the return on investment in the same conditions. This new piece of information would not only make the first piece of information comparable to a known variable but it would also make it highly relevant. Consequently, the attribute of comparability should also be considered a distinct feature of relevance, that is, an enhancing qualitative characteristic of relevance, rather than a parallel qualitative characteristic of financial information.

Supplementary discussion
Thus the concept of relevance is even more powerful than the Consultation Paper acknowledges. It does not only encompass confirmatory value and predictive value but also such features as understandability, timeliness and comparability. Therefore any piece of information that (a) has either confirmatory value or predictive value and (b) at the same time is understandable, available at the proper time, and comparable to some other interesting pieces of information, is relevant. And conversely, a piece of information is not relevant even if it potentially has confirmatory value or predictive value but it is not in an understandable form, or it is not available when needed, or it cannot be compared to anything that is meaningful to the user.

Besides relevance the Consultation Paper also regards faithful representation as a necessary qualitative characteristic of useful information in financial reporting. It argues that a piece of
information is a faithful representation of the economic or other phenomenon that it purports to represent when the depiction of the phenomenon is complete, neutral, and free from material error (IPSASB CP, 2008, p.33). Moreover, the Consultation Paper implies implicitly (see, e.g., pages 9, 28 and 29) that prospective information about the future might also serve as a faithful representation of something.

Such arguments and implications are problematic, however, because they give the term “faithful representation” a totally new meaning that is very different from its established meaning in the theory of measurement. There faithful representation is related to quantification which must be made so that the functional correspondence between the degrees of the observable property and the numbers assigned to these degrees become a faithful representation. The issue of how to create a proper functional correspondence is called the representation problem (Krantz and others, 1971, Scott & Suppes, 1969, Suppes & Zinnes, 1963), and it is concerned with the isomorphism between the observable degrees of the given property in an empirical system and the relational numerical system selected to represent the empirical system.

This means that the property being faithfully represented for measurement purposes must be observable. However, the future cannot be observed. Therefore there is no way in practice to achieve a faithful representation of any future phenomenon. Consequently the term “faithful representation” should not be used in this new context where empirical observation is not required. Of course, it cannot be required precisely because faithful representation is purportedly extended to concern the future. Since future phenomena cannot be currently observed, talking about faithful representation of such phenomenon is simply misleading.

(2) Reliability

Instead of faithful representation, it is preferable to use the term “reliability” of information. Reliability refers to freedom from error and nothing else. It is not necessary to say that reliability refers to freedom from material error, since this would make the definition equal to one of the qualitative characteristics of faithful representation (IPSASB CP, 2008, p.33). It is just freedom from error, not materiality of it that should be considered fundamental. Materiality is thus only a moderating factor, not a distinct feature of the fundamental qualitative characteristic.

(2a) Verifiability

This raises the question of how reliability may be established. How could one know whether a piece of information is reliable or not? The best answer is to apply the scientific method as shown in Figure 1. First, attempt to verify the truth of the given empirical statement by comparing it with what may be observed. This process is called verification. A statement is verifiable if it can be verified. Hence it is proposed that verifiability in this sense should be the first enhancing characteristic of reliability. This is nothing new. The meaning of verifiability in this sense is essentially equivalent to that of direct verifiability in the IASB Exposure Draft (2008, p.40).

(2b) Supportability

Verifiability is a desirable qualitative characteristic of information but in many cases this characteristic is too demanding. Therefore, what is the next step if a piece of information cannot be verified? The answer might be in the process that is familiar from auditing. It may be required possible to check the inputs and recalculate the corresponding outputs. Such checking would not be verification but rather auditing that gives support and credibility to
information. A piece of information is supportable if it is possible for different knowledgeable and independent observers to reach general consensus that the methods used in producing the information have been properly applied (cf. IASB ED, 2008, pp.39-40 and IPSASB CP, 2008, pp.36-37). Consequently, one may say that supportability is the second enhancing characteristic of reliability. Its meaning is essentially equivalent to that of indirect verifiability in the IASB Exposure Draft (2008, p.40).

Whether even supportability is to be required before a piece of information may be disclosed is an open question. It is possible that a piece of information that can neither be verified nor even properly supported is so relevant that it would be useful to users although its reliability cannot be independently verified or checked. The IASB Exposure Draft (2008, p.52) gives management’s intentions as an example of a piece of information that can neither be verified (directly verified) nor supported (indirectly verified). Yet it may be useful to users.

Supplementary discussion

Relevance and reliability are thus the two fundamental qualitative characteristics of financial information. That is, if the user had all the relevant information and it was completely reliable, he or she would need nothing else. Usefulness of information would be secured. However, relevance and reliability are not absolute concepts but show in degrees. Therefore, as the first step, it was above stated what the additional qualitative characteristics are that enhance these fundamental characteristics. The second step will now be to set limits to enhancing. The question is: when does a user have enough of relevant information that is reliable to the required degree? In other words: when is the supplied information sufficient to the user?

(3) Sufficiency

The concept of sufficiency is a moderating concept that aims at an acceptable balance between the qualitative characteristics in terms of a few selected dimensions. The dimensions of moderation are completeness, neutrality, materiality and cost-benefit-reasonableness.

Because it is not practicable to produce and disclose every piece of relevant information with absolute reliability to all potential users, it must then be asked what is practicable and sufficient. The answer is briefly discussed in terms of the given four dimensions (see Figure 2).

(3a) Completeness

Completeness establishes the fundamental starting point to disclose all the information that is relevant. That is, if a piece of information is capable of making a difference in achieving the objectives of financial reporting, then it should be produced and disclosed. This is an extreme requirement demanding that not only part of relevant information should be available but all of it. Without moderation this requirement would result in great practical difficulties but it is a necessary starting point.

(3b) Neutrality

Neutralität is defined in the Consultation Paper typically as “the absence of bias that is intended to attain a predetermined result or to induce a particular behavior” (IPSASB CP, 2008, p.33). It continues: “Neutral information is free from bias, so that it faithfully represents the economic and other phenomena that it purports to represent.” Taken literally this means that neutrality is actually redundant to the proposed system. If it is taken to mean that one is not allowed to select or present information so that it favors some particular perspective, say, an
interest group then it is simply redundant to requiring that the set of relevant information to be disclosed should be complete. If pieces of information were left out that are relevant from some perspective, then the disclosed set would not be complete. On the other hand, if it is taken to mean that one is not allowed to present information so that it is excessively cautious or in some other way biased then it is simply redundant to requiring that the set of relevant information to be disclosed should be reliable. A biased piece of information can never be the best estimate in terms of reliability. Therefore, the complete set of relevant and reliable information is necessarily sufficient for making neutral estimates of the financial conditions and hence, as a distinct qualitative characteristic, neutrality is redundant.

However, if neutrality is interpreted as a moderating characteristic then it has a role to play. In this role neutrality is taken to mean that it is sufficient to report information for general purposes instead of tailoring it for the purposes of any particular interest groups. The “general purpose” implies that the selection and presentation of financial information are not biased to serve particularly any specific groups or goals but “neutrally” to all groups that are interested in the financial information of the entity. In this sense neutrality moderates the requirement of completeness.

(3c) Materiality

Materiality is regarded as a pervasive constraint in the Consultation Paper (IPSASB CP, 2008, p.38). That is a misleading statement in a way. Rather than being a pervasive constraint materiality is a pervasive moderating factor. Instead of requiring the complete set of relevant financial information, it is sufficient to require all the relevant information that is material with respect to the objectives of financial reporting, that is, serving the discharge of accountability by the entity for the reporting period and serving the decisions that users make on the basis of the entity’s GPFRs prepared for that period (cf. IPSASB CP, 2008, p.37). Similarly, instead of requiring complete freedom from error in the reporting of relevant financial information, it is sufficient to require that all the disclosed information is free from material error. Therefore, materiality is clearly a dimension of sufficiency (cf. IPSASB CP, 2008, p.38).

The Consultation Paper does not acknowledge that materiality is a moderating factor. This becomes evident in the discussion on faithful representation which is claimed to be “attained when the depiction of the phenomenon is complete, neutral, and free from material [emphasis added] error” (IPSASB CP, 2008, p.33). Faithful representation, or reliability, simply refers to freedom from error, however, not to freedom from material error, and it is a distinct issue to consider the extent to which this characteristic should be required. Completeness is thus the starting point and materiality is the factor that moderates this extreme requirement.

(3d) Cost-benefit-reasonableness

Cost-benefit-reasonableness refers to requiring that the benefits of financial reporting should justify the costs that it imposes (IPSASB CP, 2008, p.38). From the economic perspective this requirement is clearly acceptable. However, it is also a moderating requirement. It asserts that rather than requiring the complete set of relevant information with perfect reliability it is only economically reasonable to require information for which the related benefits justify the corresponding cost. This means that for economic reasons less than perfect information may be sufficient. The principle is simple and clear but it may be difficult to apply. Assessing whether the benefits of providing information really justify the related cost will typically be more qualitative than quantitative. The question becomes ambiguous by asking whether one
or more qualitative characteristics should be sacrificed to “some degree” in order to reduce costs.

Supplementary discussion

Figure 2 summarizes the above discussion on the qualitative characteristics of information in GPFRs. The evaluation of a potentially useful piece of information starts from asking whether it has the first fundamental qualitative characteristic of being relevant, that is, whether it is capable of making a difference in achieving the objectives. If the answer is “no”, the piece of information is useless and no further analysis is needed. If the answer is “yes”, one must ask if the piece of information has the second fundamental qualitative characteristic of being reliable, that is, whether it is free from error. Again, if the answer is “no”, the piece of information is useless and it should not be disclosed. If the answer is “yes”, then this piece of relevant information has the proper characteristics and should be disclosed.

This is an ideal picture of the evaluation process. In practice it becomes more complicated because the fundamental qualitative characteristics of relevance and reliability are not absolute but are applied in degrees. Therefore, one must introduce enhancing qualitative characteristics for the both of these fundamental characteristics. For relevance they are confirmatory value, predictive value, understandability, timeliness and comparability. An increase in the attainment of any of these characteristics enhances relevance. Similarly, for reliability the enhancing characteristics are verifiability and supportability. An increase in the attainment of these characteristics enhances reliability.

Enhancing could be performed without an end. Therefore one must ask what amount of enhancing is sufficient. Consequently sufficiency becomes the moderating factor. As such it is too ambiguous and therefore it must be made more specific by introducing some dimensions to it. Four dimensions of moderation were proposed: completeness, neutrality, materiality and cost-benefit-reasonableness. Therefore, sufficiency reduces to asking if there is a balance between the given qualitative characteristics in terms of the selected dimensions of moderation. Assessing whether the balance is in fact achieved will typically be more qualitative than quantitative.

Concluding remarks

The conclusions on the four problems identified with the proposed IPSASB Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities are summarized as follows:

1. The meaning of the term “conceptual framework”. The term “conceptual framework” may have two distinct meanings using different auxiliary terminologies. The first problem is that the IPSASB Framework takes the meaning from the one approach but the terminology from the other. This will result in misunderstandings. The most harmful of them is the illusion of certainty in the disclosed information.

2. The extensiveness of the two objectives of the framework, that is, to serve both accountability purposes and decision-making purposes. Accountability is related with the past while decision-usefulness is related with the future. There is a clear tension between these two. It is not practicable to construct the financial statements of an entity without giving the priority to one objective or the other. It should be explicitly said which objective is given the priority in preparing the
“general purpose” financial statements and which objective is then accounted for by supplying additional information.

3. The extensiveness of the scope of the IPSASB Framework. The proposed framework does not acknowledge that the wider scope may have implications to the definition and measurement of some key concepts, particularly that of an asset. What is relevant for an asset in the context of business entities in the private sector where the objective is to provide financial information about the reporting entity that is useful to present and potential equity investors, lenders and other creditors in making decisions in their capacity as capital providers may not be relevant in the context where public sector entities operate. It may be questioned whether it is informative at all to talk about assets in terms of direct or even indirect forecast future cash flows. It may be preferable to replace the output-based (i.e., benefit-based) definitions with input-based (i.e., sacrifice-based) definitions where assets would be defined in terms of unexpired costs.

4. The final problem with the IPSASB Framework concerns the proposed qualitative characteristics. In particular, the terms “faithful representation” and “verifiability” are misleading in this context. They are both adopted from the scientific method but they are both given a new meaning, too. These homemade constructs give the illusion of a scientific approach to producing information that in a closer examination only turns out to be quasi-scientific (for more details, see, e.g., Vehmanen, 2007, pp.152-168). Adopting a quasi-scientific framework would only raise false expectations regarding the certainty of the reported information. Therefore it is highly recommended here that one should modify the terminology of the framework to better match the level of certainty that may be achieved in financial reporting.

The proposed modifications to the Framework are by no means radical. They only replace the concept of faithful representation with the concept of reliability, redefine the concept of verifiability, introduce the moderating factor of sufficiency and portray the whole set of qualitative characteristics hierarchically as a dynamic process comparable to that of the scientific method. However, although the approach is comparable to that of the scientific method, the difference between the two should be evident: supportability of information is far less than verifiability in terms of how convincing or confirming the provided evidence is.

What may be achieved in practice at best by applying these qualitative characteristics is a systematic approach to producing information based on hard facts and general consensus. What may not be achieved, however, is refutable financial information based on observable empirical evidence. That would make financial reporting a true empirical science.

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Appendix: A summary of the scientific method

Scientists have regarded the endless cycle illustrated in Figure 1 as the distinctive characteristic of the scientific method. Let us take a few quotations. The first relates to the ultimate goal of any empirical science. The goal is to produce true empirical knowledge. Therefore the crucial question is: When can one say that empirical knowledge is true? The truth of any empirical statement is said to depend on how well it corresponds to empirical facts. This important starting point is expressed quite clearly, for example, by Popper (1966, p.369) (see Chambers, 2002, p.761):
“...an assertion, proposition, statement or belief, is true if, and only if, it corresponds to the facts.”

It should be emphasized, however, that science and theories in general are not concerned with isolated empirical facts. This is reflected in the typical definition of a scientific theory as a set of sentences or statements (see, e.g., AAA, 1971, p.54). The idea of a more comprehensive correspondence with a variety of empirical facts is also evident in the citation from Einstein (1935, p.133) emphasizing that all knowledge of real-world phenomena must start from empirical experience and also end in it (see Chambers, 2002, p.753):

“Pure logical thinking cannot yield us any knowledge of the empirical world; all knowledge of reality starts from experience and ends in it. Propositions arrived at by purely logical means are completely empty as regards reality.”

Besides emphasizing the importance of empirical experience (that is, “real-world phenomena” in Figure 1) the above citations also reflect the cyclic pattern of the scientific method. Even more explicitly, however, the endless continuity of this cycle is formulated by Homans and Curtis (1970, p.21) (see Chambers, 2002, p.765):

“To reach a theory, science observes certain facts and argues logically therefrom. The theory is submitted again to facts. The cycle is: observation, theory, verification, more observation, and so on forever.”

The cyclic and self-correcting pattern of the scientific method is obvious in the above citation. However, it lacks two specific concepts (measurement and prediction) that relate to phases 2, 5b, and 7 in Figure 1. To indicate their role, let us quote Walker (1963, p.5), who includes these concepts in his definition of the scientific method:

“The scientific method (1) postulates a model based on existing experimental observations or measurements; (2) checks the predictions of this model against further observations or measurements; (3) adjusts or replaces the model as required by the new observations or measurements. The third step leads back to the first step, and the process continues without end.”

These citations show clearly how important empirical observation is for the production of scientific knowledge (phases 2 and 7 in Figure 1). Of course, logical thinking, too, has a role to play in this process (phases 4, 5a, and 5b in Figure 1) but it can never replace empirical observation. Therefore, human opinions, too, are of only little value in producing scientific knowledge. Empirical facts are far more relevant and crucial. A scientist does not have to persuade anybody to think as he or she does, nor need a group of scientists reach consensus on matters being researched. It suffices that the empirical facts and the corresponding propositions agree. For example, Goode and Hatt (1952, p.7) formulate the very same point as follows (see Chambers, 2002, p. 754):

“Science is a method of approach to the entire empirical world... It is furthermore an approach which does not aim at persuasion, at the finding of ultimate truth...”
Public Sector Accounting: Democratic Control of Public Money by Using Administrative Cameralistics

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Unfortunately, there are very few scientists and practitioners having any interest in the development and standardisation of the cameral bookkeeping method, something which is strongly to regret with a view to the importance of these questions.

(Mülhaupt, 1987, p. 119; translated from German)

Introduction

Public sector accounting has traditionally been different from business sector accounting (i.e., commercial accounting), because public sector management traditionally has been different from business sector management. While there is a ‘profitability’ focus in the latter sector, the focus in the former sector has been on democratic (political) control of public money. In later years, however, as traditional public sector management (TPM) is being replaced by business sector management, referred to as new public sector management (NPM), the money focus is accordingly being replaced with a profitability focus in public sector accounting.

In this article the money focus of traditional public sector accounting will be revisited, by referring to cameral accounting. Cameral accounting was developed in continental German speaking European countries (Austria, Germany and Switzerland; see e.g., Buschor, 1994), and is known to a limited extent only beyond the German speaking countries. In three previous articles in International Journal of Governmental Financial Management, however, I have explained this particular accounting model to some extent to a non-German speaking audience. First, cameral accounting was presented as an alternative to commercial accrual accounting (often referred to as ‘accrual accounting’, see Monsen, 2008a). Thereafter, the two main variants of cameral accounting, namely administrative cameralistics (ACAM; see Monsen, 2008b) and enterprise cameralistics (ECAM; see Monsen, 2009) were explained, including the use of numerical examples. The purpose of the present article, however, is to explain ACAM in more detail than in Monsen (2008b). More specifically, the purpose of the article is to explain how traditional public sector accounting in the form of ACAM fulfils four main tasks, aiming at contributing to democratic control of public money.

The article is structured as follows: the next section departs from the main accounting concepts of revenues and expenditures, and points out that we face two different principles, which can be used when accruing the revenues and expenditures. Thereafter, an overview of the main tasks of traditional public sector accounting is given, followed by a brief introduction to ACAM. ACAM is thereafter explained in more detail, first by focusing on the closing of the accounts and budgetary comparisons. Thereafter, a numerical example is provided to illustrating ACAM in more detail. A separate commentary section departs from the numerical example, explaining how the four tasks of traditional public sector accounting are taken care of within ACAM. Thereafter, public sector organizations are first compared with commercial enterprises, focusing on their different ways of acquiring financial resources. Departing from this comparison, traditional public sector accounting in the form of ACAM is thereafter compared with new public sector accounting in the form of IPSAS-
Revenues and Expenditures

The main accounting concepts are revenues and expenditures (Mülhaupt, 1987). Revenues represent claims on cash receipt, while expenditures represent obligations for cash payments. This means that the revenues and expenditures always will have a money effect, either in the accounting period in question (in the form of present (or actual) cash receipts and present (or actual) cash payments, respectively) or in later accounting periods (in the form of future cash receipts and future cash payments, respectively). The revenues and expenditures could also have another effect (in addition to the money effect), namely a profitability effect in the form of revenues earned and expenses incurred. As distinct from the money effect of the revenues and expenditures, which influences the cash deposit of an organization, the profitability effect of the revenues and expenditures influences the equity of the organization (i.e., the difference between the assets and liabilities of the organization).

This means that the revenues and expenditures can be accrued according to two different principles, namely a money accrual principle and a profitability accrual principle. The former principle could be referred to as the principle of current dues (Oettle, 1990; English translation of the German term Anordnungsprinzip) and it is used for reporting the money effect of the revenues and expenditures. The latter principle – often imprecisely referred to as the accrual principle – is used for reporting the profitability effect of the revenues and expenditures.

Four Tasks of Traditional Public Sector Accounting

Public sector organizations are juridically accountable for their spending of public money:

“All public sector organizations are accountable for the financial resources, which they have been allocated for management. In addition to the obligation for preparing a budget, there are detailed rules regulating the cash accounts, the bookkeeping and the book closing. The specific characteristics of administrative cameralistics are reflected in these regulations.” (Wysocki, 1965, p. 17; translated from German)

It appears from this excerpt that ACAM has been developed for use by public sector organizations, making it possible for them to fulfil the accountability for their spending of public money. This means that the accounts must report the expenditures of the public sector organization, and how they have been financed in the form of revenues. Moreover, it also means that the revenues and expenditures (as reported in the accounts) are to be compared with the corresponding budgetary revenues and expenditures:

“The first task of the accounts of a public sector budget-financed administration is to report numerically correspondence or deviations between plan and execution for this administration: ‘The accounting books must be shaped in such a way that it is possible to see how the budget execution is compared with the budget.’ .. Administrative cameralistics shall provide the figures for this comparison, referred to as ‘budgetary accounting.’” (Wysocki, 1965, p. 18-19; translated from German)
This first public sector accounting task can thus be referred to as ‘budgetary control’, since the accounts should be used for controlling how the budget is implemented. Another important task for public sector accounting is ‘receipt/payment control’, which is related to the basic separation between receipt/payment instructions and receipt/payment executions (actual receipts/payments) in the public sector (at least in continental Europe):

“A basic principle for the public sector payment execution consists of the fact that no payment can be undertaken without a corresponding payment instruction, issued by another organizational unit with payment instruction authority, and cash can only be received by the cashier in accordance with a corresponding receipt instruction. Due to control reasons, the receipt or payment instructions are always issued by an organizational unit, which is trusted neither with the receipt/payment executions nor with the bookkeeping.” (Wysocki, 1965, p. 23; translated from German, italics in the original)

This basic separation between receipt/payment instructions and receipt/payment executions constitutes a key element of ACAM (see Mülhaupt, 1987). Both receipt/payment instructions and receipt/payment executions are entered on the cameral account with ACAM, and they are entered in different columns. In fact, receipt/payment control is integrated within the process when using the single-entry bookkeeping method of ACAM, by comparing figures entered in different columns, containing receipt/payment instructions and receipt/payment executions, respectively (see below for a numerical example). Furthermore, it is not enough to control that the cashier receives or pays cash after having received receipt or payment instructions, respectively, from another organizational unit having such an instruction authority. It is also important to control the cash receipts and payments themselves:

“As a result of focusing on the cash execution of the budget, administrative cameralistics pays special attention to fulfilling the task of controlling the cash movements. The objective of the accounts is to keep an overview of the cash transactions (i.e., the cash receipts and cash payments). The accounting books shall at any time make it possible to ascertain the cash deposit; moreover, they shall make it possible to keep an overview of non-budgetary money being received and given to others.” (Wysocki, 1965, p. 19; translated from German, italics in the original)

Hence, ‘cash control’ is the third task of public sector accounting. With regard to the result of the public sector administration, Wysocki (1965) points out:

“Finally, administrative cameralistics shall report the result of the public administration. This result can indeed not be an ‘administrative result’ in the meaning profit or loss…; it is rather a matter of reporting to what extent the revenues in total or for various activities cover the expenditures. It is true that there is a general agreement saying that the so-called financial (money) result not only can be reported as the difference between the revenues and expenditures for a specific period; it must also contain changes of the assets and the liabilities, caused by the budget execution. However, there is no agreement, either in theory or in practice, over the way this is to be undertaken. It is considered adequate to prepare regularly a numerical overview of the assets and the liabilities, in addition to the systematic accounts themselves.” (Wysocki, 1965, p. 20; translated from German, italics in the original)
The fourth task of public sector accounting is therefore ‘result reporting’. With regard to the result to be reported, it appears from the excerpt above that it cannot be an ‘administrative result in the meaning profit or loss’. By this Wysocki means that a profitability result, appearing as the difference between the profitability effect of the revenues and expenditures (as the difference between revenues earned and expenses incurred) cannot be reported for a public administration. On the other hand, he argues that ‘it is rather a matter of reporting to what extent the revenues in total or for various activities cover the expenditures.’ In other words: the result of the public administration represents a financial (money) result, reporting the difference between the money effect of the revenues and expenditures (in the form of present and future cash receipts and present and future cash payments).

**Administrative Cameralistics**

ACAM has been developed specifically for fulfilling the four tasks of traditional public sector accounting, namely budgetary control, receipt/payment control, cash control and financial (money) result reporting. Since these tasks are related to the money effect, as opposed to the profitability effect, of the revenues and expenditures, they can be referred to as ‘money tasks’. Moreover, the principle of single-entry bookkeeping is used in ACAM as well as the cameral account, consisting of a revenues (receipts) side and an expenditures (payments) side (see Table 1 below). On each side we find the following four columns: Balances or residual dues brought forward (BD), Current dues (CD), Actuals (A) and Balances or residual dues carried forward (B). Within ACAM receipt instructions are entered in the CD-column on the receipts side, and payment instructions are entered in the CD-column on the payments side. When a receipt instruction is executed, resulting in a cash receipt, this actual cash receipt is entered in the A-column on the receipts side. An actual cash payment, representing the cash execution of a payment instruction, is entered in the A-column on the payments side. In this way, bookkeeping rule (1) is followed, which requires that no A-entry can be undertaken without an earlier or simultaneous CD-entry. Bookkeeping rule (2) states that the balance at the end of the period, representing the amount to be carried forward as the balance at the beginning of the following period, appears as follows: Balances carried forward = Balances brought forward + Current dues - Actuals (B=BD+CD-A).

<table>
<thead>
<tr>
<th></th>
<th>Receipts</th>
<th>Payments</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Balances or residual dues b/f (BD)</td>
<td>Current dues (CD)</td>
</tr>
</tbody>
</table>

**Table 1**: The cameral account.

Since the cameral account consists of a receipts side and a payments side, only one of the two sides is used when a transaction is entered on the account by using the principle of single-entry bookkeeping: revenues (receipts) are entered on the receipts side and expenditures (payments) are entered on the payments side. This implies that the two cameral bookkeeping rules mentioned above, apply separately to the receipts and payments sides of the cameral account.
Closing of Accounts and Budgetary Comparisons

At the end of the accounting period, the accounts must be closed:

“As a result of the economic activity of the core part of the public administration, the financial (money) surplus or deficit for the actual (A) or receipt instructed (CD) revenues compared with the actual (A) or payment instructed (CD) expenditures, respectively, can be reported (formal closing). As opposed to total result accounts (i.e., profitability result accounts) for commercial enterprises, these net amounts cannot, however, be regarded as a measure of the profitability of the public administration, as long as, and to the extent that, the public sector revenues represent one-sided compulsory revenues, while the expenditures in principle result from public services given free of charge. Since the services given by the core public sector administration thus cannot be measured or evaluated by help of the revenues, the attempt at evaluating the profitability of the public administration as the difference between the revenues and the expenditures (in the form of revenues earned and expenses incurred) must also fail.” (Wysocki, 1965, p. 33; translated from German, italics in the original)

Wysocki (1965) states here that we cannot report a similar result in the core budget-financed part of a public sector organization as in a market-financed commercial enterprise, where a profit (as the difference between revenues earned and expenses incurred) is reported. Since we cannot assess the result of the core public sector by matching the profitability effect of the revenues and expenditures, there is no focus on a profitability result within ACAM. On the other hand, it is important to compare budgetary and accounting revenues and expenditures, focusing on the money effect, aiming at assessing whether the core public sector has kept its activities within the boundaries of the budget adopted by the politicians (budgetary control):

“If the budget and the accounts are prepared in a similar way, it will be easy to report the result of the public administration as it is defined above (i.e., as the difference between budgeted and real (accounting) revenues and expenditures).” (Wysocki, 1965, p. 33; translated from German)

Based on the cameral account, where accounting revenues and expenditures are entered (referred to as “cash accounts” by Wysocki, 1965), as well as the budgetary revenues and expenditures, we face the alternative closing possibilities illustrated in Table 2.

<table>
<thead>
<tr>
<th>Table 2: Closing possibilities (Source: Wysocki, 1965, p. 34; translated from German, italics in the original)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Cash receipts – cash payments in the cash accounts</td>
</tr>
<tr>
<td>2. Receipt instructions – payment instructions in the cash accounts</td>
</tr>
<tr>
<td>3. As differences between the receipt/payment instructions and the actual receipts/payments, the so called cash rests appear:</td>
</tr>
<tr>
<td>a) Receipt instructions – cash received in the cash accounts</td>
</tr>
<tr>
<td>b) Payment instructions – cash paid in the cash accounts</td>
</tr>
<tr>
<td>4. As differences between the various estimates in the budget (budgetary amounts) and receipts/payments executed and receipts/payments instructed in the cash accounts, respectively, on the revenues (receipts) side revenue surpluses or revenue deficits appear and on the expenditures (payments) side savings or exceedings appear</td>
</tr>
</tbody>
</table>

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The closing possibilities under points 1-3 are related to the formal closing of the cash accounts within ACAM. First, they aim at controlling the cash transfers, that is, the cash receipts (entered in the A-column on the receipts side) and the cash payments (entered in the A-column on the payments side). Second, they aim at receipt/payment control, that is, controlling that receipt instructions are issued before cash is received (i.e., comparing the CD- and A-columns on the receipts side) and controlling that payment instructions are issued before payments are carried out (i.e., comparing the CD- and A-columns on the payments side). With regard to comparisons under point (4), Wysocki (1965) states:

“The comparisons under point 4 aim at matching plan and execution within the public administration. For this comparison administrative cameralistics only provide the accounting figures, while the plan figures are extracted from the budget.” (Wysocki, 1965, p. 35; translated from German)

This means that comparisons of budgetary and accounting figures are based on accounting figures extracted from the cameral account, while the budgetary figures are extracted from the budget. Regarding accounting and budgetary comparisons, many misunderstandings exist:

“As particularly Walb (1926, p. 234 and onwards) and Winckelmann (1950, p. 47 and onwards) point out, the comparison of the amounts in cameral cash accounting with the budgetary amounts is the source of many misunderstandings about cameral accounting. The misunderstandings result from confusing the CD-amounts on the cameral account with the CD-amounts in the budget. ... Walb (1926, p. 235 and onwards) points out that the amounts are divided into three parts, namely the budgetary amounts (CD-budgetary figures), the current due amounts (CD-accounting figures) and the receipt/payment amounts (A-accounting figures), and in principle, none of these figures are identical with the others. Like the budgetary current due amount may be different from the accounting current due amount, the cash receipt and cash payment may be different from the receipt and payment instructions, respectively (i.e., accounting current due amounts), something which occurs, for example, by missing payments from debtors.” (Wysocki, 1965, p. 35; translated from German, italics in the original).

In this excerpt it is emphasised that the current dues (CD) figures on the cameral account represent accounting figures, namely accounting revenues (receipts) and accounting expenditures (payments), which have been instructed for receipts and payments, respectively. Budgetary revenues (receipts) and budgetary expenditures (payments) are, however, found in the budget. Even though budgetary and accounting comparisons take place outside the cameral account, they nevertheless are an important part of ACAM, which has budgetary control as one of its main tasks.

In practice, the term *actuals closing* (German: *Ist-Abschluss*) is used when budgetary figures are compared with actual receipts/payments in the accounts. Wysocki (1965, p. 35) points out that this particular type of comparison primarily is undertaken in the national public (governmental) sector (see Table 3).

<table>
<thead>
<tr>
<th>Receipt instructions in the budget</th>
<th>Payment instructions in the budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash received in the accounts</td>
<td>Cash paid in the accounts</td>
</tr>
<tr>
<td>= Revenue surplus / Revenue deficit</td>
<td>= Saving / Exceeding</td>
</tr>
</tbody>
</table>

*Table 3:* ‘Actuals closing’ (Source: Wysocki, 1965, p. 36; translated from German).
When budgetary figures are compared with the current dues figures (i.e., receipt/payment instructions) in the accounts, the term *current dues closing* (German: Soll-Abschluss) is used (see Table 4). This particular type of comparison is primarily undertaken in the local public (governmental) sector (Wysocki, 1965, p. 36).

<table>
<thead>
<tr>
<th>Receipt instructions in the budget</th>
<th>Payment instructions in the budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Receipt instructions in the accounts</td>
<td>- Payment instructions in the accounts</td>
</tr>
<tr>
<td>= Revenue surplus / Revenue deficit</td>
<td>= Saving / Exceeding</td>
</tr>
</tbody>
</table>

**Table 4:** ‘Current dues closing’ (Source: Wysocki, 1965, p. 36; translated from German).

These two types of comparisons deviate with regard to the amounts being transferred from the previous period to the accounting period in question, and from the accounting period in question to the following period (change in cash rests). Wysocki (1965) continues:

“The method of *current dues closing* is better than the method of *actuals closing* with regard to budgetary control, because control of the budget execution primarily must be based on the receipt/payment instructions (i.e., current dues figures). The final task of executing the receipt/payment instructions is a task for the cashier; it is in any case numerically controlled within administrative cameralistics.” (Wysocki, 1965, p. 36; translated from German, italics added)

According to the annual principle of the budget, budgetary revenues and expenditures cannot be transferred to another period. Hence, budgetary amounts not being realized as cash receipts/payments during the period in question will appear as savings or exceedings. If, however, a revenue item or an expenditure item is given a special mark, saying that it can be transferred to a later period, such a transfer is nevertheless possible:

“In the budgetary accounts these amounts will according to this be registered as so-called *budgetary rests* in addition to the cash rests. This is done in such a way that they either will be deducted from the receipt/payment instructions (i.e., the current dues amounts) or incorporated in the cash accounts.” (Wysocki, 1965, p. 37; translated from German, italics in the original)

Table 5 summarizes the various elements appearing in comparisons of budgetary and accounting revenues and expenditures.

<table>
<thead>
<tr>
<th>Revenues (receipts)</th>
<th>Expenditures (payments)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Receipt instructions in the budget</td>
<td>1. Payment instructions in the budget</td>
</tr>
<tr>
<td>2. + budgetary revenue rests transferred from the previous period</td>
<td>2. + budgetary expenditure rests transferred from the previous period</td>
</tr>
<tr>
<td>3. - budgetary revenue rests transferred to the following period</td>
<td>3. - budgetary expenditure rests transferred to the following period</td>
</tr>
<tr>
<td>4. = Budgetary receipt instruction after transfers</td>
<td>4. = Budgetary payment instruction after transfers</td>
</tr>
<tr>
<td>5. - cash received</td>
<td>5. - cash paid</td>
</tr>
<tr>
<td>6. = Revenue surplus/revenue deficit which is not according to plan by <em>actuals closing</em></td>
<td>6. = Exceeding/saving which is not according to plan by <em>actuals closing</em></td>
</tr>
<tr>
<td>7. + cash rests transferred from the previous period</td>
<td>7. + cash rests transferred from the previous period</td>
</tr>
<tr>
<td>8. - cash rests transferred to the following period</td>
<td>8. - cash rests transferred to the following period</td>
</tr>
<tr>
<td>9. = Revenue surplus/revenue deficit which is not according to plan by <em>current dues closing</em></td>
<td>9. = Exceeding/saving which is not according to plan by <em>current dues closing</em></td>
</tr>
</tbody>
</table>

**Table 5:** Elements of budgetary and accounting comparisons (Source: Wysocki, 1965, Abbildung 9, p. 37-38; translated from German, italics in the original).
Numerical Example

The following budgetary and accounting figures apply to the year in question:

<table>
<thead>
<tr>
<th></th>
<th>(1) Budgetary amounts</th>
<th>(2) Amounts incurred</th>
<th>(3) Receipt/payment instructions</th>
<th>(4) Actual receipts/payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Operating revenues</td>
<td>16,500</td>
<td>16,000</td>
<td>15,000</td>
<td>14,500</td>
</tr>
<tr>
<td>(2) Operating expenditures</td>
<td>10,500</td>
<td>11,000</td>
<td>10,000</td>
<td>9,900</td>
</tr>
<tr>
<td>(3) Interest expenditures</td>
<td>20</td>
<td>20</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>(4) Borrowing revenues</td>
<td>2,000</td>
<td>2,000</td>
<td>2,000</td>
<td>2,000</td>
</tr>
<tr>
<td>(5) Instalment expenditures</td>
<td>200</td>
<td>200</td>
<td>200</td>
<td>200</td>
</tr>
<tr>
<td>(6) Investment expenditures</td>
<td>3,000</td>
<td>3,000</td>
<td>3,000</td>
<td>3,000</td>
</tr>
</tbody>
</table>

The first column – *Budgetary amounts* – show budgetary figures in the form of revenues and expenditures. Here we do not have a distinction between ´amounts incurred´, ´receipt/payment instructions´ and ´actual receipts/payments´ due to the following two reasons: First, the budget contains planned (future) revenues and expenditures, not previously incurred revenues and expenditures. Hence, there are no ´incurred amounts´ in the budget. Second, the budgetary revenues and expenditures are planned both to be instructed for receipt and payment, respectively, and to be received as cash and paid as cash, respectively. The three remaining columns, however, contain accounting figures. The column *Amounts incurred* reports revenues and expenditures being incurred during the accounting year in question. The column *Receipt/payment instructions* reports revenues and expenditures instructed for receipts and payments, respectively, during the year in question. Finally, the column *Actual receipts/payments* reports how much of the receipt and payment instructions, which have been received or paid, respectively, during this year.

Before illustrating and explaining how some of these figures are entered on the cameral account by use of the single-entry bookkeeping method of ACAM, it is of interest to revisit the excerpt from Wysocki (1965, p. 35), referring to many misunderstandings when comparing budgetary and accounting figures. Wysocki refers to Walb (1926), pointing out that the amounts are divided into *three parts*, namely the budgetary amounts (CD-budgetary figures; see column (1) above), the current dues amounts (CD-accounting figures; see column (3) above) and actual receipts/payments (A-accounting figures; see column (4) above). Hence, Walb (1926) does not refer to revenues and expenditures incurred (see column (2) above; more about this below).
Bookkeeping Within Administrative Cameralistics

In the following, the single-entry bookkeeping method of ACAM is illustrated and explained, by using the numerical example presented above.

<table>
<thead>
<tr>
<th></th>
<th>Receipts</th>
<th>Payments</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Balances or residual dues b/f (BD)</td>
<td>Current dues (CD)</td>
</tr>
<tr>
<td>1) Op. revenues</td>
<td>15,000</td>
<td>14,500</td>
</tr>
<tr>
<td>2) Op. expend.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3) Interest exp.</td>
<td>2,000</td>
<td>2,000</td>
</tr>
<tr>
<td>4) Borrowing rev.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5) Instalment exp.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6) Investment exp.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>0</td>
<td>17,000</td>
</tr>
<tr>
<td><strong>Table 6:</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

As pointed out above, the following two cameral bookkeeping rules must always be followed: (1) No A-entry without an earlier or simultaneous CD-entry and (2) B=BD+CD-A. These two rules apply separately on the revenues (receipts) side and the expenditures (payments) side of the cameral account (revenues (receipts) are entered on the revenues (receipts) side and expenditures (payments) are entered on the payments side).

Operating revenues incurred (1) are 16,000, and a receipt instruction has been given for 15,000 (Receipts-CD=15,000). Of this latter amount, only 14,500 has been received (Receipts-A=14,500), implying an ending balance amount (i.e., accounts receivable instructed for receipt but not yet received) on the cameral account with 500 (Receipts-B=BD+CD-A=0+15,000-14,500=500). Operating expenditures incurred (2) are 11,000, and a payment instruction has been given for 10,000 (Payments-CD=10,000). Of this latter amount, only 9,900 has been paid (Payments-A=9,900), implying an ending balance amount (i.e., debt instructed for payment but not yet paid) on the cameral account with 100 (Payments-B=BD+CD-A=0+10,000-9,900=100).

Interest expenditures (3) with 20 have been instructed for payment (Payments-CD=20) and paid (Payments-A=20). Thus, no ending balance amount will appear here (Payments-B=0+20-20=0). Before the borrowing revenues can be received and entered on the account (4) with 2,000 (Receipts-A=2,000), a receipt instruction for this amount must first be given and entered on the account (Receipts-CD=2,000). No rest amount will now appear on the receipts side (Receipts-B=BD+CD-A=0+2,000-2,000=0). Loan instalment expenditures (5) have been paid with 200 (Payments-CD=200 and Payments-A=200; Payments-B=0+200-200=0). Furthermore, cash investment expenditures (6) with 3,000 are entered on the cameral account as follows: First, a payment instruction is given and entered on the account (Payments-CD=3,000), thereafter the cash amount is paid and entered on the account (Payments-A=3,000). Hence, no ending balance amount will appear here (Payments-B=BD+CD-A=0+3,000-3,000=0).

Commentary

In this section the four money tasks of ACAM, namely budgetary control, receipt/payment control, cash control and financial (money) result reporting, will be explained by referring to the numerical example above.

Budgetary control

The first task of ACAM is to contribute to budgetary control in the form of comparing accounting figures (extracted from the cameral account) with the corresponding budgetary figures (extracted from the budget). The focus is on the money effect of the revenues and expenditures, and with regard to the budget, we do not face alternative amounts to use: the revenues and expenditures in the budget are namely planned both to be instructed for receipts
and payments, respectively and to be received in cash and paid in cash, respectively, during the budgetary year. If we turn our attention to the accounting figures, however, the situation is less obvious. According to the German cameral accounting literature (see e.g., Wysocki, 1965), we have the following two alternatives for the accounting figures, which could be used for budgetary comparisons: (1) revenues (receipts) and expenditures (payments) which have been realized in the form of cash receipts and cash payments, respectively (i.e., A-figures on the cameral account) and (2) revenues (receipts) and expenditures (payments) for which receipt instructions and payment instructions have been issued, respectively (i.e., CD-figures on the cameral account).

Let us now return to the numerical example and illustrate various comparisons of budgetary and accounting figures, referring to the operating revenues and expenditures. We will start with ´actuals closing´, where budgetary amounts are compared with actual cash payments (see Table 7).

<table>
<thead>
<tr>
<th>Budgetary operating revenues (16,500)</th>
<th>Budgetary operating expenditures (10,500)</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Actual cash receipts (A-figures) (14,500)</td>
<td>- Actual cash payments (A-figures) (9,900)</td>
</tr>
<tr>
<td>= Revenue deficit (2,000)</td>
<td>= Saving (600)</td>
</tr>
</tbody>
</table>

Table 7: ´Actuals closing´ for the operating revenues and expenditures.

In Table 8 ´current dues closing´ for the operating revenues and expenditures is illustrated.

<table>
<thead>
<tr>
<th>Budgetary operating revenues (16,500)</th>
<th>Budgetary operating expenditures (10,500)</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Payment instructions (CD-figures) (15,000)</td>
<td>- Payment instructions (CD-figures) (10,000)</td>
</tr>
<tr>
<td>= Revenue deficit (1,500)</td>
<td>= Saving (500)</td>
</tr>
</tbody>
</table>

Table 8: ´Current dues closing´ for the operating revenues and expenditures.

An argument for using ´current dues closing´ is the following: Budgetary control should consist of comparing receipt instructed revenues and payment instructed expenditures, as they are reported in the accounts (i.e., on the cameral account) with the corresponding budgetary revenues and expenditures. If, for example, a person on whom a local government has a money claim does not pay, this is related to the receipt execution (i.e., the person does not pay the local government), it is not related to the budgetary control process of the local government (the payment instruction in the accounts corresponds with the budgetary amount).

Let us now take a closer look at this issue, by referring to the operating expenditures in the numerical example above. Operating expenditures incurred are 11,000, although the budgetary operating expenditures were only 10,500. In this case, someone (an administrative officer) has caused expenditures to be incurred with 500 more than what has been budgeted (11,000-10,500). The officer did not have the authority to incur these non-budgeted expenditures. Therefore, the payment instruction should still be in accordance with the democratic (politically) adopted budgetary expenditures (10,500) and not in accordance with the expenditures incurred (11,000). A similar reasoning applies to the revenues. This situation is the reason why Wab (1926), as mentioned above, does not refer to revenues and expenditures incurred (column (2)), when stating that the amounts are divided into three parts, namely budgetary amounts (column (1)), receipt/payment instructions (columns (3)) and actual receipts/payments (column (4)).

In summary, budgetary control for the revenues should consist of comparing the receipt instructions with the budgetary revenues, and budgetary control for the expenditures should consist of comparing the payment instructions with the budgetary expenditures.
Receipt/payment control

The second task of ACAM is to contribute to receipt/payment control. Both the cameral account with separate columns for receipt/payment instructions (CD) and actual receipts/payments (A) and the cameral single-entry bookkeeping method with its two rules (i.e., no A-entry without an earlier or a simultaneous CD-entry and B=BD+CD-A), have been specifically developed so receipt/payment control can be an integrated part of the bookkeeping itself (see Mülhaupt, 1987). This appears clearly in the bookkeeping example illustrated above and will be further explained in the following, referring to the bookkeeping of operating revenues and expenditures (see Table 6).

In the CD-columns receipt instructed operating revenues (15,000) and payment instructed operating expenditures (10,000) are entered on the receipts and payments sides, respectively, while actual cash receipts (14,500) and actual cash payments (9,900) are entered in the A-columns on the receipts and payments sides, respectively (bookkeeping rule 1). By using bookkeeping rule (2), it clearly appears that the actual cash receipt has been in accordance with the receipt instruction (Receipts-B=BD+CD-A=0+15,000-14,500=500) and the actual cash payment has been in accordance with the payment instruction (Payments-B=BD+CD-A=0+10,000-9,900=100).

As a result of the focus on receipt/payment control within ACAM, the balance columns on the cameral account contain revenues (receipts) and expenditures (payments), for which receipt/payment instructions have been issued, but are not paid yet. In the numerical example this is as follows (see Table 6):

<table>
<thead>
<tr>
<th></th>
<th>BD</th>
<th>B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue rests (in the form of receipt instructed, but not received revenues)</td>
<td>0</td>
<td>500</td>
</tr>
<tr>
<td>Expenditure rests (in the form of payment instructed, but not paid expenditures)</td>
<td>0</td>
<td>100</td>
</tr>
</tbody>
</table>

This means that incurred, but not payment instructed, operating revenues of 1,000 (see the numerical example above: line (1) Operating revenues: 16,000 in Column (2) minus 15,000 in Column (3)) and incurred, but not payment instructed operating expenditures of 1,000 (see the numerical example above: line (2) Operating expenditures: 11,000 in Column (2) minus 10,000 in Column (3)) are not entered in the balance columns on the receipts and payments sides of the cameral account, respectively. Neither is long-term debt (after instalments paid) of 1,800 (see the numerical example above: line (4) Borrowing revenues of 2,000 minus line (5) Instalment expenditures of 200) entered on the payments side, because no payment instruction has been issued for this amount. It is true that investment expenditures of 3,000 are entered in the current dues column on the payments side (when the payment instruction was given; see the numerical example above: line (6) Investment expenditures, column (3): Payment instruction of 3,000), but this amount is not reported in the current dues column on the receipts side (as an asset), because no receipt instruction has been, nor shall be, given for this amount.

There would be no bookkeeping problem entering non-receipt instructed revenues (in the example operating revenues (1,000) and investments (3,000)) as well as non-payment instructed expenditures (operating expenditures (1,000) and long-term debt after instalment (1,800)) on the cameral account (in the CD-columns and then accordingly in the B-columns; B=BD+CD-A), when using cameral single-entry bookkeeping. In fact, this is precisely what has been done, when ACAM was developed to ECAM (see e.g., Monsen, 2009). The motivation for this development was to allow for focusing on the profitability effect of the
revenues and expenditures, supplemented with complete and integrated balance accounts (reporting total assets, total liabilities and equity, including non-receipt instructed revenues and non-payment instructed expenditures) for public sector enterprises (like municipal electricity companies and municipal bus companies), which are more similar to market-financed commercial enterprises than to the budget-financed public administration. Entering non-receipt instructed revenues and non-payment instructed expenditures (in the CD-columns) on the cameral account (on the receipts and payments sides, respectively) within ACAM would imply that receipt/payment control, for which the single-entry bookkeeping method of administrative cameralistics and the cameral account (with separate columns for receipt/payment instructions (CD) and actual receipts/payments (A) have been specifically developed), could no longer be an integrated part of the bookkeeping (B=BD+CD-A). Hence, in order to fulfil the receipt/payment control objective, receipt instructions (as opposed to revenues incurred) and payment instructions (as opposed to expenditures incurred), are entered in the CD-columns within ACAM.

**Cash control**

Controlling the receipt and payment execution (referred to as 'cash control') is also important, in addition to controlling that the actual receipts/payments are in accordance with the receipt/payment instructions (referred to as 'receipt/payment control'), as discussed above. Since the various cash receipts and cash payments are entered in the A-columns on the cameral account, it is easy to get an overview of the cash receipts and cash payments, by studying the A-columns vertically. With regard to net cash change during the period, it appears as the difference between the cash receipts entered in the A-column on the receipts side and the cash payments entered in the A-column of the payments side. Referring to the numerical example (see Table 6), we find the following net cash change:

| Cash receipts (Receipts-A) | 16,500 |
| Cash payments (Payments-A) | -13,120 |
| Net cash change | 3,380 |

This positive net cash change shows that the cash receipts have exceeded the cash payments during the year in question.

**Financial (money) result reporting**

Within ACAM the money effect of the revenues and expenditures is entered on the cameral account. Hence, a financial (money) result is reported as the difference between receipt instructions and payment instructions in the CD-columns. Referring to the numerical example (see Table 6), we find the following financial (money) result:

| Receipt instructions (Receipts-CD) | 17,000 |
| Payment instructions (Payments-CD) | -13,220 |
| Financial (money) result | 3,780 |

This financial (money) result shows to what extent payment instructions have been financed by receipt instructions. Since this result in the numerical example is positive (3,780), we learn that all payment instructions have been financed by receipt instructions.

**Discussion**

*Market-financed vs budget-financed organizations*
All organizations incur expenditures, which must be financed by revenues, in order for the organization to survive. However, different types of organizations acquire revenues in different ways. And according to Danielsson (1977), we can distinguish between market-financed and budget-financed organizations, precisely based on how they acquire financial resources.

Market-financed organizations acquire financial resources via market transactions, where goods or services are exchanged with money. Commercial enterprises are examples of such organization, being involved in buying/producing and selling goods and services in order to generate a profit. Since these organizations have profitability as their objectives, they prepare profitability accounts, reporting the profitability generated from the market transactions. Or in other words, in the commercial (business) sector, a profitability accrual principle is used when bookkeeping revenues and expenditures, focusing on revenues earned and expenses incurred. National and local governments, however, are examples of budget-financed organizations. These organizations primarily acquire revenues via ‘one-way transactions’, as opposed to via market exchange-transactions. By this I mean that they receive tax revenues from the inhabitants, without giving a direct service in return to the inhabitants. And in these organizations the budget plays an important role (hence, the term ‘budget-financed organizations’). The expenditures (from providing services to the inhabitants) are incurred in the various departments of the organization (like the school department, the health department etc.), while the tax revenues are received by the central finance department. Therefore, the budget is used for allocating the tax revenues to the various departments, so they can finance their expenditures.

Since the budget focuses on the money effect of the revenues and expenditures, traditionally money accounts in the form of revenues and expenditures accounts have been prepared in the public sector. This has made it possible to fulfil the four money tasks of traditional public sector accounting, namely budgetary control, receipt/payment control, cash control and financial (money) result reporting.

**Comparing ACAM with IPSAS-standards**

ACAM has been specifically developed for use by public sector organizations, being budget-financed, while IPSAS-standards represent modified versions of IAS/IFRS-standards (IAS-International Accounting Standard, IFRS-International Financial Reporting Standard), which have been specifically developed for use by commercial enterprises, being market-financed. In ACAM, the focus is on the money effect of the revenues and expenditures, in the form of receipt instructed revenues and payment instructed expenditures, respectively, including actual cash receipts and actual cash payments, respectively. In the IPSAS-standards, however, the focus is on a modified profitability effect of the revenues and expenditures, in the form of modified revenues earned and modified expenses incurred. It is true that there is also an IPSAS-standard for the cash basis of accounting, but the International Public Sector Accounting Standards Board (IPSASB) which issues the IPSAS-standards, clearly shows preference for the accrual basis, or in other words, for modified profitability accounts.

We also find another important difference between ACAM and IPSAS-standards. While ACAM uses a specific variant of single-entry bookkeeping (in form of the single-entry bookkeeping method of administrative cameralistics), IPSAS-standards use a specific variant of the principle of double-entry bookkeeping (the IPSAS-standards are based on, but not identical with, the IAS/IFRS-standards, using the principle of double-entry bookkeeping). Moreover, the accounts used by ACAM and IPSAS-standards are different. ACAM uses the
single-sided cameral account, consisting of a revenues side and an expenditures side. On the other hand, IPSAS-standards use the double-sided commercial account with a debit side and a credit side. While the cameral account has four columns on each side (BD-, CD-, A- and B-columns), the commercial account has only one column on the debit and credit sides, respectively. Hence, more types of information (such as receipt/payment instructions and actual receipts/payments) can be entered on the cameral account (in different columns) than what is possible when using the commercial account (with only one column). In fact, use of the principle of single-entry bookkeeping, as opposed to the principle of double-entry bookkeeping, makes it possible with such a registration of more types of information in the accounts. As pointed out by Wysocki (1965, p. 15), the former principle is more flexible than the latter principle. Specifically, when using the principle of single-entry bookkeeping, we may undertake one, two or more single-entries, depending on what information we want to report. On the other hand, when we use double-entry bookkeeping, we must always undertake two entries with the same amount on two different accounts (debit=credit).

In summary, although both ACAM and IPSAS-standards are developed for use by public sector organizations, they represent different types of accounts, namely money accounts and modified profitability accounts, respectively. The bookkeeping methods used (single-entry and double-entry, respectively) as well as the accounts used (cameral single-sided and commercial double-sided accounts, respectively) are also different.

**Conclusion**

Public sector organizations, being budget-financed, acquire financial resources differently from commercial enterprises, being marked-financed. Therefore, public sector organizations need another type of information than the profitability information required by commercial enterprises with a profit objective. Furthermore, since the IPSAS-standards are modified versions of the IAS/IFRS-standards, reporting modified profitability information, public sector organizations need another type of information than the one provided by the IPSAS-standards.

Public sector organizations need money information to be used for democratic control of public money. Undertaking this form of control, by using the reported accounting information to keep public sector organizations accountable for their spending of public money, is of utmost importance for the survival of the democracy. This article has explored the four specific money tasks of ACAM and demonstrated their relevance to the modern public sector. Given this it would seem to have the potential for use by public sector organizations beyond the continental German speaking European countries where it has its roots. This potential is worthy of further research.

**References**


Sovereign Wealth Funds

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Abstract
Sovereign Wealth Funds have been the focus of attention by American and European politicians and media commentators who suspect that their investment choices are made on the basis of political or strategic considerations rather than the normal investors’ interest in financial returns. Because those funds are owned and managed by foreign governments, they have also aroused nationalistic fears of foreign takeover of iconic corporations and financial institutions. However, a more objective analysis of the role played by Sovereign Wealth Funds would indicate the extent to which they can be a force for stability in the global financial market. Their record so far indicates that their motives are more financial than strategic, and that they are long-term-oriented and patient investors who don’t shift strategies due to short-term volatility in stock market indexes, or quarterly declines in sales or profitability. Their primary goal is to attain reasonable returns rather than establish managerial control or play active role in the operation of the businesses in which they invest.

Introduction
Sovereign Wealth Funds have generated a great deal of concern as they acquired assets in American and European corporations and financial institutions. Until the world has become fully focused on the 2008 financial crisis that threatened the collapse of major American- and European-based financial institutions, hardly a day passed without some politicians, economists, or media commentators questioning SWF’s motives and wondering about the harm that they may cause if they were allowed to acquire controlling interests in large corporations or major financial institutions. Calls were made to place them under stricter scrutiny and control. In Italy, foreign minister Franco Frattini expressed his government’s opposition to Sovereign Wealth Funds “buying more than 5 per cent of individual Italian companies” (Financial Times, 21 October, 2008). Other European governments have considered doing the same. Despite lack of evidence, Sovereign Wealth Funds have been accused of having hidden political and strategic motives. Some analysts have gone as far as suggesting that such funds not be allowed to have voting rights in the companies in which they invest (Economist, 20 September, 2008).

As state owned funds that manage governmental budgetary surpluses, revenues from commodity and other exports, proceeds from privatization, and foreign exchange reserves, Sovereign Wealth Funds are viewed by those critics as significantly different from private investors; hence the need to subject them to different regulations and control mechanisms. It can be safely assumed, however, that the concerns about their motives, hidden or otherwise, are based on attitudes towards who own them, rather than how they have performed and impacted the institutions in which they have acquired some assets.

Distinguishing Features
According to the Monitor Group, which is one of the world’s largest consulting firms, and the Italian Fondazione Eni Enrico Mattei (FEEM) research center, a fund must meet six criteria to be classified as a Sovereign Wealth Fund:
1. It must be state-owned.
2. It must be set aside to be managed separately from other government funds/assets.
3. It must avoid having “explicit pension obligations”.
4. It must invest in a variety of classes of assets.
5. It must direct its investments for the realization of financial returns.
6. It must commit a significant part of its capital to global investments.

These criteria not only show what Sovereign Wealth Funds are, but also what they are not. Indirectly, they dispel the notion that they are created to serve political, foreign policy or strategic objectives.

Ownership, Size, and Financial Significance

By the middle of 2009, there were at least 31 Sovereign Wealth Funds owned by 23 countries, holding assets in banks, manufacturing enterprises, service organizations, agribusinesses, real estate, commodities markets; and in the form of governmental and institutional securities. According to one estimate, they have holdings in 7,000 companies, located in 58 countries (Bris and Fernandes, 2009); and contrary to common perception, they don’t just belong to Arab oil exporting countries. In fact, those countries control only 29 per cent of SWF’s total holdings. The countries that established one or more of those funds over approximately a half century include Australia, Bolivia, Brazil, China, East Timor, France, Iran, Kuwait, Libya, Nigeria, Qatar, Russia, Saudi Arabia, Singapore, South Korea, and the United Arab Emirates. Evidently, several of those countries neither export oil nor are located in the Middle East. One common characteristic among most of them, however, is that they have had current account surpluses, at least at the time their funds were created.

The impact of Sovereign Wealth Funds on the world’s investment picture is a product of their size, and the location and kinds of investments they make. Estimates of their total value have ranged from $3 to $4.5 trillion in the middle of 2008. Due to the subsequent financial losses in the banking and real estate sectors, the drop in world trade and commodity prices, and the fall of stock values, their assets are believed to have dropped to between $1.8 and $3 trillion by the middle of 2009, still not an insignificant sum considering that they are owned by a relatively small number of countries. Accordingly, future growth projections have been scaled back from $10 trillion by 2016, and $20 trillion by 2020 to $7 trillion by 2019 (Oakley, 2009). Those figures, however, could improve with the speed and scope of the economic recovery.

Although Kuwait’s $200 billion SWF, known as the Kuwait Investment Authority (KIA), is the oldest, having been created in 1953, the Abu Dhabi Investment Authority (ADIA) and other Abu Dhabi-owned funds are the largest, with an estimated capital of $875 billion. Distant second is Norway’s SWF. It is projected that China’s $300 billion SWF could eventually surpass all others, thanks to that country’s huge financial reserves and the continued strength of its economy. In a disclosure statement required by the U.S. Securities and Exchange Commission, China’s Investment Corporation revealed that as of January 2010 it had $9.6 billion worth of investments in 60 American corporations and financial institutions, the largest of which was the $1.7 billion invested in Morgan Stanley. In addition, it was reported that China had $1.5 billion interest in 14 Index Funds; another $1.5 billion in an Arlington, Virginia, independent electric power company; $3.5 billion in Vancouver-based mining company (Teck Resources); and an undisclosed amount in another Arlington-based firm (Interstate Hotels and Resorts), which manages 232 properties in the United States, Russia, India, Mexico and other countries (Mufson, 2010; and Ahren, 2009).
The emergence of Sovereign Wealth Funds has, to a great extent, been a product of various imbalances in foreign trade and governmental budgets. Huge trade surpluses, attained by China and the key members of the Organization of Petroleum Exporting Countries (OPEC) as well as other oil exporters like Russia represent a transfer of wealth on a grand scale from the world’s major importers to few major exporters. China’s success as an exporter of a wide range of products has not only made it one of the leading trading nations (slightly edging Germany in 2009), but has also created a state of dependence on its low priced exports in many parts of the world. Even the economies of some of the richest countries, such as the United States and the members of the European Union, who account for 40 per cent of China’s exports, have become too dependent on the continued flow of China’s cheap exports. China’s trade surplus with the United States that is in excess of $200 billion a year (U.S. Census 2008), and its acquisition of over $540 billion worth of U.S. government treasury securities, have resulted in the two global competitors becoming economically inter-twined. As in the case of China that has maintained a surplus in its trade balance through sustained efforts to increase exports and reduce imports, Middle East oil producers have not reacted to the recent boom in oil revenues by letting “consumption to rise at the same rate as their trade surpluses; the governments of the Gulf spent less than 45 per cent of their oil revenues in 2008. The excess revenue filled the coffers of the region’s sovereign wealth funds and central banks.” (Drezner 2008)

**Sovereign Wealth Funds' Investment Strategies**

Although many risk-averse funds have historically committed a good part of their capital to fixed income securities such as foreign government bonds, an increasing number of them are diversifying their investments to include private equity, hedge funds, commodities, real estate, and infrastructural projects. Typically, Sovereign Wealth Funds avoid holding controlling interests in the companies and financial institutions in which they hold some assets. “On average, Sovereign Wealth Funds take 0.74 per cent of the shares outstanding in a company… Their level of control only reaches 50 per cent in less than 1 per cent of their investments” (Bris and Fernandes, 2009). Sovereign Wealth Funds have also had the tendency to locate their investments in countries that offer legal protection for foreign investors. They choose companies that have growth potential although their profits and stock prices might have fallen in recent years. Because of their emphasis on long term revenues and their lack of interest in management control, they have been described as passive and patient investors.

Although they don’t have a history of acting in concert, a number of joint investments have been started by two or more Sovereign Wealth Funds in 2009, which may signal a new trend. Examples of such investments include:

1. Abu Dhabi and Malaysia’s Sovereign Wealth Funds joining forces in energy, real estate, and hospitality related projects.
2. France’s Fonds Strategique d’Investissement fund joining Abu Dhabi’s Mubadala Fund in a biotechnology industry investment.
4. Qatar’s $850 million joint investment with Indonesia to finance agricultural, touristic, and natural resources development projects in Vietnam (Saigol, 2009).
Governance and Management Style

As Sovereign Wealth Funds differ in their sizes and investments, they also differ in the way they are managed. Some, as in the case of Qatar’s SWF, are under the control of the ruling elite. Other Sovereign Wealth Funds are managed by public officials, chosen from appropriate government agencies. Some others, like Singapore and Norway’s that are known for good governance are run by professional managers who have gained a reputation as astute investors. These two funds are also known for their transparency, and are viewed as models for other funds to follow. Norway’s SWF success record has caused East Timor and Bolivia to seek its assistance in managing their funds.

In 2007, Singapore indicated that it would not invest in iconic companies that host countries would rather keep in the hands of individual or non-governmental institutional investors due to cultural, nationalistic, or political considerations (Financial Times, 12 December, 2007). Host country worries about possible take-over of those companies, and fear about Sovereign Wealth Funds’ motives and management integrity have also resulted in the negotiation of a voluntary Code of Conduct, with the help of the International Monetary Fund. This code, which has been given the name “the Santiago Principles”, provides Sovereign Wealth Funds with a framework of accountability, transparency and governance. As an extension of this code, SWF have been urged to avoid the acquisition of more than 5 per cent of any single company in order to minimize the political impact of their investments.

Concern for sustainability by Sovereign Wealth Funds is still in its early stages. There is some evidence, however, that it would become a greater factor in future investment decisions, as Sovereign Wealth Funds become more concerned about their image and political acceptance. In one case, Norway’s SWF has decided to sell its interest in the mining company, Rio Tinto, because of reservations about the environmental damage caused by that company’s joint venture in Indonesia. Although Rio Tinto claimed that it was not involved directly in the management of the Indonesian mines, Norway refused to do business with it. Meanwhile, China has announced that its SWF would favor socially responsible investment opportunities. The types of businesses it would avoid include some in the tobacco and arms industries (Anderlini, 2008).

Investment Successes and Failures

The success and failure record of a SWF has been influenced by the types of investments made, the extent to which professional managers and advisors have been involved in making investment decisions, and developments and trends in the global economy. Some Sovereign Wealth Funds have gained over the years from investments in real estate and stock acquisitions. Some have taken a more conservative stand by purchasing U.S. government securities; thus, earning consistent but low returns on their investment. This group, which includes Saudi Arabia and China, has escaped the 2008 shock of declining real estate and stock market indexes. Sovereign Wealth Funds assets in financial institutions have also taken a beating. According to McKinsey and Company, of the $60 billion of SWF investments in western financial and banking institution, about $14 billion have been lost in 2008 alone as the world faced a near financial meltdown (quoted in Business Week, 29 September, 2008). The Kuwait Investment Authority has lost $270 million on its $3 billion investment in Citigroup within an eighteen-month period (The Washington Post, 25 September, 2008) and eventually decided to sell its remaining stocks in that bank. Overall, Sovereign Wealth Funds are estimated to have lost up to 18 per cent of their portfolios between 2007 and the beginning of 2009, according to Deutsche Bank analysts (Saigol 2009).
**Shared Benefits**

Sovereign Wealth Funds serve three main objectives as far as their owners are concerned:

1. They help them diversify their sources of revenue. In the case of those who are dependent on one commodity, like the Middle East oil exporters, Sovereign Wealth Funds are intended, in part, to prepare them for the day when they run out of oil.

2. Their economies may not be able to absorb all of the revenues realized from their trade surpluses; hence, the need to invest in other markets.

3. Investments in well established corporations outside their domestic markets could, over the long term, bring higher returns and carry lower risk.

Sovereign Wealth Funds also bring the following benefits to host countries:

1. As investors, Sovereign Wealth Funds bring in needed capital that some companies and financial institutions need.

2. Sovereign Wealth Funds are long-term oriented; accordingly, they contribute to the stability of the firms in which they invest. Unlike short-term investors and speculators, they don’t withdraw their investments due to short-term fluctuations in stock values or deterioration in quarterly returns.

3. Investments by Sovereign Wealth Funds contribute to the survival of capital-short companies and banks that are not able to acquire additional equity due to short-term financial problems.

4. They help increase long-term shareholders’ value since the stocks of the companies, in which they invest, usually rise in value due to confidence in Sovereign Wealth Funds investment strategies.

5. They support development projects in capital short developing countries.

**Future Direction**

The global financial crisis and economic recession that have caused Sovereign Wealth Funds to lose some of their assets has forced those funds to re-examine their investment strategies, and make some modifications. Some have started to favor keeping more of their investments in their home countries or close to home, i.e. in nearby countries. Others decided to sit on their money in anticipation of a change in business prospects; thus, temporarily reducing the level of their involvement in global financial transactions. According to the Monitor Group and Fondazione Eni Enrico Mattei (FEEM), Sovereign Wealth Funds from the Middle East and Asian oil exporting countries “made just 26 investments, worth a total $6.8 billion in the first three months of (2009)…That represents a fall of more than 50 per cent in the number of investments made in the first quarter last year (2008).” (Saigol 2009)

The International Energy Agency (IEA) has projected that per barrel crude oil prices, which have a major impact on the future of Sovereign Wealth Funds, are likely to increase at a fast rate after the world fully recovers from the economic shock and the near financial meltdown of 2008. A barrel of crude could reach up to $200 by 2030, compared to about $80 in 2010. Expected rise in demand, accompanied by a declining capacity to raise output, may put pressure on prices to rise up to that level. To OPEC members, who by then are expected to be responsible for 51 per cent of world supply, such a price level would raise their revenues to
about $2 trillion per year, a significant increase over the $700 billion they earned in 2007 (Blas and Hoyos 2008). Some analysts estimate that for OPEC members, with the exception of Venezuela and Nigeria, every dollar in the price per barrel of oil in excess of $50 can add to their Sovereign Wealth Funds. (The Middle East 2008; and the Washington Post, 19 October, 2008).

Conclusion
The western countries’ concerns about Sovereign Wealth Funds motives and hidden agendas have so far proven to be based on false assumptions that are more political than financial. Therefore, as the world economy continues to recover from the deep recession that began in 2008, Sovereign Wealth Funds will find the future investment climate far more friendly, and their former critics less critical. Some observers believe that host countries and Sovereign Wealth Funds have begun to adjust to each other. Sovereign Wealth Funds are becoming increasingly sensitive to host country concerns; and host countries more receptive to the idea that government-owned funds can behave as responsibly as other institutional investors. Improvement in host country relations would also be enhanced as Sovereign Wealth Funds become more transparent and professionally managed. As they gain more experience and further develop their managerial capabilities, Sovereign Wealth Funds are expected to operate with more confidence, and seek greater influence and proper representation on the boards of the corporations in which they invest.

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Public Financial Management in Sudan

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Abstract

Effective public financial management and financial control systems have an important role in ensuring the accountability of the use of public fund, and safeguarding limited public resources against corruption and other misuse and unlawful practices. This study aims to identify and provide a description, assessment and analysis of the role of public sector audit and other financial controls in safeguarding the country's public resources in the Sudanese public sector entities at the federal, state, and local levels, and minimizing financial corruption in the Sudan.

The objective of this study is to address the contexts where perverse incentives for financial corruption exist, and try to provide practical solutions. The factors that can facilitate financial corruption in the Sudan include weak and ineffective internal control systems, deficiencies in the accounting systems, the penalties are not harsh enough, very low salary levels, backlog of external auditing, and nepotism. The study revealed that financial corruption in the Sudan is deeply rooted and is institutionalized.

The study will serve to underscore and guide the Sudanese administrative reformers who are intending to combat financial corruption and introducing practical systems reforms.

Keywords: Public financial management, financial controls, financial corruption, Sudan.

Introduction

Although, the Sudan’s oil sector has grown rapidly over the past ten years, in addition to many other sources of national wealth, Sudan is classified, according to many international organizations, amongst the very poor and most corrupt countries in the world (CPI, 2008; Economic Freedom Index, 2007, World Bank, 2007). In the Open Budget Survey (2008), which included Sudan and 84 other countries, Sudan was joint bottom with 0 points along with DR Congo, Equatorial Guinea and Sao Tome. The existence of poor public financial management system and financial controls in the Sudan, in addition to the absence of transparency in the functioning of government, the deficiencies of prosecuting agencies, the ineffectiveness of procurement and audit, shortage of qualified accounting and auditing staff, and low salary levels of public sector employees are the major factors which facilitate corruption and misuse of the limited public funds in the Sudan (Logune, 2006; JAM, 2005).

It is generally recognized that many developing countries have sub-optimal governmental financial control systems which often became worse in the ‘lost decade’ of the 1980s and later. The serious deficiency in the financial control systems in the Third World is considered as the major factor which facilitates the misuse of public resources and financial corruption. Little attention has been given, at least until recently, to sound accounting and auditing practices, and comprehensive training programmes for auditing and accounting staff in public sector organizations (Johnson, 1992, Balkaran, 1993). The supreme audit institutions and internal check in public sector units in many African countries are ill-equipped and lack an adequate number of skilled staff members. On the accounting and reporting side, besides the delays in producing consolidated treasury balances, the reliability of fiscal data is often questionable. In practice, government auditors are generally not independent from the
executive branch, and auditors' recommendations are rarely implemented. Audit and external control are the weakest links of the African public revenues and expenditure management system (Moussa, 2004). The deficiencies in the auditing and accounting systems in African countries include ineffective internal control and internal check, unqualified auditing and accounting staff, and unreliable and untimely accounting information systems Giorgis (1998); Wyk, et al. (1998). This provides inadequate safeguards against fraud, corruption, and malpractices in public sector organizations (Gwilliam and El-Nafabi, 2002).

**Literature Review**

In the last decade or so, corruption has attained a high profile in the development, political economy debate and literature (Tanzi, 1998). It has been seen as the most serious economic crime endangering the national security economic growth and public safety of any country (Asis, 2000; Fantaye, 2004; O’Shea, 2004; Kaufmann and Vicente, 2005). In all countries, and more noticeably in developing countries, corruption is detrimental to state efficiency. It hampers budget equilibrium, diminishes expenditure efficiency, and distorts its allocation between different budgetary functions (Delavallade, 2006). Corruption harms many Third World countries where poverty is prevalent and the economy is poor and supported by foreign aid and loans. In spite of the presence of oil and vast mineral resources in many African countries such as Angola, Chad, the Democratic Republic of Congo, Nigeria and Sudan, the situation continued to blight rather than enhance people’s lives because of conflicts, corruption and power struggles (Khan, 2007). Peter Eigen (2005), the former Chairman of Transparency International (TI), said that corruption is a major cause of poverty as well as a barrier to overcoming it. However, others have argued that it is poverty which led to corruption rather than the other way around (Chetwynd et al. 2003, Johnston 2009). To show how corruption destroyed economy of countries, it is estimated that the annual corruption industry worldwide is close to US $1 trillion (Kaufmann, 2005; Svensson, 2005). Corruption results in a major loss of public funds needed for development, education, healthcare and poverty alleviation, both in developed and developing countries (Peter Eigen, 2004). Gonzales (2000) stated that corruption distorts the allocation of local resources and the performance of local governments. The TI Corruption Perceptions Index 2009 (CPI) shows that 131 out of 180 countries (73%) scored less than 5 against a clean score of 10. This clearly indicates the seriousness of corruption in many countries worldwide. In the paper “Governance Matters IV” covering significant changes over the six-year period 1998-2004, the control of corruption was shown to have significantly worsened in a number of African countries, including Sudan (Kaufmann et al., 2005).

Public financial management usually covers the management of government revenue, expenditure, and cash (Lubin, 2007). There appears to be a negative correlation between the quality of public financial management systems and financial corruption (Lubin, 2007). Reporting on work done by TI and the World Bank, Dorotinsky and Pradhan (2007) consider that there are five systemic factors which increase the risk of corruption in public financial management:

- weak public financial management capacity which include record keeping, reporting, accounting, and financial management staff;
- inadequate internal controls;
- limited internal fiscal transparency;
- weak management and supervision, and;
- weak external accountability in public spending.
On the other hand, an effective public financial management and control systems activity strengthens governance by materially increasing citizens’ ability to hold their governments to account. Auditors perform an especially important function in those aspects of governance that are crucial in the public sector for promoting credibility, equity, and appropriate behavior of government officials, while reducing the risk of public corruption (IIA, 2006). According to Baltci and Yilmaz (2006), the effort to reform a fiscal system should include internal control and audit due to crucial role they play in enhancing accountability and effectiveness. In addition, an effective public sector internal audit could play a useful role in the investigation process, and the internal auditors can play a vital role in assisting the agencies responsible for investigation of alleged cases of corruption in public sector organizations (Khan, 2006). Internal auditing as a control measure does not only minimize the opportunities for corruption through the verification of procurement process, but also ensures effective physical monitoring of capital items procured and actual utilization which should avoid fraud and abuse (Asare, 2008).

The wages paid to civil servants are important in determining the degree of corruption as is the general level of economic development of a country. The lower the wage level, the higher is corruption (Tanzi, 1998; Kameir and Kursany, 1985). In addition, the absence of transparency and ineffective institutional controls are seen as the main factors leading to corruption (Tanzi, 1998). It is generally noticed that the harshness of penalties imposed on the perpetrators being caught, plays an important role in preventing or reducing the number of crimes or illegal acts (Becker, 1968). However, in most developing countries, relatively few people are punished for acts of corruption, in spite of the extent of the phenomenon. Furthermore, with the exception of a few countries, there seems to be a wide gap between the penalties specified in the laws and regulations and the penalties that are effectively imposed (World Bank, 1998).

Financial Controls and Corruption in the Sudan

According to many international institutions (CPI, Economic Freedom Index, World Bank), Sudan’s economy is hindered by instability, poor infrastructure, economic mismanagement, and corruption. The TI Corruption Perceptions Index shows that corruption in Sudan has deteriorated in recent years. The score for the country reduced from the already poor score of 2.2 out of 10 in 2004, to 2.1 in 2005, 2.0 in 2006, 1.8 in 2007, 1.6 in 2008 and 1.5 in 2009 when it was the fourth most corrupt country included in the survey. This clearly indicates that the Sudan is moving fast to become the most corrupt nation on earth. The Index of Economic Freedom 2008 also reveals that Khartoum’s government is rife with corruption, and the country is one of the world’s twenty most corrupt nations.

Twenty three years ago, Kameir and Kursany (1985, p. 7) stated that “corruption in the Sudanese context can hardly be avoided. It touches upon the life of every citizen. It has become a major source of income generation . . . In addition to wages, rent, profits and interests, corruption could be considered as a fifth factor in determining the distribution of the national product and perhaps is the most important among them in a Sudanese context”.

In post-war, Southern Sudan, besides widespread corruption and institutionalized nepotism, one of the most widely acknowledged barriers to services delivery and infrastructural development is the lack of human resources capacity in different units of the government of Southern Sudan (Koul, 2007). It has been argued that, the underdevelopment in Southern Sudan has been subjected to high levels of corruption which has affected the proposed development projects in the entire country (Anhiem, 2009). However, some action has been
taken and, for example, four senior officials of the ministry of finance in Southern Sudan have been dismissed as a result of allegations of corruption (Kago 2006, Alsahafa Newspaper 2007).

In addition, in June 2006, the Southern Sudan Anti-Corruption Commission (SSACC) was established by presidential decree to spearhead the Government of Southern Sudan’s fight against corruption. In addition, the President of the Government of Southern Sudan, Salva Kiir, has directed in decree No. 1 for 2007 that the SSACC and the Southern Sudan Audit Chamber, in collaboration with the Ministry of Legal Affairs and Constitutional Development, should review all major procurement contracts entered into by the Government of Southern Sudan between 2005 and 2006. It would be helpful in fighting corruption and strengthening transparency and accountability throughout the whole Sudan if the national government in Khartoum took the same steps and established a national anti-corruption commission and an independent committee to review how the government is using the public funds, and also to review the government contracts.

Like most Arab and African countries, tribalism is strong and deeply rooted in the Sudanese community. Wakoson (2007), the Sudanese Minister of State for International Cooperation in the Sudan Government of National Unity, stated that in Southern Sudan, the contradictions and conflicts between cultural tribalism and public duties are the fundamental reasons for rampant corruption, inefficiency, nepotism, and what appears to be general irresponsible conduct in public institutions. He added that “we hear of departments full of same family members, or people appointing family members to multiple positions. This is clearly is the ugly face of nepotism. Accordingly, work ethics diminishes because top officials cannot punish their relatives for corruption or other irregularities. Such a situation is not restricted to the Southern Sudan, but it is prevalent in all Sudanese communities.

According to the General Audit Chamber Act of 1999, the General Audit Chamber is responsible for auditing the accounts of all federal and state government organizations, the National Assembly, the Judicial Authority, public companies, the Bank of Sudan and other government-owned corporations and banks and in which the government holds not less than 20% of the share capital.

Given the hidden nature of financial corruption and that it is typically operates in the dark and the perpetrators of corruption are anxious to conceal the true nature of their activities, it is virtually impossible to obtain even a rough estimate of the size of the corruption industry in the Sudan. Accordingly, the number and scale of corruption that come to light in the Sudan each year is much less than the actual level of corruption, and official estimates are unreliable. The only source of data and information about corruption committed by the public sector employees in the Sudan are the annual audit reports of the General Auditor Chamber. This body faces many difficulties that result in many public sector organizations not to being examined for many years. Thus, external audit uncovers only a fraction of the underlying corruption. Nevertheless, Table (1) below illustrates the rising trend in the detected financial corruption in the Sudanese government organizations and public companies over the period 2000-2007.
Table (1) Amounts of Public Funds Stolen in the Sudanese Central Government Organizations and Public Corporations Over the Period 2000-2007

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Amounts of Funds Stolen in SUD millions</th>
<th>Amounts and % in Central Government Organizations in Khartoum</th>
<th>Amounts and % in Central Government Organizations in States</th>
<th>Amounts and % in Public Companies</th>
<th>Amounts and % Stolen from Zakat</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000 - 2001(1)</td>
<td>278.7</td>
<td>54</td>
<td>6%</td>
<td>71%</td>
<td>4%</td>
</tr>
<tr>
<td>2001-2002(2)</td>
<td>267.9</td>
<td>113.8</td>
<td>43%</td>
<td>19.7</td>
<td>30.5</td>
</tr>
<tr>
<td>2002-2003(3)</td>
<td>168.2</td>
<td>21.1</td>
<td>13%</td>
<td>21.7</td>
<td>74%</td>
</tr>
<tr>
<td>2003-2004(4)</td>
<td>396</td>
<td>60.9</td>
<td>15%</td>
<td>62.8</td>
<td>273</td>
</tr>
<tr>
<td>2004-2005(5)</td>
<td>542.5</td>
<td>63.5</td>
<td>12%</td>
<td>124.8</td>
<td>354.2</td>
</tr>
<tr>
<td>2005-2006(6)</td>
<td>904.3</td>
<td>69.3</td>
<td>8%</td>
<td>164.1</td>
<td>670.9</td>
</tr>
<tr>
<td>2006-2007(7)</td>
<td>561.2</td>
<td>280.6</td>
<td>50%</td>
<td>-</td>
<td>*</td>
</tr>
</tbody>
</table>

Notes: SUD: Sudanese Dinar. (US1$ = SUD 250).
* No information available.
Source:
(3) The General Audit Chamber (Sudan), the Annual Audit Report of looting the Public Funds, for the Period 1.9.2002 - 31.8.2003, p. 6
(5) The General Audit Chamber (Sudan), the Annual Audit Report 2004/2005, pp. 21-22

The figures in the above table shows that although the amounts stolen from the public funds detected and reported by the General Audit Chamber decrease from SUD 278.7 in 2000/2001 to SUD 276.9 in 2001/2002 and to SUD 168.2 in 2002/2003, it began to rose in the following years until reaching SUD 904.3 in 2005/2006. The table reveals that least corrupt sector is central government organizations located in Khartoum. The reason could be that most of these organizations are central ministries and institutions, and thus are able to recruit well qualified accountants who are able to produce their accounts and these are usually audited and examined every year.

The table also shows that, over the period, the largest portion of detected and reported corruption occurred in public companies and corporations which amounted to an average
percentage about 70%. This may be attributed, amongst other reasons which will be discussed later, to the fact that not more than 35% of public companies and corporations are able to produce accounts every year. Thus, more than 65% of such bodies were not examined and audited by the General Audit Chamber for many years. This may mean that the employees of these public companies and corporations feel secure that their corrupt activities would not be discovered for several years at least. This corruption does not include that identified in state-owned banks.

In addition to the financial corruption mentioned above, Alsahafa Newspaper (No. 5232, 2008) revealed that the internal auditor of Al-Obiad refinery in Western Sudan, a branch of the Sudanese Petroleum Corporation, discovered an amount of SUD 400 million (US$ 1.6 million) stolen by the employees in the refinery. The case is still in the court and was not mentioned in the General Audit Chamber’s report.

Table 2, below, illustrates the accounting classification of public funds stolen from central government organizations and public corporations during the period 2001-2007.

Table 2: Accounting Classification of Public Funds Stolen from the Central Government Organizations and Public Corporations Over the Period 2001-2007 (SUD Millions)

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Revenues</th>
<th>Expenditure</th>
<th>Warehouses (Materials)</th>
<th>Treasures and Cash Movements</th>
<th>Other Theft</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-2002 (1)</td>
<td>65</td>
<td>161</td>
<td>20</td>
<td>20</td>
<td>3</td>
</tr>
<tr>
<td>2002-2003 (2)</td>
<td>130</td>
<td>17</td>
<td>3</td>
<td>18</td>
<td>0.9</td>
</tr>
<tr>
<td>2004-2005 (3)</td>
<td>83</td>
<td>65</td>
<td>381</td>
<td>13</td>
<td>11</td>
</tr>
<tr>
<td>2005-2006 (4)</td>
<td>217</td>
<td>72</td>
<td>552</td>
<td>63</td>
<td>-</td>
</tr>
<tr>
<td>2006-2007 (5)</td>
<td>275</td>
<td>152</td>
<td>107</td>
<td>28</td>
<td>-</td>
</tr>
</tbody>
</table>

Note: No information available for the fiscal year 2003/2004.

Source:
(1) The General Audit Chamber (Sudan), the Annual Audit Report of looting the Public Funds, for the Period 1.9.2001- 31.8.2002, p. 8
(2) The General Audit Chamber (Sudan), the Annual Audit Report of looting the Public Funds, for the Period 1.9.2002- 31.8.2003, p. 7
(3) The General Audit Chamber (Sudan), the Annual Audit Report 2004/2005, p. 22

The accounting classification of stolen public funds shows that, during the period, the largest portion was stolen from revenues. Stealing of materials from warehouses comes second; and, amounts stolen from expenditure are the third most important.

Table 3, below, shows the amounts recovered from public funds stolen during the period 2001-2007.
Table 3: Amounts Recovered from the Public Funds Stolen from Central Government Organizations and Public Corporations Over the Period 2001-2007 (SUD Millions)

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Amounts of Public Funds Stolen</th>
<th>Amounts Recovered</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-2002</td>
<td>267.9</td>
<td>19.9</td>
<td>7%</td>
</tr>
<tr>
<td>2002-2003</td>
<td>168.2</td>
<td>12.7</td>
<td>8%</td>
</tr>
<tr>
<td>2004-2005</td>
<td>542.5</td>
<td>104</td>
<td>19%</td>
</tr>
<tr>
<td>2005-2006</td>
<td>904.3</td>
<td>34.6</td>
<td>4%</td>
</tr>
<tr>
<td>2006-2007</td>
<td>561.2</td>
<td>25.1</td>
<td>4%</td>
</tr>
</tbody>
</table>

Source: The General Audit Chamber (Sudan), the Annual Audit Reports for the Periods 2001-2007. (No information available regarding the fiscal year 2003/2004).

The above table shows that, on average, only 8% of public funds stolen from central government organizations were recovered. This low level of recovery could encourage others employees to steal public funds.

In the states, the situation was not better than in central government units and public corporations. In the General Audit Chamber’s report of 2005/2006, the amounts stolen in Northern states was SUD 187.3 million, from these amounts only 9% was recovered. In its last report (2006/2007), the General Audit Chamber stated that the amounts stolen were SUD 364.9 million, from these amounts only 6.6% was recovered. The states in Southern Sudan should be examined and audited by the separate Auditor General Chamber of the Government of Southern Sudan, which established after the peace agreement of January 2005. Date on administrative corruption detected in southern states is not yet available.

Regarding government-owned banks or those the government has a share of not less than 20% of their capital, the GAC’s report of 2006/2007 revealed that the amounts stolen from these banks were SUD 40 million (US$ 160000).

The Auditor General in a speech to the National Assembly in January 2008 regarding the audit report of 2006/2007 mentioned that some government units in the Ministry of Internal Affairs and at Nahr Alneel State prevented the General Audit Chamber’s auditing teams from examining and auditing the accounts.

**Types of Financial Corruption and the Possible Factors Leading to Corruption**

Audit reports of the General Audit Chamber (2002, 2003, 2005, 2006, and 2007) reveal many examples of financial corruption in central and state government organizations, and public companies and corporations. These examples include:

(a) collecting different types of revenue by many government units, especially in the states, without prior permission from the ministry of finance;
(b) collecting and receiving public revenues in cash without receipts and not paying them to the treasury of the organization;
(c) paying for items not included in the budget of government unit;
(d) distortion of prices or quality of goods or services purchased by a government organization;
(e) paying in cash, personal mobile phones bills in some government units, sometimes without set limits or requiring the bills to be submitted for evidence;
(f) the proposed budgets in many government units, especially in the states, are not rationale and prepared without relevant standards;
(g) adding names of non-existent employees to the salary forms or giving unlawful allowances.

The Auditor General's report for 2002 on State Accounts highlights the weak capacity that exists in many states. Some of the issues highlighted are:

- large discrepancies between amounts reported by the national government as having been transferred and that reported by the states as having been received;
- unrealistic receipt and expenditure estimates in the budget, large extra-budgetary funds;
- outdated management principles;
- poor investment planning;
- poor accounting practices.

In addition, the author examined some documents and interviewed the accounts manager of the main refinery of the Sudanese Petroleum Corporation located near Khartoum and the senior internal auditor of Nahr Alneel state, the General Audit Chamber highlighted, in its different audit reports (2002, 2006 and 2007), many factors and reasons which contribute to and facilitate corruption in the Sudanese public sector. These factors include:

1) Internal control systems and internal check in most public sector units are weak and ineffective. These are mainly due to:

   (a) shortage of qualified and trained accountants which, especially in state government units, concentrates all the financial activities of the organization in the hand of one or two employees. Many government units have only one accountant who undertakes all the financial procedures of payment, receiving revenues and recording them, and;

   (b) absence of internal auditing, an essential part of internal control system, in most government units, and which when it does exist, it is very weak and ineffective. Brierley et al. (2001) stated that many government units in different states in the Sudan, especially the local councils, have no internal audit departments despite the fact that these councils are responsible for collecting the regional taxes which comprise a significant portion of the revenue of the state.

2) Deficiencies in the accounting systems of most public sector organizations. These include inadequate, unreliable, and untimely information systems; improper recording and classification of different financial transactions, and; incompleteness of records and supporting documents. Thus, financial statements and reports which are expected to be the main indicators of financial conditions and present the different financial activities of organizations fail to disclose material information that can facilitate accountability. This provides inadequate safeguards against fraud, corruption, and other malpractices. The Joint Assessment Mission Sudan (2005) reported that there are several challenges facing the public financial management system in the Sudan including:

   (a) the entire accounting system is manual, at both the national level and in the states;
   (b) approximately 50 percent of the finance staff have had no formal training in accounting;
(c) there is no commitment control system;
(d) cash management is very weak;
(e) the public financial management system in Southern Sudan needs to be re-built from the ground.

3) The penalties imposed for fraud and corruption offences are not harsh enough and are not proportionate to the amounts involved. While the Auditor General said in 1994 that "I do not feel that penalties for fraud and corruption are severe enough to deter fraudulent and corrupt employees", the Attorney General stated that "I do not see that the harshness of the laws is the solution to the problem, there are many other factors which need to be considered, the most important of which is to strengthen the regulations governing transactions in public funds” (Al-Moltagah, 1994).

4) Failure to check the treasuries and warehouses by the accounts managers and internal auditors either on a scheduled or on a surprise basis encouraged fraud and corruption.

5) Backlog of examining and auditing the accounts of many public sector organizations, by the General Audit Chamber’s audit teams, for three years, or even more. The absence of an external audit for many years, together with ineffective internal control systems, makes the fraudulent and corrupt employees aware that their chances of detection are very small.

6) The General Audit Chamber's audit recommendations are rarely implemented. Many audit recommendations are repeated in the General Audit Chamber's audit reports every year.

7) The system of collecting different charges and fees imposed by different councils and states does not facilitate accountability of collectors, especially the itinerant collectors, but rather, it encourages fraud and corruption.

8) Some public sector employees prefer to keep silent regarding discovered fraud or misuse of government properties by politicians or senior staff, because they fear to losing their jobs or facing other unpleasant consequence such as a transfer to a remote area. Other employees do not know how nor to whom they should report discovered financial offences independently of their own line management. This is a particular problem when the suspect is the line manager.

9) Very low public sector salaries among middle and low level civil servants creates a desperate need for additional sources, many find this in stealing public funds. Some Sudanese economists revealed that the present minimum monthly salary level of public sector employees is hardly cover 33% of the necessary costs of living for the medium size family. In Southern Sudan, Koul (2007) stated that unfortunately, for the skilled majority employed or not, it has been a plunge into poverty. For example, those who used to be paid around US $3000 per month in the countries of their exile may now only be paid US $200 a month. Goudie and Stasavage (1997) stated that "for lower-level officials if, in absolute terms, a public sector wage is too low for an official to support himself and his dependents above the poverty level, then the incentives for corruption will be considered greater”.

10) An excessive bureaucratization of public administration and a lack of streamlining and computerization, renders civil service work extremely slow and increases incentives for clients to use bribes to ensure their own transactions are dealt with promptly.

11) Petty corruption was part of the administrative operating system of the Ottoman administration of much of the Sudan and insinuated itself into the culture of the civil service.
12) A weak sense of civic commitment and strong sub-national family, tribal, or religious identities tie civil servants more closely to their kinship or identity groups than to a civic polity. This makes civil servants more likely to use their posts to give favors to their particular group than to serve a larger national community. It may also explain the low level of reporting of irregularities.

13) There are no laws providing for public access to government information. The government does not provide such access, even to the General Audit Chamber’s audit reports (Index of Economic Freedom 2008). This may help to reduce the effective role of the civil society, the media, and non-governmental organizations in monitoring public funds.

**Summary and Recommendations**

The research shows the presence of systemic financial corrupt practices in many areas of the Sudanese public sector organizations. It also revealed that the serious deficiency in public audit and financial control systems in the Sudanese public sector organizations is generally recognized as the major factor which facilitates the misuse of public resources and financial corruption in the country. The deficiencies in public auditing and accounting systems include ineffective internal control and internal check, unqualified auditing and accounting staff, and unreliable and untimely accounting information systems.

This study has highlighted a number of recommendations which might help to reduce the level and amounts of financial corruption in Sudan. These include the following:

1. It is important that any form of economic crime should be identified and punished severely by an appropriate fine or prison terms in line with the seriousness of the offence.

2. Promote strong coordination among the central and state governments and the civil society to increase efficiency and sustainability in anti-corruption and good governance efforts.

3. Fighting corruption could be achieved by the creation of more anti-corruption commissions and ethics agencies.

4. Internal and external auditing mechanisms can reduce the incentives for high government officials to abuse of their position and mismanage public resources.

5. The accounting and financial procedures across Sudan should be improved, refined and rebuilt.

6. Auditors and accountants need to have more formal training in accounting and auditing.

7. Recruiting better qualified civil servants with wage satisfaction can create an environment where abuses are easier detected.

8. Legislative reform is necessary for any lasting anti-corruption effort. Old laws and regulations should be reviewed and revised and new legal provisions should be introduced to enhance transparency and accountability. This should include codes of conduct and ethical guidance.

9. Procedures for reporting suspected irregularities and corruption need to be improved. Civil servants should have access to independent reporting mechanisms (whistle blowing) if they suspect fraud or corruption have occurred. There should be appeal processes for the public to use if they feel they have not been properly treated with, for example, the awarding of contracts or tax assessments.
10. Strengthening and activating the role of the Office of the Auditor General and other control agencies is an important tool in fighting corruption and increase transparency in the country.

11. For the civil society, the media, and non-governmental organizations to play an effective role in monitoring public funds, the government should enable greater public access to information about budgets, revenue, expenditure, and other governmental data and information. Public financial transparency of central and local budgets would help to improve governance and reduce financial corruption.

12. Detribalizing public sector institutions is an important element to reduce, if not eliminate, corruption and nepotism. In addition, this would support the work and findings of the anti-corruption commissions.

13. Technology can assist public sector officials to easily access information about approved supply sources; create transparency within the contracting and tendering process, and monitor performance of goods and services. This can play a major role in ensuring internal control systems and minimizing the potential for abuse.

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Independence of Supreme Audit Institutions in Sub-Saharan Africa

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Abstract
The INTOSAI Mexico Declaration provides a summary of good practice for public sector auditors. However, this ideal is not achieved in many Sub-Saharan African countries. This includes both the English speaking and the French speaking countries. The picture is complex, especially in Francophone countries where there may be more than one type of entity which is providing some sort of audit function. The roles and relative strengths of these different types of audit institution (Accounts Court and General State Inspectorate) need to be clearly understood. This paper provides an introduction to their roles and relative levels of independence. Reform programmes need to be built on the strengths of each type of entity if they are to provide efficient development paths for the countries concerned.

Introduction
Public governance is based on the division of powers and responsibilities. Traditionally, such a division distinguishes between the executive, the legislative and the judiciary. Public financial management is undertaken by the executive and the audit of this function is the responsibility of either the legislature or the judiciary or a combination of the two branches. There is also a division of responsibilities between the politicians who set government policy and public sector officials (civil servants) who implement it. However, in many Sub-Saharan African countries the politicians are closely involved in the implementation of their policies and may be directly involved, for example, in the authorisation of orders and payments, especially for larger contracts. One result of this expanded, executive, role of politicians is that the independence of the Supreme Audit Institution in many Sub-Saharan Africa countries is not as strong as it should be.

INTOSAI, the international body for Supreme Audit Institutions, has correctly put a lot of emphasis on independence, but their guidance is recognised as being aspirational rather than a statement of fact. The Mexico Declaration on Supreme Audit Institution Independence (INTOSAI 2007) recognises eight core principles as essential requirements of proper public sector auditing. These include requirements for “independence from the Executive” (INTOSAI 2007: 2) for the head of the Supreme Audit Institution, but not necessarily that this post should be appointed by parliament. They also include that “SAIs are free to publish and disseminate their reports, once they have been formally tabled or delivered to the appropriate authority—as required by law” (INTOSAI 2007: 3). Again, it is not specified that these reports should be submitted direct to parliament (although elsewhere the declaration does say that each Supreme Audit Institution should submit an annual activity report to parliament).

A Supreme Audit Institution is defined as the member of INTOSAI in a country. It is not dependent on any qualities of independence or other attributes. There are three main models of Supreme Audit Institution in Sub-Saharan Africa, each with its own strengths and weaknesses. However, in each model the head of the institution may be appointed by the State President; they may have insufficient resources; their annual reports may be sent to the
This lack of adequate independence for Supreme Audit Institutions is, of course, not limited to Sub-Saharan Africa. An INTOSAI survey undertaken in 2000 found that of 113 Supreme Audit Institutions around 70 had their primary accountability to parliament whilst in nearly 40 cases it was to the head of state. Similarly AFROS AI-E (the regional body for Anglophone Supreme Audit Institutions) found, in 2001, that only 5% of their members considered that they had adequate independence.

Models of Supreme Audit Institution in Sub-Saharan Africa

There are individual variations between countries, but in general, there are three approaches to the institutional arrangements for Supreme Audit Institutions in Sub-Saharan Africa. One approach is adopted by the Anglophone countries and the other two are adopted by the Francophone countries and, with minor variations, by the Lusophone and Spanish speaking countries.

The Anglophone African countries adopt the parliamentary (or Westminster) model – an individual auditor general heads an office which is, ideally, independent of the executive. Its work is focused on a review of financial management and the accounts of public entities. If irregularities are found they are reported to the relevant ministry or other agency for appropriate action to be taken. The professional staff often have an accounting or audit background. The auditor general is ideally appointed by and provides an annual report to Parliament which should be reviewed in detail by the Public Accounts Committee and made public.

Almost all Francophone Sub-Saharan African countries have two types of institution which undertake external audit type functions, either of which may be designated as the Supreme Audit Institution for an individual country:

- the Court of Accounts (Cour or Chambre des Comptes) is a division or separate court within the judicial system. The individual members of the court (judges or magistrates) are led by a president who is generally appointed by the president of the relevant country. The court, with the support of its staff, judges the legality and regularity of the transactions and accounts of individual public accountants and reports to Parliament on the overall State Account. There is limited follow up of the Court’s reports by Parliament. The professional staff traditionally have a legal rather than accounting or audit backgrounds, but this is expanding in several countries

- the General State Inspectorate (Inspection Généraux d’Etat) reports either to the president or the country’s prime minister (rather than parliament), but is largely independent of the state bureaucracy and has access to all state institutions, public servants and their documents. It may set its own annual programme. Each public institution may not be visited or reported upon each year. The larger ministries will be reviewed each year, but different departments will be subject to review each year. The professional staff of the General State Inspectorate are usually educated in public financial management at specialist higher education institutions. If irregularities are found they are reported to the relevant ministry or other agency for appropriate action to be taken.

The Court of Accounts, as part of the judiciary, may be considered to be independent of the executive, but their members may be appointed by the president or the council of ministers.
and their reports may not be submitted direct to parliament. In France, which is the model broadly adopted by most Franco-phone countries, the first president of the accounts court is appointed by the council of ministers. The accounts court produces two annual reports. The first is sent to all members of parliament and reviews the execution of the budget. The second annual public report is sent to the president rather than to parliament (Bouvier, Esclassan & Lassale, 2004).

The main thrust of audit reforms in Francophone Sub-Saharan African countries in recent years has been the move from the Court of Accounts being a chamber of the supreme court (Chambre des Comptes) to being a court in its own right (Cour des Comptes). However, unless the appointment of the court’s president and magistrates is changed and the relationship with parliament is strengthened it is not clear that such reforms will greatly improve the independence of the Court of Accounts. Of the 12 accounts courts in Sub-Saharan Africa, eight are independent courts (Cour des Comptes) and five remain as part of the supreme court (Chambre des Comptes). In a 2010 report, the Economic and Monetary Union of West Africa said that in only three of its seven member countries did the Accounts Court have functional financial autonomy (Senegal, Burkina Faso and Guinea Bissau).

As the General State Inspectorate is accountable to the president or the prime minister they may also have a high degree of independence from the entities (ministries, departments and agencies) which they audit. A distinction could perhaps be made between independence from the executive and independence from the entities which are subject to audit. If the General State Inspectorate has the support of a strong president they may in fact have considerably more independence from the ministries and other bodies which they audit than an accounts court whose budget may have to be submitted through the Ministry of Finance before being agreed by parliament.

It has been argued that General State Inspectorates should not be considered as external auditors or supreme audit institutions as they are part of the executive. In contrast the Court of Accounts are claimed to be outside and functionally independent of the executive. General State Inspectorates are usually appointed by the president or the prime minister and their annual reports are sent to these offices rather than to parliament. However, this may also be the case for Court of Accounts and, indeed for Auditors General.

Six of the 18 Francophone members of CREFIAF have designated their General State Inspectorate as their Supreme Audit Institution, whilst the other 12 countries have designated their Accounts Courts. Thus the following General State Inspectorates are all members of INTOSAI and are the Supreme Audit Institutions 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*
- Togo - *Inspection Générale d’État*.

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In addition to these institutional arrangements, the broader context of the nature of the political systems in which audit arrangements are embedded will have a significant impact on the actual independence enjoyed by the supreme audit institution. In countries with relatively strong parliamentary authority, especially relative to the presidency, the supreme audit institution may be expected to be more independent. In addition, where there is a relatively strong parliamentary opposition this may be able to use the facility of the public accounts committee to enable a great level of autonomy for the supreme audit institution. It would be useful for more research to be undertaken around these hypotheses.

**Examples from individual countries**

In Anglophone countries, the ideal, in terms of independence, is that the Auditor General is appointed by Parliament, their annual budget is submitted and agreed directly by Parliament and the Auditor General submits their annual report direct to Parliament. However, in most Anglophone countries this ideal is not achieved in practice.

The Auditors General in Ghana, Nigeria and Tanzania, for example, are formally appointed by the country's president. The office of the Auditor General does not usually send its budget direct to parliament, but this is first subject to scrutiny and possible amendment by the Ministry of Finance. Similarly, the Auditor General is often not able to submit their annual reports direct to parliament. For example, 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, publication of the annual report of the Auditor General is often delayed and so not available for the public or the media until some time after it has been formally issued. In Sierra Leone, until recently the Auditor General’s report could not be published until it had been considered by the parliamentary Public Accounts Committee. In Nigeria the Auditor General’s report used to be made public as soon as being submitted to the National Assembly, but now it is not published until after the Public Accounts Committee has reviewed it which may be some years later.

The Courts of Accounts in many Francophone Sub-Saharan African countries are not strong nor well established institutions. In Mali (generally considered to be one of the Francophone countries with the strongest public financial management), for example, for many years the Court of Accounts was understaffed causing a delay in the execution of its tasks. This problem was partly resolved by the increase of the number of magistrates from two in 2000 to nine in 2002 and 15 in 2003. However, the capacity of the Court of Accounts is still largely insufficient. An institutional analysis carried out in 2002, concluded that 60 magistrates would be needed to carry out all the tasks assigned to the accounts court (Ecorys 2006: 83). In 2006 its was concluded that the Parliament of Mali does not effectively control budget execution and accounting, since the reports of the Court of Accounts are not discussed in Parliament and the Budget Execution Laws had not been voted on for many years (Ecorys 2006).

Similarly, in February 2005 the parliament of Benin had last received the audit report of the budgetary years 1999 to 2000 from the Court of Accounts and the performance audit of the ministries for the year 2001, while the reports of 2001 and 2002 were in the stage of finalisation (Ecorys, 2006).

In Senegal, the Court of Accounts had 28 magistrates and reporters in 2008 whilst its strategic plan aimed to have 60 magistrates. Similarly the General State Inspectorate has 30 inspectors. However, the General State Inspectorate has limited operational independence as
the president approves its annual and strategic plans and even nominates the member of staff to head each mission. But its rights of access, enshrined in law, are superior to many other African Supreme Audit Institutions. Thus it has access to all documents even if classified as confidential or secret national defence documents. The General State Inspectorate has developed a communications strategy which commits it to produce an annual report on the state of public governance for the citizens of Senegal. Generally the reports are sent to the State President and may then be made public.

The entity in Mali which is the member of INTOSAI is the “Controleur Général des Services Publics” (CGSP, General State Inspectorate), reporting to the Prime Minister’s Office. However, some have argued that the General State Inspectorate should not be the Supreme Audit Institution for Mali, for example:

Various studies argue that the CGSP is not the right institution to represent Mali at that level, because the CGSP cannot be considered as an ‘independent external audit institution’. The CGSP operates under the responsibility of the Prime Minister and is thus part of the executive (Ecorys 2006: 82/83).

The situation in Mali was further complicated in 2004 as:

the President decided to nominate a Vérificateur Général (Auditor General). His terms of reference have many similarities with what is and/or should be done by the ‘Section des Comptes’ [Accounts Court], and also with the terms of reference of the Controleur Général des Services Publics (reporting to the Prime Minister) (Ecorys 2006: 82).

As a result, Mali now has three external audit type institutions:

• an accounts court (Chambre des Comptes) as part of the Supreme Court
• the General Inspectorate of Public Services (Contrôle Générale des Services Publics) which is the member of INTOSAI and reports to the Prime Minister
• the General Inspector/Auditor General (Vérificateur Général) who reports to the President.

In Côte d’Ivoire the annual report of the General State Inspectorate is addressed to the State President who publishes it in the Official Journal. General State Inspectors are appointed by presidential decree.

Similar arrangements are in place in Burkina Faso for the Court of Accounts. This court provides a public annual report which is submitted to the president and the senior officials of the court are appointed by presidential decree.

Burkina Faso also has a General State Inspectorate. The 2007 PEFA report states that this entity has a large measure of independence in determining the work it undertakes:

“The annual work programme (around 90% of controls) is determined by the General State Inspectorate (GSI). Each year the prime minister sends a formal letter of instruction to the GSI which does not include detailed plans. The GSI then develops its annual work programme and sends it to the Prime Minister for
information”2 (page 114).

In Djibouti, despite the existence of an Accounts Court, a General State Inspectorate was established in 2001. The idea was that the ex post juridical control (after the event legal control) of the Accounts Court could be complemented by a body which could act during the implementation of the budget. (General State Inspectorate, Djibouti, 2007). The general state inspectorate has developed its own approach to audit which takes in to account all management sub-systems, “this includes:

- evaluating whether the character of new or existing programmes are effective, appropriate or pertinent considering their objectives and whether the expected results are achieved
- identifying constraints and performance factors and whether management has identified alternative solutions or the opportunity costs to achieve the programme’s objectives effectively and efficiently
- identifying any overlaps or duplications or conflicts with other programmes and recommending ways of executing programmes in the best manner possible
- evaluating programmes for conformity with laws and regulations, but also the adequacy of systems of internal control and especially systems to monitor their success” (page 10/11).

This first annual public report from the general state inspectorate of Djibouti also notes that: “The general state inspectorate is a concept specific to Africa, with a universal, general and extended scope. It usually consists of elite staff recruited through competition from amongst the highest officials of the state (magistrates, national directors, secretaries general of ministries etc), at least in Sénégal, Burkina Faso, Côte d'Ivoire etc” (page 24).

The independence of the General State Inspectorate in Cameroon is described in the following terms on the website of the Presidency:

“In the field, members of the mobile audit teams enjoy total independence from the administration and the entities subject to audit and have all powers of investigation. During their investigations auditors should not suffer any restriction to their freedom without the prior agreement of the President of the Republic”

Despite this level of independence, such General State Inspectorates are often ignored or sidelined as was suggested earlier in the case of Mali. A senior public financial management advisor from the World Bank recently claimed that “there is a huge problem, in some African countries, of Supreme Audit Institutions which are part of the executive, but still members of INTOSAI, when there are other bodies in these countries which are outside the executive and functionally more independent, but are not members of INTOSAI because of political considerations” (personal communication). Similarly the website of the Association of French Speaking Superior Control Institutions (AISCCUF) ignores the members of INTOSAI

2 La programmation annuelle (environ 90% des contrôles) ne dépend que de l’IGE ; le premier ministre envoie chaque année une lettre de mission formelle à l’IGE sans instruction de contrôle précis, l’IGE élaboré son programme de travail et le transmit pour information au Premier ministre.
from, for example, Burundi, and Mali which are General State Inspectorates, in favour of Court of Accounts from these countries.

**Conclusions**

Public sector audit is not as independent of the executive as it should be in many Sub-Saharan African countries. In many cases its capacity was deeply weakened during the lost decade of the 1980s. Some of this capacity has been re-built in recent years, however, we can still not afford to dismiss whole organisations which may be playing a key or at least complementary role as a result of pre-conceived notions of what constitutes public sector audit. In addition, it should be accepted that changing the nature of the work undertaken by audit institutions is difficult, challenging and time consuming.

The picture of public sector audit is complex in many Sub-Saharan African countries, especially in Francophone countries. There may be a range of entities which are providing some sort of audit function. Many of these organisations may play a complementary role and the development of the systems of financial control and governance in these countries will be most efficiently achieved through a balance programme of capacity building for all such entities. Depending on the circumstances in each country there are a range of possible ways to develop more effective external audit of the government’s operations. One or both of the existing entities could be developed to provide an effective Supreme Audit Institution. In either case legal and possibly constitutional change would be needed to ensure that best international practice as outlined in the INTOSAI Mexico Declaration is adopted.

However, to be successful, such reforms will require a careful and detailed analysis of the actual existing situation in each country. This will include the identification of the key drivers of change and those entities or individuals that are resistant to change. The political environment has to be considered and understood in addition to the potential complexities of the institutional arrangements for public audit in the wider sense. Reform of Supreme Audit Institutions will not be successful if it merely consists of grafting pre-conceived models of ‘international best practice’ on to existing institutional and political arrangements in particular countries.

Finally it should be remembered that independence of the Supreme Audit Institution is not an end in itself but a means to improve the transparency, accountability and equity of public financial management systems. More research is required on the extent to which greater independence for the Supreme Audit Institution is correlated with more better financial control and more effective public financial management.

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A Prescriptive Model of the Transition to Accrual Accounting in Central Government

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Abstract

This paper proposes a Prescriptive Model of the transition to accrual accounting in the central government. The main objective of the Prescriptive Model is to present a comprehensive transition framework that aims at explaining the whole reform process including all relevant factors and seeking to overcome the shortcomings of the earlier developed governmental accounting innovation models (e.g., Contingency Model, its variants and Basic Requirements Model (BRM)) by focusing not only on the contextual and behavioral variables and on creating a climate fit for the accounting reform process, but also on the content, technical and capacity variables. The launching point of the Prescriptive Model is that the explanatory models (such as the Contingency model and its variants) are not able to explain the whole reform process and to comprise all the relevant factors that are required for putting the accounting innovations into real practice. It also takes into consideration the fact that the transition to accrual accounting is a major cultural, administrative and technical change and in order to successfully be adopted, it must take place in phases with a clear plan of progress established from the outset. Therefore, the Prescriptive Model consists of three phases: Reform decision-making phase, Transition phase, and Post-transition phase, this is in addition to final result and overcoming the transition barriers.

Introduction

In the last two decades, several models have been developed to address the government accounting innovations (Lüder 1992, 1994, 2001, Pallot, 1995, Jaruga and Nowak, 1996, Godfrey et al. 2001, Christensen, 2002, Ouda, 2004 and Hughes, 2004, 2006 and 2007). Some have focused on the explanatory factors, which explain how and why the government accounting change process has taken place in some countries and not in others, such as Lüder’s Contingency Model and its variants (see for example, Lüder 1992, 1994, 2001, Jaruga and Nowak, 1996, Christensen, 2002), whereas others have paid attention to the implementation factors, which specify the factors that are required to create a climate fit to carry out the government accounting change process in the real world, such as the Basic Requirements Model (Ouda, 2004). However, these models still suffer from shortcomings such as:

(a) black boxes;
(b) the lack of treatment of government accounting innovations from a comprehensive perspective;
(c) emphasis of the context of innovations rather than their content;
(d) greater concern with the initiation phase rather than the actual transition phase; and
(e) being considered as explanatory models rather than prescriptive models.
As the explanatory models have focused more on addressing the contextual and behavioral variables and their influence on the reform process without going into detail of how to carry out the reform process itself, in addition, without being affected by the experiences of the pioneer countries (New Zealand, UK and Australia) regarding the practical transition phase. Accordingly, there is a need for developing a prescriptive/comprehensive model which can go into details of how to initiate and complete an accounting reform process in central government and to fill a gap in the literature by creating a clear transition framework.

Therefore, the main aim of this paper is to develop “A Prescriptive Model of the Transition to Accrual Accounting in Central Government”, which takes into consideration the fact that the innovation/reform process is a result of collaboration of a set of factors such as:

(a) context factors (e.g., culture);
(b) behavioral factors (e.g., willingness to change);
(c) content factors (e.g., treating specific accounting issues); and
(d) capacity factors (e.g., IT).

It also takes into account the fact that the transition to accrual accounting is a major cultural, administrative and technical change and in order to successfully be adopted, it must take place in phases with a clear plan of progress established from the outset. From this perspective, the structure of this paper is organized as follows. Section 2 critically reviews the governmental accounting innovations models. Section 3 deals with shortcomings of the governmental accounting innovations models. Section 4 addresses the suggested prescriptive model for successful transition to accrual accounting in the government sector. Finally, section 5 is dedicated to conclusions.

### A critical review of the governmental accounting innovations models

In the early 1990s, a reform movement to innovate government accounting began in many countries (such as, New Zealand, UK, Australia, Sweden, Finland, Canada, USA, etc.). The adoption of accrual basis of accounting is taken as a measure of government accounting innovation (Chan, 1996), because it does represent a qualitative change in governmental accounting. The accrual basis would require the recognition of nonfinancial assets (e.g., fixed assets) and long-term liabilities (e.g., pensions). Such information tends to be neglected by an accounting system whose function is limited to monitoring the execution of the cash budget (Chan, 1996). The widespread use of accrual accounting in financial reporting of public entities in different jurisdictions also envisages an era of global revolution in government accounting (Heald, 2003). The adoption of accrual accounting in the government sector has been considered as an integral part of New Public Management (NPM). In essence, the NPM was an umbrella under which many reforms were undertaken (e.g., budgeting reform, accounting reform, contracting out, etc.). The New Public Management emphasizes the introduction of private sector management techniques and the application of competitive market behavior.

Basically, the transition to accrual accounting can take one of the following forms:

i. Accrual reporting only; or
ii. Moving the accounting records and reports to an accrual basis or
iii. Moving the whole financial management (including budgeting) to an accrual basis.
In this paper, the main focus is on the last one, which means that the suggested Prescriptive Model aims at the transition to full accrual accounting, including the accrual reporting; moving the accounting records to an accrual basis; and accrual budgeting. In addition, the transition to full accrual accounting can be based on IPSASs (International Public Sector Accounting Standards) or IFRSs (International Financial Reporting Standards), as the case in New Zealand, UK and Australia. Whilst most reform countries (such as New Zealand, UK and Australia) have used their own, generally commercial accounting standards, the IPSAS have now been formally adopted by IFAC and are supported by all major inter-governmental organizations e.g. United Nations, World Bank, IMF and EU. For countries moving to implement accrual accounting in the future the IPSASs should provide the framework, as they overcome many of the problems inherent in applying commercial accounting standards to the public sector. Therefore, in this paper the successful transition to full accrual accounting can be measured by full IPSAS compliance. This will also assist in facilitating public sector accounting harmonization.

During the last two decades, a considerable body of studies have been conducted with the aim of modelling government accounting innovations (Luder, 1992, 1994, 2001, Pallot, 1995, Jaruga and Nowak, 1996, Godfrey et al, 2001, Christensen, 2002 and Ouda 2001, 2004 and 2005). Most of these models, if not all, have been based on the Lüder’s Contingency Model (Lüder, 1992) which became known as the Contingency Model of governmental accounting innovations. The basic Contingency Model identified a set of contextual and behavioral variables that were found to be potentially relevant in explaining the outcome of the governmental accounting innovation process (Chan 1996). The contextual variables comprise:

1. stimuli;
2. characteristics of social environment (structural variables external to the government);
3. characteristics of the politico-administrative system (internal structure variables); and
4. implementation barriers.

It is assumed that the first three types of contextual variables would positively influence the attitudes and behavior of users and producers of government financial information. A combination of conducive contextual conditions and favourable attitudes/behavior would facilitate the innovation process. However, implementation barriers could nevertheless prevent a successful outcome (Chan et al., 1996b, Monsen and Nasi, 1998). Here a successful outcome means introduction of a more informative public sector accounting system (accrual accounting system). However, Lüder’s model has been extensively researched by CIGAR (Comparative International Governmental Accounting Research) scholars over the last fifteen years (see, for example, Chan, 1994; Pallot, 1995, Chan, Jones and Lüder, 1996; Godfrey, Delvin, and Merrouche, 1995, 1996, 2001; Jaruga and Nowak, 1995, 1996; Monsen and Nasi, 1997, Mussari, 1995). The focus of these studies is restricted to the variants of the contingency model, its applications and its problems. Lüder stated that this seems legitimate since a great number of active CIGAR members have dealt with the model, either by using it or extending it or by criticizing it (Lüder, 2001). Lüder also added that the evidence that can be derived from applying the initial model is rather weak and confined to a statement of conduciveness of contextual conditions to governmental accounting reform. Conduciveness of environmental factors to government accounting reform, however, is certainly not sufficient and may even not be a necessary condition for successful implementation of such reform (Lüder, 1994, p.3). Furthermore, Christiaens (1999) argued that Contingency Theory
only explain the “why” of the reforms, not the way in which the reforms are implemented, nor the way in which the reforms result in accounting practices.

Based on empirical evidence from country studies (e.g. Spain, Japan and Italy) and cross-country comparisons, the Contingency Model has been revised twice, in 1994 and in 2001, by Lüder himself. The last revision of 2001 has led to the development of Financial Management Reform Model (known as FMR Model). Despite these revisions, the Contingency Model still does not address the whole reform process and is considered as an explanatory model. This has been confirmed by Lüder as he argues that it might be useful to reiterate the explanatory objective of the Contingency Model, it is exclusively aimed to permit an assessment of conducive-ness of relevant environmental factors prevailing in a country to governmental innovations. Its aim, however, is not to explain the whole reform process including all relevant factors (Lüder, 2001). Furthermore, it has been argued that even though innovations are the focus of the contingency model, the process of innovation has remained mostly like a black box. Studies have tended to view innovations as an identifiable event rather than subsequent implementation along with the consequences of adopting the innovations (Chan, 1996, and Monsen and Nasi, 1997).

As a complement to the Contingency Model and its variants, the Basic Requirements Model (BRM) for successful implementation of accrual accounting in the public sector has been developed by Ouda, in 2001 and 2004. The Basic Requirements Model (hereafter the BRM) has attempted to go a step further by focusing on the implementation factors (instead of explanatory factors) which specify the factors that are required to bring the government accounting change process into practice. In other words, to create conditions appropriate for the introduction of accounting changes and for putting them into practice. The BRM has concluded that the successful transition to accrual accounting in the public sector and attaining the target benefits of that transition demands efforts from different parties to create conditions appropriate for its implementation and to put it into practice. Basically, there is a need for a set of factors and changes that can support and facilitate the transition to accrual accounting. These factors and changes can be reflected in the following equation (Ouda, 2004):

\[
AC \ (ps) = f \ (MCC + PBS + PAS + CS + WC + CC + BAC + SAI + ABC + ITC + IFS)
\]

Where:

\[
AC \ (ps) = \text{Accounting Changes (transition to accrual accounting in the public sector (ps))}
\]

\[
f = \text{function}
\]

\[
MCC = \text{Management Culture Changes (internal management changes/ NPM)}
\]

\[
PBS = \text{Political and Bureaucracy Support (legislative, executive and bureaucracy support)}
\]

\[
PAS = \text{Professional and Academic (advisory) Support (in the accounting field)}
\]

\[
CS = \text{Communication Strategy (includes booklet, journal, conferences, seminars, etc)}
\]

\[
WC = \text{Willingness to Change (staff motivation, will, training and qualification)}
\]

\[
CC = \text{Consultation and Co-ordination (an essential step for central guidance accounting change)}
\]

\[
BAC = \text{Budgeting of Adoption Costs (for the whole implementation period)}
\]

\[
SAI = \text{Tackling of Specific Accounting Issues (assets identification and valuation, assets register, reporting entity, opening balances, etc)}
\]
ABC = Accounting and Budgeting Consistency (integration); ITC = Information Technology Capability; and IFS = International Financial Support.

While the main focus of the BRM is on implementation factors, it did not address the whole reform process and neither did it include all relevant factors. Instead, it has paid attention to the factors that can create conditions appropriate for the implementation process. In addition, the BRM did not take into account the fact that the transition to accrual accounting in the central government must take place in phases with a clear plan of progress established from the outset. Unlike the contingency Model, the BRM has taken into considerations the importance of making the reform decision; however, it did not explain how certain countries came to the reform decision. Therefore, the Contingency model (1992, 1994 and 2001) and its variants (Jaruga and Nowak, 1996, Monsen and Nasi, 1997, Mussari, 1995, Godfrey et al, 2001 and Christensen, 2002) and the Basic Requirements Model (Ouda, 2001, 2004) are still suffering from several shortcomings.

**Shortcomings of the governmental accounting innovations models**

**Black-Boxes: Emphasis of context of reforms over content of reforms**

Contingency studies on governmental accounting reforms have focused on how to enter the tunnel but not on how to enter the tunnel and reach the end of it. They are directed toward a better understanding of the context of reforms rather than the content of reforms. They have addressed the contextual and behavioral variables and their influence on the reform process without going into details of how to carry out the reform process itself (see for example, Lüder 1992, 1994, 2000, Jaruga and Nowak, 1996 Hussein, 1981, Godfrey et al. 2001).

Presumably, the emphasis of context of reforms over content of reforms is due to the fact that a great part of the academics lacks the practical experience with respect to the content of reform process. As most of the contingency studies on governmental accounting innovation models have concentrated on the initiation phase (how to initiate an accounting reform process), the implementation phase remains hidden in a black box. This in turn means that these studies do not contain much factual knowledge about the content of reforms. Jorge (2003) argues that while the addition of more variables to the Contingency Model, as is done in the Financial Management Reform Model (FMR Model), has the great advantage of improving the model’s explanatory power, there is a risk of creating black-boxes. Although there are variables that are known to affect the governmental accounting reform process, one does not know exactly how they do it, to what extent or what precisely they are (e.g. behavioral variables clusters, reform concept and innovation process are still black-boxes). Basically, dealing with the context of reforms without going into the details of their content leads us to agree with James Chan (1996) when he argues that we would be like marine biologists who know more about the oceans than the creatures living in them.

In fact, after two decades of the CIGAR (Comparative International Government Accounting Research) conferences and workshops and having practical experience in some countries concerning government accounting reform (e.g., New Zealand, UK and Australia), it should be possible to develop a model with respect to government accounting reform which can give a full picture about how to initiate a government accounting reform process and to go into details of how to carry out and complete it. Accordingly, government accounting researchers (e.g., CIGAR scholars) should try to open the black boxes or at least to change the color of the box from black to white. This in turn requires that the government accounting innovation
models should not focus only on the context of reforms but also on the content of reforms. In the last two decades, a greater amount of research attention has been paid to contingency models (explanatory models), therefore, the last two decades can be considered as an era of explanatory models. Now we have to start the era of prescriptive models through which a full picture of the government accounting reform can be addressed.

**Lack of addressing the Reform Decision-Making Phase**

While the Contingency Model of governmental accounting reform and its variants have considered the stimuli (e.g., financial/economic crisis) as the starting point for the reform process, the Basic Requirements Model (BRM) has regarded the taking of reform decision as a starting point of the reform process after some stimuli have taken place. However, the BRM did not explain: *How a certain country can come to the reform decision.* The practical experiences of the pioneer countries such New Zealand, UK and Australia have proved that the existence of stimuli do not automatically lead to the reform decision. There should be several stages between the existence of stimuli and taking the reform decision. After the appearance of stimuli, there must be knowledge and awareness that the accounting innovation exists. In addition, different groups (e.g., politicians and government administrators, the public at large, central auditing organizations, etc.) have to be persuaded of the necessity and importance of the accounting innovation process. If these groups have been persuaded, then the innovation process has to gain legitimacy through negotiation and agreement between them. Once the innovation process is legitimized then the reform decision can be taken. These stages we call the **Reform Decision-Making phase (I)**, which starts with stimuli and ends with taking the reform decision. In brief, the Reform Decision-Making Phase aims at creating the government accounting innovation as an issue, setting the government accounting innovation on the political agenda and continues expanding it until the reform decision is taken. Consequently, I suggest that the reform decision-making phase should encompass the following five stages:

1- Stimuli;
2- Knowledge and Awareness;
3- Persuasion;
4- Legitimacy; and
5- Reform Decision.

**Lack of addressing the Transition Phase**

While the BRM transition framework has focused explicitly on the creation of conditions fit for the successful transition to accrual accounting, these conditions are neither sufficient nor a guarantee for putting an accrual accounting system into practice. The transition to accrual accounting in the central government not only requires the creation of appropriate conditions for that transition but also demands more efforts to be established in the real world. These efforts should go beyond the mere creation of a climate fit for its application. In fact, the transition to accrual accounting is a major cultural, administrative and technical change and in order to be successfully adopted, it must take place in phases with a clear plan of progress established from the outset. The dimensions of the task should not be underestimated and progress should occur in a measured and controlled manner. The costs of not properly managing the transition to accrual accounting can be significant and go well beyond the price of the hardware, software and training. Due to the fact that the transition to accrual accounting entails much more than just the creation of a climate fit for its application, more
than just a technical change in accounting policies and more than just a change in the way we present and interpret the numbers, I suggest that the transition to accrual accounting in the central government and putting it into real practice should entail the following two requirements:

- **Creation of conditions** fit for the transition to accrual accounting. This comprises the implementation framework of the basic version of BRM.

- **Putting accrual accounting into practice**: requires more technical and professional requirements that go beyond just creating a climate fit for the transition process.

These two requirements represent the second phase which we might call the Transition Phase (II). Consequently, the Transition Phase (II) should comprise the following four sub-phases:

**a- Initial transition phase:**
This phase creates conditions appropriate for the transition to accrual accounting (this phase is based on the BRM).

**b- Establishment Phase**
This phase primarily aims at determining the basic technical and professional requirements that are fundamental for the establishment of accrual accounting in central government, for instance, asset register, opening balances, accounting policies and practices, accrual general ledger, chart of accounts, conceptual framework, etc.

**c- Conversion Phase**: (coupling/transferring phase)
This phase includes transferring data from the cash system and the extra-accounting files (auxiliary files) which comprise the details of accounts such as debtors and creditors, etc., to the accrual system. Where the new accrual system can not start from scratch, the information available in the current cash system and the auxiliary files will form the starting point for the accrual system. Therefore, this phase will provide a link for the periodic transfer of data from the old accounting system to the new accounting system.

**d- Testing and Confirmation Phase:**
This phase includes testing the workability of the accrual system in the real world (after the accrual system is completed and the data is transferred from the old system) and will lead to obtaining approval to switch to the new system. It confirms the validity of the new system and the base data which is to be used.

**Lack of addressing the Post-Transition Phase**
The main aim of government accounting innovation is to produce improved financial information. This information has to be communicated to the right users, otherwise improving financial information (as a result of an adoption of accrual accounting) will have no or little meaningful value, since this information may not be used as it should be. Warren (IFAC, 1996), has argued that “accounting is important and exciting when it generates information that is used by decision makers. When this information is not communicated to the decision makers, then, the target benefits from the accounting change will not be achieved”. So logically, the production of improved information should be accompanied by developing a new/improved reporting system that is best suited for reporting the improved financial information. Therefore, in addition to the reform decision-making phase (I) and the
transition phase (II), the transition to accrual accounting requires a complementary phase which is required to develop a new/improved reporting system that is most suitable for reporting the information required. This can lead to the third phase which we call **Post-Transition Phase (III)**. Whilst the Post-Transition phase is considered to be important as a result of its role of communicating the improved information, it has been entirely neglected by the earlier governmental accounting innovation models (Luder, 1992, 1994, 2001, Pallot, 1995, Jaruga and Nowak, 1996, Godfrey et al, 2001, Christensen, 2002 and Ouda 2001, 2004 and 2005). Therefore, this phase should be included in the new government accounting innovation models.

**The Suggested Prescriptive Model for Successful Transition to Accrual Accounting in the Government Sector**

**Overview and Assumptions**

Taking into account the previously discussed shortcomings of governmental accounting innovation models and how they can be overcome, this is in addition to taking into consideration the Basic Requirements Model (BRM) (Ouda, 2004), and Contingency Model (Luder1992, 1994 and 2001), and the experience of the pathfinder countries such as New Zealand, UK and Australia, it is possible to suggest “**A Prescriptive Model of the Transition to Accrual Accounting in the Central Government**” which is illustrated in figure 1. This model aims at explaining the whole reform process including (to a great extent) all relevant factors. The prescriptive model seeks to complement and tackle the shortcomings of both BRM and Contingency Model through focusing not only on the contextual and behavioral variables and on creating a climate fit for the accounting reform process, but also on the content, technical and capacity variables. The launching point of the Prescriptive Model is that the explanatory models (such as the Contingency model and its variants) and the BRM are not able to explain the whole reform process and do not include all the relevant factors that are required for putting the accounting innovations into real practice. Therefore, they need to be complemented by a prescriptive model which can undertake this task. Accordingly, the Prescriptive Model (**hereafter PM**) rests on the following assumptions:

1. While the existence of stimuli is important to reveal a need for reform process, this existence is not a sufficient guarantee for taking the reform decision. Because it can happen that there is a strong stimulus for the accounting changes but the government does not take the decision to reform the accounting system. Basically, there should be several stages between the existence of stimuli and taking the reform decision. Accordingly, **the Reform Decision-Making Phase (I)** should encompass the following stages:
   1. Stimuli;
   2. Knowledge and Awareness;
   3. Persuasion;
   4. Legitimacy; and
   5. Reform Decision.

2. An emphasis on Contextual and Behavioral variables over the Content, Technical and Capacities variables will not ensure accounting change and full implementation. The practical transition to accrual accounting entails the emphasis of the contextual, behavioral, content, technical and capacity variables.
3. Creating conditions appropriate for the adoption of accrual accounting (as they are determined by the BRM) is not sufficient for completing the change to accrual accounting in practice. The transition to accrual accounting demands effort that should go beyond the mere creation of conditions appropriate for its application.

4. The transition to accrual accounting is a major cultural, administrative and technical change and in order to be successfully adopted, it must take place in phases with a clear plan of progress established from the outset. Therefore, the Transition Phase (II) requires the following four sub-phases:

   a- Initial transition phase;
   b- Establishment phase;
   c- Conversion phase; and
   d- Testing and confirmation phase.

5. Taking into consideration the requirements that are included in the four sub-phases of the Transition Phase will assist, to a great extent, in overcoming the transition barriers that inhibit the transition process.

6. In order to communicate the improved financial information (as a result of the adoption of accrual accounting) to the right users, the Prescriptive Model requires one more phase which is the Post transition Phase (III) which aims at developing a new reporting system that is best suited for reporting the required information.

**Description of the Model**

This section deals with the three phases of the Prescriptive Model: Reform Decision-Making Phase (I); Transition Phase (II) and Post-Transition Phase (III) as follows:

**Reform Decision-Making Phase (I)**

As noted earlier, the reform decision making phase starts with the stimuli and ends with taking the reform decision. This phase encompasses the following five stages:

1- Stimuli;
2- Knowledge and Awareness;
3- Persuasion;
4- Legitimacy; and
5- Reform Decision.

- **Stimuli.** The governmental accounting innovation models (Luder, 1992, 1994 and 2001, Jaruga and Nowak, 1996, Monsen and Nasi, 1997, Mussari, 1995, Godfrey et al, 2001 and Christensen, 2002, Ouda, 2001, 2004) agreed that there should be at least one stimulus (driving force) for the accounting changes. In reality, as it is apparent from the New Zealand experience, the economic crisis was the main stimulus behind the economic and government sector reform. However, unlike New Zealand, globalization, financial crisis and scandal, corruption and fraud, and dominating doctrine are/were the main driving forces (stimuli) for the government sector reform in some countries such as: USA, UK, Spain ..etc. Moreover, Godfrey et al. (2001) have added in their model (A Diffusion –Contingency Model for Government Accounting Innovation) one more stimulus which is the impact of the international organizations such as International Monetary Fund (IMF) and World Bank (WB) and other aid donors. These organizations require particular government sector reform
Figure 1: A Prescriptive Model of The Transition to Accrual Accounting in the Central Government

**STIMULI**
- Financial/Economic Crisis
- Financial Scandal
- Corruption and Fraud
- Dominating Doctrine
- Requirements of Public Sector Reform
- Change Agents
- Full Financial Transparency
- Performance Gap

**REFORM DECISION-MAKING PHASE (I)**

**KNOWLEDGE AND AWARENESS** → **PERSUASION** → **LEGITIMACY** → **REFORM DECISION**

**TRANSITION PHASE (II) (TRANSITION FRAMEWORK)**

**INITIAL TRANSITION PHASE**
- Political Support;
- Bureaucracy Support;
- Legal Provision;
- Professional and Academic Support;
- Communication Strategy;
- Management Culture Change;
- Willingness to Change;
- Consultation and Co-ordination;
- Budgeting of Adoption Cost;
- Information Technology Capability; and
- International Financial Support (mainly for developing countries).

**ESTABLISHMENT PHASE**
- Asset Register;
- Opening Balances;
- Chart of Accounts;
- Accrual General Ledger;
- Setting the government Sector Accounting Standards (IPSAS);
- Tackling Specific Accounting Issues;
- Accounting and budgeting Consistency (Integration);
- Conceptual Framework;
- Central Guidance Unit; and
- Central Help Desk (including Advisory Board).

**CONVERSION PHASE**
Transferring the Data from Cash to Accrual Accounting

**TESTING AND CONFIRMATION PHASE**
Testing the Workability of the New System

**Overcoming the Transition Barriers:**
- Legal barriers; - Staff qualification; - Bureaucratic management culture; - Lack of internal consistency; - Size of jurisdiction.; - Resistance to change; - Organizational characteristics; - Specific Accounting

**Final Result:**
Transition to Accrual Accounting in the Central Government

**Post-Transition Phase (III)**
Developing New / Improved Financial Reporting System
to be effected as a sine qua non of assistance being provided (Godfrey et al 2001). This can be seen, particularly in underdeveloped and transitional economies. Thus, the international organizations are acting as change agents.

Compared to the Contingency model, its variants and the BRM, new driving forces/triggers can be added to the stimuli. The practical experience of Australia regarding the introduction of accrual accounting has given rise to the appearance of a new trigger for government accounting change, as the Greiner Government pursued a policy of “Comprehensive financial disclosure to the community” as the main trigger/mechanism for reform (Nick Greiner was elected as Premier of the State of New South Wales in 1988). In fact, the Comprehensive financial disclosure to the community is synonymous with full financial transparency. This means that Full Financial Transparency is supposed to be a relevant stimulus for government accounting reform. In addition, Hussein’s Model has emphasized that an innovation process starts as a consequence of a performance gap existing in the current system as to how it works and how it should work (Hussein, 1981). A “performance gap” exists if there is a difference between how the present method works and how it actually is supposed to work (e.g. Zaltman et al., 1973, Jonsson, 1985). According to Jonsson (1985) this can arise when there is knowledge about a better solution or if the present method does not solve the problem. The trigger for accounting change in Swedish local governments was the experience of a performance gap by external stakeholders (Mattisson, et al., 2004). Accordingly, both Full Financial Transparency and Performance Gap can be added to the stimuli.

- **Knowledge and Awareness.** After the appearance of stimuli, there must be knowledge and awareness that the government accounting innovation exists (Hussein, 1981). The existence of government accounting innovation has to be diffused and communicated by different groups who can influence the reform decision in a direction deemed desirable by change policy. This can occur through creating the government accounting innovation as an issue. Basically, the accounting innovation will never enter into the political agenda before the government accounting innovation is created as an issue and politicians become aware of that issue. This can be achieved by bringing the government accounting innovation to the attention of actors who can influence the political agenda. The reform drivers as identified by Lüder (2001) in the Financial Management Reform Process Model - FMR Model (Reform drivers such as: Government Commission, Professional Associations, Audit Institutions, Standard Setting Bodies, Consulting firms and Scholars Networks) can play a crucial role in influencing the political agenda. The reform drivers can play an essential role in raising the awareness of government accounting reform early in its life and “soften up” other actors to their policy ideas (Kingdon, 1984, p.189). The practical experience of Australia regarding the development of accrual financial reporting in the Australian government sector has proved that fact, as the Public Accounts Committees (PACs), Auditors-General and the organized accounting profession were also major actors who sought to influence the political agenda (Ryan, 1998).

- **Persuasion.** The acceptance for government accounting innovation occurs as a result of the persistent and progressive efforts of actors (reform drivers) working to effect change to the political agenda (Kingdon, 1984, p.21; Cobb and Elder 1972, p.161, Ryan, 1998). After creating the government accounting innovation as an issue and when most of the actors are aware of the accounting issue, the governing bodies (executive bodies), legislative bodies (Parliament) and government administrators have to be persuaded of the significance and
necessity of the transition process to accrual accounting and assured of its ability to solve the problems that were behind the stimuli for reform. Namely, they should be well posted with whether the transition process can match the stimuli. This can take place through examining the necessity and feasibility of the transition process and whether the transition to accrual accounting is perceived as a specific improvement to existing practice. In fact, persuading the executive, legislative bodies and government administrators of the significance of the transition to accrual accounting is absolutely essential because they have the power to decide on and launch the transition process. Unless such acceptance exists, the transition process may not proceed and it is doubtful that the reform decision would be made.

- Legitimacy. After the persuasion stage, the transition process needs to gain legitimacy through negotiation and agreement between different groups and sub-groups (e.g. government members and legislative bodies, government administrators, and oversight bodies) (Watts and Zimmerman, 1978, Hussein, 1981; Jonsson, 1985). The focus of the negotiation will be on: whether the transition process is perceived as a specific improvement to the existing stimuli/problems (e.g. financial crisis, financial scandal, etc.); anticipated consequences (benefits) from the transition process; anticipated costs of the transition process; capability of the government to make these changes; materiality of the accounting changes for the rest of the government sector elements; transition barriers; and the degree of government’s willingness to accept the change. If the negotiation between these different bodies has resulted in legitimizing the transition process, then the reform decision can be made. Consequently, the stimuli, knowledge and awareness, persuasion and legitimacy form the base that will lead to decision making regarding the transition process (innovation process).

- Reform Decision. The reform decision is the final stage of the Initiation Phase. In the reform decision stage, the focus is dramatically changed from a situation where various groups were pressuring (e.g., the Parliament) for the transition process to a commitment to accrual accounting at the executive government level. Rogers (1995:29) argues that innovation decisions (reform decisions) can be of three types: optional, which are choices to adopt or reject an innovation made by individuals independently of other individuals’ decisions: collective, which are decisions made by consensus; and, authority, which are decisions made by a relatively few individuals within a system who have power, status, or technical expertise. The reform decision considered in this paper is of the authority type.

Consequently, the Reform Decision-Making Phase can briefly be summarized in the following equation:

\[ AC (ps) = f (S + KA + P + L + RD) \]

Where:
- \( AC (ps) \) = Accounting Changes (transition to accrual accounting in the government sector (ps))
- \( f \) = function
- \( S \) = Stimuli;
- \( KA \) = Knowledge and Awareness;
- \( P \) = Persuasion;
- \( L \) = Legitimacy; and
- \( RD \) = Reform Decision.
Transition Phase (II)

The transition phase describes the actual transition activities and starts with the creation of conditions appropriate for the transition to accrual accounting and ends with putting the accrual accounting system into real practice and testing its workability. Therefore, this phase consists of the following four sub-phases:

1. Initial transition phase;
2. Establishment phase;
3. Conversion phase; and

These four sub-phases will be dealt with as follows:

**Initial Transition Phase**: primarily aims at creating conditions appropriate for the transition to accrual accounting and basically comprises the following basic requirements (Ouda, 2004, 2005):

- **Political Support (PS)**. The experience of the pioneer countries such as New Zealand, UK and Australia has indicated that the government sector reform (including government accounting reform) can not succeed without strong support from the politicians. According to the New Zealand experience, the political commitment for the reforms created a climate in which chief executives saw little advantage in seeking to delay or impede the reforms, and instead worked towards their successful implementation (Ball, 2000). The experience of New Zealand had also proved that political commitment is necessary at key points, as the New Zealand’s reform relied on the leadership of the finance minister and other key authorities. They steered the necessary legislation through the government and parliament, and other critical junctures conveyed their support to the top management of civil service (Scott, 1996). In addition, Monteiro (2002) states that “political will and effective leadership are absolutely essential; without these features reform will be a mere formalistic exercise in window-dressing”. However, the political support does not come from itself. It demands an internal and external pressure from different parts. Generally, political leaders do not seriously tackle the root cause of their problems until the situation approaches crisis conditions and the need for remedial action becomes evident and broadly accepted by the unions and the population at large (OECD, Paris, 1993). The political commitment is obtained, either through politicians becoming aware of a problem (awareness of a problem can occur either by a disaster or by the persistent efforts of actors proactively raising attention to an issue) or through a change of administration which alters the political priorities (Kingdon, 1984 p. 92). Once political commitment is obtained, a “policy window” is said to open (Kingdon, 1984, P.173)

- **Legal Provision (LP)**. The earlier conducted empirical studies (e.g., Ouda, 2005) have indicated that the legal provision is considered to be one of the fundamental requirements for the successful transition to accrual accounting in the central government, as it provides the vehicle for compelling recalcitrant bureaucratic and the other participants to carry out the accounting changes. Furthermore, the absence of an adequate legal provision can result in that any attempt for adopting accrual accounting will be disregarded. While New Zealand is considered as pathfinder for government sector reform (including government accounting reform), the absence of the required legal provision has resulted in the failure of the earlier attempts for accounting innovation. For example, Pallot (2002) stated that during the early to mid-1980s there had been attempts, through Treasury guidelines, to encourage departments to keep asset registers and adopt accrual accounting but a number continued to disregard these
suggestions. On the other hand, when the intended reforms are supported by a passage of new acts, this expands their chance to be implemented in the real word. Pallot (2002) has further stated that under the Public Finance Act, and the related State Sector Act, which made chief executives of government departments responsible for financial management, accounting reform was forced upon them.

This was not only the case of New Zealand, but also the case of other pioneer countries such as Australia. The Australian financial management was modernized through three pieces of legislation designed to improve the quality and clarity of understanding of the Commonwealth’s financial management framework. These were the Financial Management and Accountability Act 1997, the Commonwealth Authorities and Companies Act 1997 and Auditor-General Act 1997. The legislation sharpens accountability and emphasizes performance and propriety. It also facilitates the subsequent, separate decisions to replace cash accounting with accrual-based budgeting and output and outcome reporting.

- **Bureaucracy Support (BS).** While the political support is necessary, it is not a sufficient condition for the success of the transition to accrual accounting in the central government. There must also be a sustained commitment by the bureaucracy to the accounting changes. The sustained political and bureaucracy commitment encourages the most central government managers to welcome the change. Bureaucracy commitment can be demonstrated by installing an incentive system that motivates the larger bureaucracy to promote the introduction of accrual accounting and to use the performance information following therefrom in decision making. Also there should be an incentive system for the politicians to obtain their support. This is clear from the New Zealand experience where the government sector reforms were ordered in such a way as to generate early benefits to both bureaucracy and Ministers. Early in the process, bureaucrats received (in exchange for increased accountability for the outputs) the benefits of managing their departments without the need to comply with the extensive detailed procedural requirements. Ministers saw the benefits through their capacity to manage the fiscal situation they faced in preparing the 1991 budget (Warren IFAC, 1996). In addition, the role of bureaucracy is important in the implementation phase since most of procedural and technical aspects are matters of bureaucracy. Also their role is important in the initiation phase as it is appeared from the Ireland experience where the senior civil service has been a fertile source of reform ideas (Schick, 1999). However, it should be clear what we mean by civil servants. In fact, we mean here the civil servants who are at senior level and not at operating level, where strategic reforms come from the political echelons or the top ranks of the public service. The broad scope of reform requires perspective and power that are held either in central agencies or departmental headquarters (Schick, 1999).

- **Professional and Academic Support (PAS).** Basically, the nature of the government sector and the characteristics of its environment are essential in determining its financial reporting objectives, and the principles and standards of the governmental accounting should be understood in the context of the environment within which they operate, and in view of the objectives that financial reporting is expected to serve (Chan, 1988). This means that the government accounting system should be consistent with the nature and objectives of the government sector whether it uses the private sector GAAP or not. The use of the private sector GAAP in the government sector requires that these GAAP should be adapted where appropriate to take into account the government sector context (harmonize where appropriate and differentiate where necessary (Bac, 1994)). This entails that the accounting principles, standards, procedures, and practices should be adapted to be consistent with the specific...
nature and objectives of the government sector. Herein, the professional and academic bodies can play an essential role in rendering assistance to the central government in the development and designing of an accounting system that would meet the needs of the politicians and other users. Consequently, the role of these bodies can facilitate the transition to accrual accounting in the central government through the undertaking of the following tasks (Ouda, 2004):

- Proposing of accounting standards and procedures;
- Comment on the accounting standard proposals and supply recommendations;
- Submittal of professional consultancy (advisory role) before and during the implementation process; and
- Development and designing of an accounting system consistent with the government sector context.

This was also clear from the experience of earlier reformer countries (e.g., New Zealand, UK, Australia and Sweden) that the Professional and Academic bodies within and outside the central government have shown overwhelming support for creating conditions appropriate for transition to accrual accounting in the central government and for putting it into practice. For example, the UK experience, when the treasury published the White Paper in July 1995 which described the progress made in developing resource accounting and the government’s proposals to introduce resource budgeting, the treasury received many comments from different parties within and outside the government sector such as: Parliamentary Committee & Auditors such as: Committee of Public Accounts, and Treasury and Civil Service Committee; Professional & Regulatory Bodies such as: Accounting Standards Board, and Chartered Association of Certified Accountants (ACCA); Accountancy Firms and Consultancies such as: Coopers & Lybrand, and Ernst & Young; Academics such as: University of Hull, and University of York, and Cranfield University; and Interest Group such as: Confederation of British Industry (CBI) and Institute of Directors. The comments and consultations that were received from the above-mentioned bodies were helpful in confirming that all the main issues had been identified and they had provided valuable input to further consideration of these issues (White Paper, 1995).

- Communication Strategy (CS). The recent experience of the earlier reformer countries (e.g., New Zealand, UK and Australia) has proved that the reason for the success of the change process was the sufficient communication about the change process. Accordingly, not surprisingly, if we use the marketing language and we consider the introduction of accrual accounting as a new good that needs a promotion strategy to set forth its characteristics and to assist the people in changing their behavior towards the change process (Ouda, 2004).

Getting people to change behavior requires communications upon which they would actually act while influencing behavior via communication requires very targeted content in messages and careful selection of media. The transition to accrual accounting in the central government needs a communication program (communication strategy/effort) to disseminate objectives and requirements of the change process, to clear up the misunderstandings that exist and to convey a common understanding of the key principles of the accounting changes. In addition, a continuing day-to-day working relationship with the governmental entity officials and staff is deemed indispensable to ensure adequate understanding of the new concepts. In reality, the role of communication is of vital importance for the transition process in different phases such as the initiating phase; the implementation phase and the evaluating phase (Ouda, 2005).

Before a decision is made about reforms, it is required to inform different parties, such as stakeholders, the public, interest groups, etc., about the changes that should be brought about
and to consult these parties in advance, to discover the reaction of these parties towards the changes and to explain the process and the manner in which the public would be affected. Furthermore, it is more important in the implementation phase to keep all participating parties informed about the developments, to disseminate objectives and requirements at each stage, to translate the general objectives of reform into specific details for each governmental entity and to assist in solving the emerging problems during the implementation phase. In the evaluation phase, it is important to provide information about the extent to which the expected benefits are fulfilled (Ouda, 2004).

- **Management Culture Change (MCC).** In reality, management support for the transition to the accrual accounting system comes only when the managers feel that they badly need such a system and understand the role and the benefits of accrual accounting. In the context of traditional bureaucratic model, the managers have little freedom and less accountability and they are more concerned with input and compliance with rules than with output, performance and accountability. The change of bureaucratic culture, which has centered on the fact that it concerned itself more with proper procedures than with objectives, puts respect for rules above efficiency; and having little freedom and less accountability, is very intricate. Such a system is incompatible with a quest for improved performance. In this context, managers see that accrual accounting has no or little role to play. On the other hand, the transition to accrual accounting needs to receive a high profile and to have the continued support of senior management. Also support needs to come from managers responsible for implementing and operating the accounting system. Accordingly, the change of management culture from bureaucratic culture to New Public Management (NPM) culture, which centered itself on increasing the individual responsibility, giving the managers extensive discretion in the use of resources, on output instead of input and on measuring the performance in terms of efficiency and effectiveness, will create a vital role for accrual accounting. This way the new public management system shifts the responsibility for management to managers and they become personally further responsible for managing strategy, operations, personnel and finance, in order to achieve the results that they agreed to fulfill, in this context, the manager’s support for the transition to accrual accounting will be inevitable. Support inevitability stems from the need that managers have for reliable financial data that can assist them in decision making process and in using the available resources efficiently. In addition, the previous government sector accounting reform attempts have indicated that accounting changes not only involve the adoption of a new accounting system but also a significant culture change in the way managers understand and use the financial information and in how financial transactions are handled. Therefore, the change process should comprise a strong component of change management culture because if accrual accounting would be seen simply as a year-end reporting requirement, this focus would miss the valuable contribution that accrual accounting could make to the management of resources.

- **Willingness to Change (WC).** In addition to the aforementioned requirements, the willingness to change, comprising the staff motivation, staff will, and staff training and qualification, is a crucial basic requirement for the transition to accrual accounting. In fact, it is not imaginable to successfully implement accrual accounting in the central government and to achieve the target benefits from that implementation without taking into consideration the following human aspects: appropriately trained and qualified accounting personnel; staff motivation and will; staff conviction about the benefits that can be reaped from the new system; and existence of an appropriate incentive systems. Of course, the above-mentioned human aspects are not confined to the accounting staff in the financial branch, but comprising
all the members of staff that will participate in the change process. For example, there is a very real need to educate those managers responsible for budgets that they need to have a financial awareness to enable them to manage the budgets: in particular, it seems that many do not understand that the placing of an order gives rise to a commitment that reduces the amount of their budget available in the future, and nor do they understand the importance of recording the creditors as soon as it occurs (Watkins, 2002). Accordingly, a significant component of the change process is the training of the accounting staff, managers and the other users. In other words, the emphasis should be placed on having accounting staff and management able to understand accrual accounting. So it is very important to have the appropriate skills to implement and operate an accrual accounting system.

- **Consultation and Co-ordination (CC).** The practical experiences of the pathfinder countries such as New Zealand, UK and Australia have indicated that the co-ordination and consultation with the governmental entities that will implement the accrual accounting is very important. As these entities are well acquainted with their own problems and constraints that may impede the transition to accrual accounting (United Nations, 1984). In addition, these entities should be consulted in order to obtain comments and suggestions from the primary sources for the required improvements before establishing the new system. Yet, the co-ordination with these entities and within each other is very important in order to fulfill the internal consistency (Ouda, 2004). The lack of the internal consistency may result in development of strongly diversified and non-uniform accounting systems and leads to that these entities may get into conflict with each other (Luder, 1992). Therefore, the accounting change process needs to be guided by a central unit in order to achieve the reform process by a consistent and harmonized way. Furthermore, a continuing day-to day working relationship with the governmental entity officials and staff is deemed indispensable to ensure adequate understanding of the new concepts (United Nations, 1984). So in order to implement a consistent and harmonized accounting system within the governmental entities, the consultation and co-ordination are considered to be fundamental requirements.

- **Budgeting of Adoption Costs (BAC).** Whilst the previously stated basic requirements are considered to fundamental for the transition to accrual accounting, the lack of financial means required to carry out the adoption process can considerably deter the whole adoption process. In reality, many countries (particularly, developing countries) have attributed their failure of getting accrual accounting adopted in their government sector to the lack of financial means. Therefore, budgeting of the adoption costs is critical in determining the volume of the financial means that are required for the whole transition process and can assist in overcoming the future financial problems by having a phased transition to full accrual accounting and by dividing this budget by a number of years. Of course, the adoption of an accrual accounting system imposes significant additional costs, in various ways, on the government sector. These costs comprise the acquisition of specialist skills, development and installation of financial information systems, staff training and developing of accounting policies, identification, measurement and recording of assets and liabilities, acquisition of new ledger systems to accommodate an accrual rather than a cash system and making the users familiar with a new set of concepts and decision making possibilities. A key lesson learned from the earlier reformer countries was not to underestimate the costs required to plan and implement full accrual accounting. It is more efficient to have the necessary resources from the start in stead of paying extensive overtime to the team. In addition, resources to support the transition process are still needed during the first years of operation. It is also evident that a change of systems in the government sector requires more than one year
(almost five years) and the resources for these years (both human and financial) have to be identified and budgeted for. Accordingly, identification of resources required and budgeting of these resources for the whole transition period is critical for the successful transition to accrual accounting. Budgeting of these resources can assist in determining the yearly financial means required, which in turn can give the opportunity to the government of a certain country to decide whether to go ahead with the implementation process or to postpone this process to a later period.

- **Information Technology Capability (ITC).** The main aim of the transition to accrual accounting is to provide improved financial information which can assist in decision-making process. This financial information has to be furnished on a relevant time. This will be difficult in the absence of the availability of appropriate software. Therefore, the transition to accrual accounting is unthinkable without availability of appropriate and affordable standard software. Availability of such software or the necessary renewal of existing software also provides opportunities to renew the accounting system (Luder and Jones, 2003). In addition, more complex information technology systems will be required to adopt accrual accounting than those associated with the traditional cash system. Unlike, cash accounting, the transition to accrual accounting will require changes in the following systems; fixed assets system; revenue system; purchase acquisition system; human resources and payroll systems; property management system; inventory system; grant and benefit systems; debt system; budget system; and non-financial systems (IFAC, 2002).

- **International Financial Support (IFS).** The earlier conducted empirical studies (e.g., Ouda, 2005) has indicated that most of the developing countries are suffering from insufficiency of financial resources and the availability of domestic financial resources has actually been reduced by adverse economic developments and natural disasters. While most of the developing countries have actively participated in international and regional deliberations on sustainable development and have committed themselves to international and regional legal instruments and undertaken regional initiatives and arrangements, lack of resources has seriously undermined their ability to live up to their commitments (http://www.unescap.org/mced2000/pacific/background/constraints.htm). Many of the developing countries do not have the financial means to meet their international obligations without adequate financial and technical support from the international community. This in turn means that the transition to accrual accounting in the central government of the developing countries is heavily related to the international financial support.

Consequently, the initial transition phase can briefly be summarized in the following equation:

\[
AC\ (ps) = f (PS + LP + BS + PAS + CS + MCC + WC + CC + BAC + ITC + IFS) \quad (2)
\]

Where:
- \(AC\ (ps)\) = Accounting Changes (transition to accrual accounting in the public sector (ps))
- \(f\) = function
- \(PS\) = Political Support (political support includes both legislative and executive);
- \(LP\) = Legal Provision (adjusting current acts and/or enactment of new acts)
- \(BS\) = Bureaucracy Support (at senior level)
- \(PAS\) = Professional and Academic (advisory) Support (in the accounting field)
- \(CS\) = Communication Strategy (includes booklet, journal, conferences, seminars, etc);
MCC = Management Culture Changes (internal management changes/ NPM);
WC = Willingness to Change (staff motivation, will, and training and qualification);
CC = Consultation and Co-ordination (an essential step for central guidance of accounting change);
BAC = Budgeting of Adoption Costs (for the whole transition period);
ITC = Information Technology Capability.
IFS = International Financial Support (only for developing countries)

Establishment Phase: which primarily aims at determining the basic technical and professional requirements that are deemed to be fundamental for the establishment of accrual accounting in the central government. This phase comprises the following requirements/factors:

- **Asset Register (AS).** The use of the cash basis in the governmental accounting for long time has resulted in that final accounts are nothing more than summarized cash books, and hence, there are no balance sheets because there are no assets or liabilities in the books (Jones and Pendlebury, 1984). However, the governmental entities have traditionally accounted for fixed assets in a way that reflects the financing required to meet their costs rather than their pattern of use (Rutherford et al, 1992). Accordingly, there are no assets adjustments because the accounts are not concerned with recording usage, only with the fact that cash has been paid for acquisition of those assets. Therefore, no information can be provided about the investment in the total assets and no subsequent accounts are taken of whether the assets are still in use, whether they have reached the end of their useful life or have been sold. Thus, the transition to accrual accounting in the central government will require the governmental entities to identify and value their assets in order to be able to prepare the Assets Register. In reality, the identification and recognition of the physical assets in the central government is not an easy task since these assets have been existed for decades and have been acquired by different ways. This in turn makes the identification and valuation process of those assets more difficult.

Thus, the main difficulty is that in order to record the physical assets the governmental entity not only has to know what assets it owns but it must also put a value on them, even if the value is their historic cost. Therefore, if no assets register exists which records the values, then the task of taking an inventory of fixed assets and valuing them might be a huge and expensive one (Jones and Pendlebury, 1984). So in order to have full information about the fixed assets, the governmental entities have to prepare the assets register. The preparation of assets register will furnish information that has not available before. For example, the use of resource accounting (which is based on accrual basis) in the central government of UK has made available information, which has not been available before (Likierman, 1998). For instance, in November 1997 a National Assets Register was published, giving, for the first time, details of what was owned by the central government. Also in the course of year 1998-1999 a Departmental Assets Register was published which gave full information on the departmental assets. The information, which is provided by the two registers, enables the politicians and departmental management to make more informed decisions and to improve the management of these assets. The effective management of such assets requires sufficient records to identify the existence of assets and the costs of holding and operating these assets.

- **Opening Balance (OB).** Similarly, as a result of using the cash basis of accounting in the governmental entities, there is no information available about the opening balances of both
assets (financial and fixed assets) and liabilities (short and long term liabilities). Namely, there is no information about financial assets (e.g., debtors); financial liabilities (e.g., creditors); fixed assets (e.g., infrastructure assets); and long term liabilities (e.g., pensions). Accordingly, the transition to accrual accounting entails the preparation of the balance sheet. This in turn requires the recognition of elements such as fixed assets, stores, liabilities, debtors, creditors, prepayments, accruals, depreciation. So the shift to accrual accounting requires the establishment of opening balance sheet through identification and valuation of such following items:

* Debtors & Creditor
  - Stock-take
  - Reconcile old “Advances and Deposits” & suspense accounts

* Fixed assets
  - Establish asset registers
  - Value assets

* Inventory
  - Stock-take

* Bank balance
  - Working capital allocation

* Liabilities
  - Leave accrual (e.g., superannuation)

**Chart of Accounts (CA) and Accrual General Ledger (AGL).** Under the cash basis, the chart of accounts is designed to provide information and report on cash flows and cash balances (monetary position of governmental entities) in stead of total economic resources of governmental entities. Accordingly, the chart of accounts is very simple and is not intended to provide information on items such as fixed assets, stores, liabilities, debtors, creditors, prepayments, accruals, depreciation. The transition to accrual accounting requires from the governmental entities to design a comprehensive chart of accounts in order to provide full information on assets (current and fixed), liabilities (short and long-term liabilities), net worth, revenues and expenses.

The chart of accounts is a listing of all the accounts in the general ledger, each account accompanied by a reference number. To set up a chart of accounts, one first needs to define the various accounts to be used by both individual and central entities. In the government sector, we have to take into consideration that the chart of accounts of individual entities has to be consistent with the chart of accounts of central entities. Where a number of individual entities are required to provide information to a central entity for the preparation of consolidated financial statements or for other reporting purposes, it is usual to have a central chart of accounts. This central chart of accounts needs to: IFAC, 2002)

- meet the needs of both individual and central entities;
- provide a uniform coding structure for coding financial transactions; and
- permit flexibility for individual entities to adapt it to their particular requirements.
IFAC (2002) also states that the central chart of accounts needs to be developed early in the process to allow individual entities time to tailor it to their own needs. Individual entities need to incorporate the requirements of their chart of accounts when specifying the deliverables required from accounting software. In addition to the aforementioned, the chart of accounts in the governmental entities may also include codes for recording transactions against budgetary approvals. In addition, the Chart of Accounts can include many important elements such as:

- **Object, Accounting or Transaction Code** that corresponds to standard accounting practice including codes for assets, liabilities, revenue and expenses.
- **Organization Code** that describes the organization hierarchy including ministries, agencies and divisions.
- **Responsibility Centre** that describes approval responsibilities. Sometimes the approval structure differs from the organizational hierarchy.
- **Location Code** that describes the physical location of the organizational unit.
- **Tier** that describes the organizational tier in unitary governments such as provinces or municipality.
- **Economic Code** that describes the purpose of any expenditure or program. For example, other ministries, other than the Ministry of Education, expend money for educational purposes.
- **Programs** that describes government programs that could be shared across multiple ministries. Programs often last more than one year and represents an important commitment on behalf of the government.
- **Projects** that describe important government projects.
- **Activities** that describe the functions being performed for any expenditure.
- **Objectives** that describes the objective of any expenditure.
- **Performance** that describes the measurement for any initiative.
- **Support of International reporting standards** such as Government Financial Statistics (GFS).

Furthermore, IPSAS provides guidance on Chart of Accounts objectives, reporting needs and supporting accrual accounting including creating classifications for:

- Calculating financial position and cash flow to enable the creation of financial statements
- Organization units or segments that can relate to geographic or service entity to enable comprehensive reporting for any organizational unit
- Depreciation and amortization
- Revenue and expense types to classify revenue streams and expense types
- Salary and benefits recognition
- Finance and borrowing costs
- Any long term contractual agreement like leases
- Contingent liabilities and assets
- Statistical reporting
- Inventories including costs and changing in value including write-downs
- Foreign exchange including accounting for realized and unrealized foreign exchange gains and losses
In addition, the *Accrual General ledger* is considered to be the heart of the Chart of Accounts. Both have to be consistent with each other as the general ledger is a record containing the accounts needed to reflect an entity’s financial position and results of operations.

- **Accounting Policies and Practices (APP) (Accounting Standards).** IPSAS 1 identified accounting policies as the specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting financial statements. Inducing the practice has shown that the government sector entities follow widely diverse financial reporting practices, and in many countries, there are no authoritative standards for the government sector. In some countries where standards do exist, the body of standards may be either at an early stage of development or limited in application to specific types of entities in the government sector (IFAC May, 2000). However, the existence of widely diverse financial reporting practices in the government sector entities is due to the use of different legal systems and the absence of Generally Accepted Government Accounting Standards. Therefore, the prescribing of accounting standards, principles and practices (accounting policies) that are consistent with the central government context is an essential step for the transition to accrual accounting in the central government. This is because accrual accounting is more judgmental than cash accounting and requires a more sophisticated regulatory framework. Furthermore, the early focus on accounting policies is significant as accounting policies can have an impact on the requirements of information systems, training strategies and communications strategies (IFAC, 2000). In reality, there are different options for the countries that are intended to adopt accrual accounting in respect of developing the new accounting policies which are consistent with accrual accounting.

The first is that these countries can follow the International Public Sector Accounting Standards (IPSASs) which are developed by IFAC. The IFAC-IPSASB has developed several Accrual IPSASs, which can be considered as the corner stone of facilitating the transition to accrual accounting in the public sector. These IPSASs are of particular importance for the developing countries that are not able to produce their accounting standards, and hence, they are importing them from the developed countries. Consequently, the availability of IPSASs is considered as an important factor of the transition to accrual in the central government of the developing countries.

The second is that they can follow the accounting policies that have been developed by the earlier reformer countries such New Zealand, UK and Australia.

Finally, they can develop their own accounting policies with the use of the aforementioned two options as guidance.

- **Tackling of Specific Accounting Issues (SAI).** Due to the fact that the cash-based accounting system has been used for centuries in the government sector, specific accounting issues have been remained unsolved, such as, identification of government reporting entity and determination of its boundaries, identification and valuation of fixed assets such as: military assets, heritage assets, infrastructure assets, natural resources, etc. For example, the reporting entities issues have to be tackled before the transition to accrual accounting. Where the determination of the boundaries of the government reporting entities is fundamental, because it determines which entities, transactions and activities will be comprised by a government’s financial report (IFAC, 2002). The government reporting entity has to be identified and its boundaries has to be determined before government starts with the real transition to accrual accounting, as it is recognized that inappropriate delineation of the
boundaries of the government financial reporting entity would have adverse consequences on
the message communicated by the financial report and the discharge of the accountability
obligations of a government (IFAC, 1996). Therefore, the government should try to establish
the reporting entity and its boundaries during the determination of the accounting policies.

- **Conceptual Framework (CF).** Unlike, the private sector accounting, there is a lack of
conceptual framework for governmental accounting. Fortunately, the International Public
Sector Accounting Standards Board (IPSASB) has recently published a Consultation Paper
(IPSASB, 2008) covering the conceptual framework for general purpose financial reporting.
The conceptual framework has attempted to cover the following issues: the objective and
scope of general-purpose financial reporting, qualitative characteristics of general-purpose
financial reporting and identifying the users and their information needs. While the IPSASB
conceptual framework has tackled the most important issues which are considered to be
essential for the successful transition to accrual accounting, there are still some issues need to
be included in the Conceptual framework. In fact, the conceptual framework should pay
attention to transferring the accrual accounting concepts (which have mainly been designed
for the private sector) into government sector. For instance, accrual accounting is based on
some principles and postulations (e.g. matching principle and going concern postulate) that
have been used for decades as an obstacle in the way of its adoption in the government sector.
These principles and postulations need a further clarification and making clear how they can
be applied to the government sector. Furthermore, the conceptual framework is required to
determine the reporting entity and its boundaries; the scope and the coverage of financial
statements; and the main concepts such as assets, liabilities, financial position, expenses and
revenues. Also, it is required to address the accounting treatment rules and valuation rules.
Consequently, development of the conceptual framework is considered to be an essential step
for the successful transition to accrual accounting in the central government. In addition, the
use of IPSASB conceptual framework by different countries can facilitate the harmonization
of government accounting at the central governments level.

- **Accounting and Budgeting Consistency (ABC) (Integration).** The experience of the
previous reformer countries (such as New Zealand, UK and Australia) has indicated that the
budgeting system should be integrated with the accounting system which is used to carry out
the budget; therefore, the basis on which the budget is prepared should be consistent with the
basis of accounting utilized. Thus, the accounting reform makes the budget reform inevitable.
This means that the transition to accrual accounting in the central government should be
accompanied by the transition to an appropriate budget system of which its nature and
characteristics are consistent with the nature and characteristics of accrual accounting.
However, in practice there are different bases of budgeting: expenditure-based budgeting and
cost-expense-based budgeting are the most used ones. The expenditure-based budget is
concerned with current period expenditure not expenses or costs incurred. Expenditures are
recognized in the budget only to the extent that claims will be paid-off by the end of the year.
On the other hand, cost-expense-based budget is concerned with costs, which are a measure
of the economic resources utilized for a particular purpose or with providing a particular
service, and expenses which occur when goods and services (including capital assets) are
consumed. Both expenses and costs incurred are measured on an accrual basis since accrual
accounting better reflects underlying economic events (Raman, 1997). Therefore, the
adoption of accrual accounting in the central government should be integrated with budgeting
reform.
Central Guidance Unit (CGU). In fact, it is important to leave the transition to accrual accounting in the care of a central guidance unit. Centrally guided reforms are characterized for example by a uniform terminology, a uniform Chart of Accounts, clear uniform recognition and valuation rules, and uniform software packages across the government (Lüder and Jones, 2003). Such a central guidance took place in Australia during the budgeting reform. In Australia, the Management Advisory Board and its Management Improvement Advisory Committee provided the central direction to the reform effort. Additionally, the Australian Department of Finance posted a copious flow of guidelines on how the system operated. It published studies on the implementation of the reforms in selected agencies as a means to publicize the experiences of the departments and best practices in implementing budget reform (Xavier, 1998). The importance of the central guidance unit stems from the fact that the lack of an effective central coordinating mechanism between the treasury and governmental entities, which is required to adopt accrual accounting, will result in expanding the distance between the treasury and those entities. This in turn can produce a different perception of what accrual accounting practices, procedures and principles are and creating some confusion among the governmental entities themselves as well. Accordingly, there should be an effective central coordinating mechanism between the treasury and the governmental entities, furthermore, among and within the governmental entities to guide and manage the accounting reform in order to avoid the diversification of accounting system within the central governmental.

Central Help Desk (CHD) (including advisory board). During the establishment phase, which focuses on the technical and professional requirements, many accounting problems emerge. The Central help desk (including advisory group) can assist in solving the conceptual and technical accounting problems that emerge during the implementation process. For example, the establishment of an Accrual Accounting Advisory Group will be valuable for the transition to accrual accounting, as the knowledge and advice of this group will be extremely helpful in the deliberations on the various issues that can arise during the implementation process.

Consequently, the establishment phase can briefly be summarized in the following equation:

\[
AC_{(ps)} = f (AR + OB + COA + AGL + APP + SAI + CF + ABC + CGU + CHD) \tag{3}
\]

Where:
- \( f \) = function
- \( AR \) = Asset Register
- \( OB \) = Opening Balance
- \( COA \) = Chart Of Accounts
- \( AGL \) = Accrual General Ledger
- \( APP \) = Accounting Polices and Practices (Accounting Standards)
- \( SAI \) = Tackling of Specific Accounting Issues
- \( CF \) = Conceptual Framework (required for transferring the accrual accounting concepts into government sector.
- \( ABC \) = Accounting and Budgeting Consistency (Integration)
- \( CGU \) = Central Guidance Unit
- \( CHD \) = Central Help Desk (including advisory board)

Conversion Phase: (coupling/transferring phase) aims at transferring the data from cash system and the extra-accounting files (auxiliary files) which comprise the details of accounts such as debtors and creditors, etc.. to the accrual system. Where the new accrual system can
not start from scratch, the information available in the current cash system and the auxiliary files will form the starting point for the accrual system. Therefore, this phase will provide a link for the periodic transfer of data from the old accounting system to the new accounting system. So it is necessary to consider the conversion phase to determine the conversion plan or steps by which the accounting data can be transferred from cash to accrual system. Namely, we have to identify in which way can the conversion from cash to accrual accounting be completed?

This phase can be reflected in the following equation:

\[ Ac (ps) = f (TD) \]  

(4)

Where:

- \( f \) = function
- \( TD \) = Transferring of Data

**Testing and Confirmation Phase:** aims primarily at testing the Workability of the accrual system in the real world after the accrual system is completed and the data is transferred to it from the old system. Also this phase will lead to obtaining approval to switch to the new system. In practice, there is no a specific method to test the workability of accrual accounting, accordingly, each government has to determine the way by which the workability of accrual accounting can be tested in practice?

However, we can present the experience of Ireland concerning the testing of workability of the accrual accounting system in the departments of Transport, Energy and Communications. The testing process was concerned with a computerized accrual accounting system. The computerized system chosen to handle the accrual accounting consists of new software and modifications to the existing cash system. The system has four distinct modules: (Treacy, 1997).

1. Assets register;
2. Accruals general ledger;
3. Enhancements to existing cash based financial management system;
4. Interface link between cash and accruals general ledger.

**Testing of Modules:** we shall focus only on the first two modules as examples of testing the workability of accrual accounting system as follows:

- **Assets register:** in order to make integration between all of the accruals modules, the assets register should be computerized. The computerized assets register that used by Irish departments has been consisted of two assets registers, one for items whose value would be estimated (when all the relevant details were not available) and another assets register listing those assets for which all the required information was available. The assets register would facilitate:

  (a) The provision of management information on the existence and value of assets;
  (b) A reflection of assets usage through a depreciation charge;
  (c) Departmental accountability; and
  (d) The production of the Statement of Capital Assets for the Appropriation Account.

In addition to the aforementioned information, it was also important that the assets register would link to the accruals ledger so that the periodic depreciation charges could be reflected
in the ledger and so reflect, within the Department’s financial statements, the estimated cost of asset use.

Herein the testing of assets register has been conducted in two steps: First, the asset register has been tested as a separate entity to ensure that the package of the assets register would be able to store and retrieve the following information such as: a description of the asset; the cost center at which the asset was located; categories for assets identification, e.g. furniture, IT, equipment etc.; a unique asset identifier number; a financial history of the asset; notes of revaluations and disposals, etc. Second, it has been tested together with the accrual general ledger to ensure that the depreciation charges could be reflected in the ledger.

- **Accruals General Ledger**: Treacy (1997) stated that the testing of the accruals general ledger was a more protracted and time-consuming exercise. As many issues had to be addressed such as transfer mappings (deciding where to map accounts from the cash financial management system to the accrual general ledger), reporting options and setting up template batches. In addition to these, numerous code changes required full-scale testing to be repeated on a number of occasions.

Similarly, the testing and confirmation phase can also be reflected in the following equation:

\[
AC \ (ps) \ = \ f \ (TW) \tag{5}
\]

Where:

\[f\] = function

\[TW\] = Testing the Workability

**Post-Transition Phase**: In addition to the Reform Decision-Making Phase and Transition Phase, the transition to accrual accounting requires a complementary phase which is required to develop a new/improved reporting system that is best suitable for reporting the information required. The transition to accrual accounting entails the establishment of a comprehensive financial reporting system not only to furnish information on the total assets, liabilities, changes in net worth, revenues and expenditure but also to furnish information on borrowings, loans-made, commitments, contingent assets and liabilities, etc. Consequently, the suggested external financial reporting formats are as follows:

- Statement of Financial Performance (Operating Statement)
- Balance Sheet
- Cash Flow Statement
- Statement of Changes in Net Worth
- Statement of Loans-Made
- Statement of Borrowings
- Statement of Commitments
- Statement of Contingent Liabilities
- Statement of Emergency Financial Transactions
- Statement of Unappropriated Financial Transactions
- Statement of Trust Assets
- Statement of Accounting Policies
- Notes to the Financial Statements

In addition to the aforementioned financial reporting, Parry (2010) has suggested four dimensions of Public Financial Management (PFM). The proposed four dimensional
framework suggests that public financial management can be viewed as having multiple goals within four dimensions as follows: (Parry (2010))

- **Dimension 1: Aggregate fiscal management.** Three specific goals of aggregate fiscal management are identified:
  
  1. Fiscal sustainability;
  2. Maximizing resource mobilization; and
  3. Resource allocation in accordance with policy priorities.

- **Dimension 2: Operation management:** financial management has a significant role in the operational management of day to day activities of government:
  
  1. Effective performance management;
  2. Delivering value for money; and
  3. Managing within the budget.

- **Dimension 3: Risk management:** herein, Parry (2010) stated that the PFM provides important tools of risk management through the following goals:
  
  1. Effective financial control;
  2. Compliance with constitutional legal and regulatory requirements; and
  3. Proper oversight of public finances.

- **Dimension 4: Governance:** The public sector governance has to meet the needs of the public sector primary stakeholder (the people, i.e. civil society) and the external stakeholder, e.g. lenders, multilateral organizations through the following goals:
  
  1. Governance structures that reflect the interest of stakeholders;
  2. Transparency; and
  3. Accountability.

Parry (2010) has suggested that the specific sub-systems such as budget, financial reporting or audit, must be seen in the context of the overall four dimensional framework and their role within that framework. Hence, the general purpose financial statements can be seen as having particular relevance to:

- Dimension 1- Fiscal management;
- Dimension 2- Particularly resource mobilization
- Dimension 4- Governance.

Parry concluded that this goal analysis provides the basis for developing a conceptual framework for financial reporting. In fact, we agree with Parry that the development of financial reporting for the central government has to be approached in the context of the above-mentioned three dimensions.

Similarly, this phase can be reflected in the following equation:

\[
AC\ (ps) = f(DNFRS) \tag{6}
\]

Where \( f = \text{function} \)

\( DNFRS \) = Developing New Financial Reporting System
Conclusion
In the early 1990s, a reform movement to innovate government accounting began in some countries, such as, New Zealand, UK, Australia, Sweden, Finland, Canada, USA. In this context, several models have been developed to deal with the government accounting innovations (Lüder 1992, 1994, 2000, Pallot, 1995, Jaruga and Nowak, 1996, Godfrey et al. 2001, Christensen, 2002 and Ouda, 2004). However, these models are still suffering from several shortcomings such as:

(a) black boxes;
(b) the failure to treat government accounting innovations from a comprehensive perspective;
(c) an emphasis of context of innovations over content of innovations;
(d) greater concern with the initiation phase than the real practical transition phase; and
(e) being considered explanatory models rather than prescriptive models.

These models have focused more on addressing the contextual and behavioral variables and their influence on the reform process without going into details of how to carry out the reform process itself. In addition, the practical experience of the pioneer countries (New Zealand, UK and Australia), regarding the practical transition phase, were not taken into account.

In an attempt to overcome the aforementioned shortcomings, the Prescriptive Model (PM) has been developed. The PM has not focused only on the context of reforms but also on the content of reforms. Its aim is to give a full picture of the reform process including all relevant factors, instead of only addressing the contextual and behavioral factors and their influence on the reform process. Also the Prescriptive Model pays attention to a comprehensive approach which deals with the innovation process itself from initiation stage to the final outcome and focuses on the contextual, behavioral, content, technical and capacities variables.

Basically, the transition to accrual accounting is a major cultural, administrative and technical change and in order to successfully be adopted, it must take place in phases with a clear plan of progress established from the outset. The dimensions of the task should not be underestimated and progress should occur in a measured and controlled manner. The costs of not properly managing the transition to accrual accounting can be significant and go well beyond the price of the hardware, software and training. Consequently, the PM has concluded that the transition to an accrual accounting system in central government is heavily related to the following phases and equations:

A- Reform Decision-Making Phase (I):

\[ Ac (ps) = f (S + KA + P + L + RD) \]  

(1)

B- Transition Phase (II):

\[ AC (ps) = f (PS + LP + BS + PAS + CS + MCC + WC + CC + BAC + ITC + IFS) \]

(2)

\[ = f (AR + OB + COA + AGL + APP + SAI + CF + ABC + CGU + CHD) \]  

(3)
\begin{align*}
=f (TD) \\
=f (TW)
\end{align*}

\textbf{C- Post-Transition Phase (III):}

\[\text{AC (ps)} = f (DNFRS)\]

The above phases and factors are considered necessary to establish the initial and practical steps towards the establishment of accrual accounting and its practical implementation.

\textbf{Note}

This article is a revised version of a paper presented at the 12th CIGAR (Comparative International Government Accounting Research) Conference: “\textit{New Challenges for Public Sector Accounting}” University of Modena, Italy, May 28-29, 2009.

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A proposed definition of the Modified Cash Basis

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In the article in the January edition of the Public Fund Digest “The Cash Basis IPSAS: an Alternative View” Michael Parry and Andy Wynne suggested that the modified cash basis of accounting should be recognised as an intermediate basis, in addition to the simple dichotomy between the cash basis and full accrual. We also suggested that it is relatively easy to straightforward to define the cash basis. With the issue of IPSAS 28 through 30 on financial instruments, which replace the former IPSAS 15, such a definition of the modified cash basis is made more comprehensive.

In essence the modified cash basis of accounting as proposed captures all financial assets and liabilities and the flows related to such assets and liabilities. The modified cash basis excludes physical assets (current and non-current) and also excludes all intangible assets. Hence non-cash flows such as depreciation and amortisation are excluded and replaced with the actual cash flows involved in acquiring and disposing of assets.

A proposed definition of the modified cash basis is provided in the box at the end of this article. The definition draws as far as possible on existing definitions within IPSAS so as to ensure consistency with all other standards. A modified cash basis can be regarded as either (i) and intermediate stage on the way to full accrual, or (ii) a terminal stage with no intention of moving to full accrual.

The financial statements under the modified cash basis would be as defined in IPSAS 1:

(a) A Statement of Financial Position [balance sheet showing only financial assets and liabilities];
(b) A Statement of Financial Performance;
(c) A Statement of Changes in Net Assets/Equity;
(d) A Cash Flow Statement [however, a format could be devised to combine the Cash Flow Statement with the Statement of Financial Performance as there will be only limited differences];
(e) When the entity makes publicly available its approved budget, a comparison of budget and actual amounts either as a separate additional financial statement or as a budget column in the financial statements; and
(f) Notes, comprising a summary of significant accounting policies and other explanatory notes.

The modified cash basis has a number of attractions:

• It is broadly in line with the approach currently adopted by most governments which record not only cash flows, but also domestic and foreign loans (often as memoranda records rather than part of the accounting structure). But the modified cash basis extends common practice by also identifying and disclosing unpaid bills, e.g. utility bills, a problem for many countries and which are not captured under traditional government accounting. Furthermore it provides an argument for incorporating all of this information within the accounting system itself and hence improving control.

• Budgets are usually prepared using the modified cash basis (though without actually stating any basis); both cash flows and financing flows are part of the budget. Hence
the reconciliation between budget and outturn as required by IPSAS 24 is straightforward.

- The modified cash basis contains important information not included in the cash basis. In particular it provides information on government borrowing and lending and also on current liabilities (e.g. unpaid bills) of the government. In fact the modified cash basis provides the key information required for fiscal management.

- A modified cash basis can be implemented under most Commercial Off the Shelf (COTS) computer packages, whereas it is very difficult to implement a pure cash basis (because such packages are designed to work through sale and purchase ledgers which have no role when the cash basis is applied).

- At the same time the modified cash basis avoids many of the technically complex issues of valuation and measuring flows associated with the full accrual (but not all; there are still some valuation issues).

- Since actual liabilities are included there is a conceptual basis for including information on contingent liabilities in the notes to the financial statements (under the cash basis there is no logic in identifying contingent liabilities when actual liabilities are not disclosed).

Hence recognition in IPSAS of the modified cash basis would provide an opportunity for governments to implement IPSAS compliant financial statements in a manner which advances their approach to financial reporting but still avoids the considerable costs and problems of moving to full accrual. Indeed for many poor countries full accrual would be an unjustified diversion of resources urgently needed to address issues of poverty and social deprivation, and anyway is probably infeasible for such environments.

There are disadvantages and limitations to the cash basis. By its nature the modified cash basis does not include physical assets and hence the benefits of control of such assets through the accounting system cannot be achieved. This also means that when comparing costs to outputs one of the objectives of the accrual basis, matching, will not be achieved.

A further issue is that almost inevitably the statement of financial position (balance sheet) will show an excess of liabilities over assets. This is because borrowings to acquire physical assets will be recorded as liabilities, but the assets will be expensed as they are acquired. This problem is inherent in the modified cash basis and the combination of the above factors may be reasons for governments moving in the longer run to a full accrual basis.

However, the contention of this article is that the modified cash basis:

- Can be defined with sufficient precision.

- Provides key information for fiscal management.

- The modified cash basis a significant advance on the pure cash basis yet remains feasible for most countries to implement.

- Whilst most countries already operate a form of modified the cash basis a clear definition enables the basis to be applied consistently within and between countries – it would be even better if the modified cash basis was formally recognised under IPSAS.
**Proposed definition of the Modified Cash Basis of Accounting**

The Modified Cash Basis of Accounting will recognise transactions only when cash, financial assets or liabilities are paid or received. The Statement of Financial Position (Balance Sheet) will include financial assets and financial liabilities.

For the purpose of this definition:

- A financial asset is any asset that is:
  
  - Cash
    
    - Cash comprises cash on hand, demand deposits and cash equivalents
    
    - Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value
  
  - An equity instrument of another entity;

  An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities

  - A contractual right:
    
    - To receive cash or another financial asset from another entity; or
    
    - To exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity

- A financial liability is any liability that is

  - a contractual obligation:
    
    - To deliver cash or another financial asset to another entity; or
    
    - To exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity

  - A contract that will or may be settled in the entity’s own equity instruments and is:
    
    - A non-derivative for which the entity is or may be obliged to deliver a variable number of the entity’s own equity instruments; or
    
    - A derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity’s own equity instruments. For this purpose the entity’s own equity instruments do not include puttable financial instruments classified as equity instruments in accordance with paragraphs 15 and 16 of IPSAS 28, instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation and are classified as equity instruments in accordance with paragraphs 17 and 18 of IPSAS 28, or instruments that are contracts for the future receipt or delivery of the entity’s own equity instruments.

- A payment occurs when there is an outflow of financial assets or an inflow of financial liabilities

- A receipt occurs when there is an inflow of financial assets or an outflow of financial liabilities.
The Four Dimensions of Public Financial Management

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Introduction
In all of the discussion of Public Financial Management (PFM) and conceptual frameworks for financial reporting, there has been only limited discussion of the objectives of public financial management.

Campos and Pradhan identified three objectives of fiscal management: aggregate fiscal discipline; strategic prioritisation of expenditure and technical efficiency. Allen Schick has identified three different objectives of public budgeting: Strategic Planning; Management Control and Operational Control. Both of these approaches tend to focus on the budget, but in fact this is only one aspect of PFM.

By way of contrast, the International Public Sector Accounting Standards Board (IPSASB) approaches from the perspective of published financial statements. The IPSASB Consultation Paper considers a conceptual framework for financial reporting and identifies two objectives for financial statements: accountability and resource allocation.

The IPSASB approach views PFM as an information system; but it also a purposive system, e.g. it does not merely provide information on expenditure but actually manages and controls such expenditure. The Chartered Institute of Public Finance and Accounting (CIPFA) has recently produced a consultation draft on a whole systems approach to public financial management which considers PFM as a purposive system: “Public financial management is the system by which financial aspects of the public services’ business are directly controlled and influenced to support of the sector’s goals”. The CIPFA model includes a list of goals, or objectives, for PFM. These are defined as “sustainable social benefits” which are subdivided into:

- Funder results
- Public value
- Community value
- Individual value.

Unfortunately the CIPFA draft does not further explain these concepts. However, they do suggest that whilst CIPFA defines PFM in terms of financial aspects, the target objectives are more concerned with delivering a range of benefits for civil society. Certainly they appear very different to any of the other PFM objectives defined above.

What the above approaches indicate is that any attempt to define PFM objectives in terms of a single approach is too narrow; instead PFM should be seen as an information and a purposive system with multiple objectives which can usefully be viewed as a series of dimensions.

This article suggests that the objectives of PFM can be viewed as having four dimensions:

**Dimension 1** – aggregate fiscal management
**Dimension 2** – operational management
**Dimension 3** – fiduciary risk management
**Dimension 4** – governance
Furthermore each of these dimensions is reflected in public financial management as an information system providing both ex ante (budgets, plans) and ex post (financial statements, performance and other) reporting.

Each of these four dimensional, a primary set of target objectives and the link to the information systems are summarised in the diagram on the next page. The rest of this article reviews each of these dimensions and the objectives within the dimensions. The dimensions are approached in the context of national government, but most of the comments can be transposed to sub-national public sector organisations. However, this model is proposed as a framework for identifying objectives rather than a definitive statement of all possible objectives of all aspects of public financial management.

It should also be noted that this model does not conflict with any of the definitions of objectives for PFM above. Rather, each of these can be seen as target objectives within certain dimensions; in fact as sub-sets of the whole PFM model.

**Dimension 1 - aggregate fiscal management**

A fundamental requirement of every government is to manage its finances at the aggregate level. The accounting model represents the financial flows and resultant balance sheets and hence provides basis for monitoring, controlling and ultimately managing public finances. Three specific objectives of aggregate fiscal management are identified:

1. **Fiscal sustainability**

   One of the most fundamental responsibilities for any entity is aggregate fiscal management so as to be able to fund its activities from revenues and borrowings whilst remaining solvent – the objective of fiscal sustainability. For many countries achieving fiscal sustainability has become an increasing challenge over the last two years when faced with bailing out major financial institutions. This in turn has posed new issues of aggregate fiscal management of sovereign entities and the implicit guarantees made by such entities in respect of their banking sector. Sovereign entity debt is being “rated” in the same way as commercial entities on the basis of their balance sheet and future cash flows.

   Fiscal risk is the problem of potential liabilities which do not at any point in time amount to actual liabilities, but may under certain conditions “crystallise” and become real liabilities. Financial reporting has for many years recognised these as “contingent liabilities” and required information on such contingent liabilities to be managed and reported. The obvious example are loan guarantees, e.g. on the loans of public enterprise, which will crystallise into actual liabilities if the borrowing entity fails to meet its loan obligations. But for governments the problem is more complex because of “implicit” guarantees, i.e. obligations not spelt out in law but which exist in reality – the obvious recent example is the obligation of governments around the world to bail out failing banks. This represent a huge fiscal risk that most governments did not even realise existed. Identifying and reporting such implicit fiscal risk is a major challenge for accountants.

   Another newly recognised issue is the concept of a “structural” fiscal deficit, where current levels of revenues for some rich countries are inadequate to sustain levels of government expenditure, and choices have to be made between borrowing, increasing taxation or reducing expenditure. This problem will become more acute for many countries with aging populations. These issues in turn raise problems of inter-generational transfers.
These are not just PFM problems, but accounting provides the only comprehensive model of the relationship between entity revenue and expenditure flows and balances. Traditionally aggregate fiscal management has focussed on the budget and levels of borrowings. But in the future governments require more sophisticated tools taking better account in addition of fiscal risk, equity between social groups, inter generational transfers, and the closer monitoring of fiscal outturns. This must require increasing and more sophisticated use of PFM tools at the sovereign government level.

2. Maximising resource mobilisation

Almost all entities are constrained by limited financial resources. PFM has an objective in managing resource mobilisation within policy fiscal goals. This can operate at several levels:

- Credible financial statements can impact on perceived sovereign debt risk and hence the capacity for and cost of borrowing. It is likely that in the future audited government financial statements will play an increasingly important role in assessing sovereign debt risk and hence in mobilising resources.
- Perceived strong public financial management will be a factor in encouraging both public and private inward investment. For poor countries this will include encouraging support from development partners.
- Also for poor countries, enhanced public financial management can be one element in improving the ability to absorb and utilise external aid, effectively increasing resource availability.

3. Resource allocation in accordance with policy priorities

As noted above, most governments are constrained by financial resources and need to allocate limited resources to optimally achieve policy objectives. Resource allocation is at the heart of the budget planning process, and developments such as medium term budgets are attempts to more effectively link budgets to policy objectives over a time frame longer than the traditional annual budget.

It is tempting to see public financial management as “policy neutral”, i.e. providing the mechanism for implementing whatever policies a government adopts with no responsibility for the policies. But such a view is naive. By deciding what to measure and how to present information, the accountant influences policy decisions. For example, a budget that identifies the poverty or gender impact of expenditure will influence the allocation of resources to address such issues. On the other hand a budget can hide a particular category of expenditure, e.g. military spending, by spreading such expenditure over a number of budget items without specific identification.

Hence decisions about budget allocations and the key policy focus are intertwined with decisions about budget and financial statement classification, identification and presentation. Furthermore the effectiveness of civil society participation, in Dimension 4 below, is dependent on the transparency with which information is presented and resource allocation decisions identified.

PFM through the budget process should provide a mechanism for linking policy objectives with the constraint of financial resources. However, whilst the objective of resource allocation in accordance with policy priorities seems simple, it is in fact difficult to achieve because of the problem of articulating policy priorities, the interdependence between the
measurement system and the identification of priorities, and the difficulty of making reliable forecasts extending several years into the future.

**Dimension 2 - Operational management**

Financial management has a significant role in the operational management of the day to day activities of government.

1. **Effective performance management**

A major constraint of PFM is that the accounting model of “not for profit” activities does not provide an input-output model for the public sector. Inputs are can be expressed in money units, but outputs are typically service delivery. This contrasts with the commercial sector where accounting is a universal input-output model using a common measure of money. Inputs (costs) and outputs (sales) are measured in money units and the difference of profit, also in money units, providing a comprehensive basis for performance management. The development in the public sector of performance measures and management is an attempt to address the gap by developing non-financial measures of performance.

There is extensive literature on the techniques, problems and benefits of performance management systems. Performance management is often seen as a distinct discipline from PFM, but to be useful performance measures of objectives must be linked to the financial resources used to achieve such objectives.

An objective of PFM must be an effective performance management system which links useful performance measures to the resources used to achieve the performance objectives.

2. **Delivering value for money**

The value for money objective could be seen as part of the overall performance management objective, but in fact it has a narrower perspective. Performance measures are concerned with achieving objectives. Value for money is simply a matter of ensuring that PFM contributes positively to delivering value for money, which in turn can be sub-divided into effectiveness, efficiency and economy.

In each of these areas it is possible to consider PFM as a system in its own right, and also PFM as a system impacting on broader management issues, as summarised in the matrix below.

<table>
<thead>
<tr>
<th>Value for Money Criteria</th>
<th>The PFM system itself</th>
<th>Impact of PFM on rest of public sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effectiveness</td>
<td>Using the most appropriate PFM methodology and tools, e.g. appropriate use of automation</td>
<td>Measures and comparisons can identify opportunities to improve effectiveness</td>
</tr>
<tr>
<td>Efficiency</td>
<td>Ensuring funds for operations are available promptly when required</td>
<td>Information on budgets and resources available can enable efficient operations</td>
</tr>
<tr>
<td>Economy</td>
<td>Minimising transaction costs and delays</td>
<td>Ensuring minimal resources used to process transactions</td>
</tr>
</tbody>
</table>

3. **Managing within the budget**

The public sector is budget driven. Without a budget, governments lack legal authority to raise revenues or to make expenditures. When a sum is allocated within a budget it is intended to be spent for the purpose indicated. Over spending is a regulatory issue that will have to be corrected either by reallocation or by a supplementary budget. On the other hand under spending represents a failure to utilise allocated resources. The objective of many
public sector managers to spend the budget, neither more nor less, is in fact logically consistent with a budget driven process.

Thus for the public sector manager operating within the budget is a constant challenge, made more difficult by the constraint of an annual budget cycle. Managing within the budget requires timely information on budget allocations, commitments and actual expenditures. Hence an efficient budget, commitment management and accounting system providing timely and relevant reports is essential for budget management, which in turn contributes to the value for money objectives above.

**Dimension 3 - Fiduciary risk management**

A problem facing all entities is fiduciary risk – the risk of public money being stolen, used for purposes other than those intended, or used corruptly. There is a balance in fiduciary risk management between the cost of avoiding risks and the cost of such risks crystallising. PFM is part of the solution and provides important tools of risk management.

1. **Effective financial control**

   The accounting system should provide a whole system of fiduciary controls, usefully summarised under European Union (EU) nomenclature as Public Internal Financial Control (PIFC). This comprises:

   - Internal controls within an organisation, e.g. payment authorisation process, managing against budgets, reconciliation processes, and so on. These controls should be specifically designed to minimise the risk of loss.
   - Internal audit – the oversight system established by the management of an organisation in accordance with international standards of internal audit

   In addition external audit – the independent scrutiny by the Supreme Audit Institution of the activities of public sector organisations – provides an additional element of risk management.

   All public sector entities should have in place a structure of internal and external controls so as to reduce fiduciary risk to acceptable levels. However, it also needs to be recognised that some risks extend beyond the financial system and will require other forms of control outside the ambit of PFM.

2. **Compliance with constitutional legal and regulatory requirements**

   Typically governments operate within a rule bound environment. There is a hierarchy of regulation starting with the constitution and moving down through laws to the detailed financial rules, instructions and procedures. This bureaucratic structure is another element of fiduciary risk management and is designed to minimise the scope for activities which are not in accordance with public policy, i.e. to minimise fiduciary risk.

   PFM both operates within this regulatory environment, and also itself acts as a system for enforcing the regulations. As with controls, there is a balance between the cost of bureaucracy and benefits in terms of ensuring consistency and further reduction of fiduciary risk.

3. **Proper oversight of public finances**

   The last element of fiduciary risk management is oversight, particularly by the legislature. Typically a committee of the legislature, e.g. a “Public Accounts Committee” will review
financial and audit reports of individual units within Government, e.g. Ministries, Departments. In many cases the review will be supported by technical staff.

The oversight process varies between countries, but typically will involve:

- Initial “desk reviews” by the Committee of financial information and audit reports
- Follow up meetings with key persons from the Government Ministry concerned, and/or with the auditors (which may be in public)
- Follow up actions.

An open and powerful oversight process can be a powerful tool in fiduciary risk management. It can lend power to the auditor, use parliamentary privilege to identify issues and make pronouncements and the mere existence of the system can be a powerful incentive for effective control procedures. At a sub-national level a similar system should exist through local government public account committees, audit committees and similar tools.

**Dimension 4 - Governance**

The governance dimension has great significance in government because of the concept of government acting according to the will of the people. Whilst the people, i.e. civil society, are the primary stakeholder there will also be external stakeholders, e.g. lenders, multilateral organisations. Thus public sector governance has to meet the needs of all of these groups and at all levels of government.

1. **Governance structures that reflect the interest of stakeholders**

In theory a democratic government should reflect the will of the people and hence provides its own governance. In practice the most democratic systems put intervening barriers between public will and government policy, and specific mechanisms are required to overcome such barriers. The issue applies at national government and local government levels, and particularly to government agencies managed by unelected officials.

Governance issues can be addressed through a number of different approaches, e.g.:

- Participation by stakeholder representatives, particularly in the management of unelected agencies.
- Ex-ante involvement in resource allocation decisions
- Ex post involvement in scrutiny and oversight (see above).

Governance is linked to PFM though the budget and financial reporting processes. Budget are the ex ante resource mobilisation and management plans. Financial statements are the ex post reports on delivery. As such they are both tools in the governance process.

2. **Transparency**

Transparency is broader than financial information, but financial information will be an important part of transparent government. This includes all of published budgets, financial statements and audit reports as well as other financial information published by government.

As indicated above, transparency is not just about providing data. The messages within the data must be made explicit; this requires judgments as to the appropriate messages, and hence the provision of relevant financial information. This is the same issue as noted above on budget allocations; there is an interdependent relationship between the information and
judgements based on the information. Financial information will identify specific issues depending on the way it is classified and aggregated.

3. Accountability

Accountability goes beyond transparency and involves identifying individual responsibility for actions. Thus it can be seen as the end point of a participative and transparent process. Again accountability extends beyond accounting issues, but the latter will be a major element of the accountability process.

The level of accountability interacts with the basis on which budget holders are rewarded, and affects the level of central control that is necessary. Hence it has a profound effect on the design of the budget preparation, execution and accounting systems. PFM systems must have clear inbuilt assumptions about exactly how accountability will work – and they will need to be progressively redesigned as accountability improves. Therefore they must be either flexible or inexpensive – an expensive inflexible system will hold up progress.

Information outputs

1. Ex ante information

Ex ante reports are the formal outcomes of the planning processes. They may comprise annual or multiyear budgets, or plans which extend beyond financial flows, e.g. sectoral plans based on “real” targets such as poverty reduction, health care, etc. The financial aspect of all such plans will embrace the four dimensions of objectives as defined above.

Ex ante planning reports will be specifically linked to the fiscal and operational objectives as reflected in Dimension 1 and 2.

2. Ex post information

For accountants the Financial Statements are a key ex post report. However, in the public sector the usefulness of purely financial reporting is limited because it provides no measure of service delivery and hence to be useful must be integrated with some form of performance reporting indicating how financial resources have been utilised to achieve “real” outcomes.

Ex post information will have a specific role in enabling the governance and fiduciary risk management objectives in Dimensions 3 and 4. Ex post reporting also provides a feedback loop to financial and operational planning.

Linkages

The whole model describes a single system of public financial management; as such all dimensions and objectives within dimensions are linked. But there are some specific linkages:

- Operational objectives depend on fiscal objectives, for example if funds are not available when required then operations cannot be conducted as planned and objectives will not be achieved.
- Fiduciary risk is the control over the operation of PFM as a purposive system executing a budget to achieve certain operational objectives.
- Governance in the PFM context is governance of the fiscal and operational objectives, and requires a system of fiduciary risk management as the basis for effective financial governance.
Some conclusions

The proposed four dimensional framework suggests that public financial management has a broad role in the whole public governance process. Furthermore specific sub-systems such as budget, financial reporting or audit, must be seen in the context of the overall four dimensional framework and their role within that framework. Hence the approach described in this article provides a basis for conceptualising specific areas within public financial management. For example general purpose financial statements can be seen as having particular relevance to:

- **Dimension 1** – fiscal management
- **Dimension 2** – particularly resource mobilisation
- **Dimension 4** – governance.

Thus this objective analysis provides the basis for developing a conceptual framework for financial reporting.

Finally, it is recognised that this framework should be regarded as a first draft. Within the basic four dimensions there is scope to refine some of the sub-components, or even move them between dimensions. It may be that the dimensions themselves require further consideration. It is expected further discussion will refine and develop the framework as a useful analytic tool. What is important is the concept of public financial management as both a purposive and an information system with multiple dimensions and objectives.

References


iii “Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities” International Federation of Accountants 2008

iv “Public Financial Management and the PFM architecture – A Whole Systems Approach”, consultation draft, CIPFA, 20099
Recent Public Financial Management Publications and other Resources

In this section we review some recent publications which may be of interest to readers of the Journal. We would be pleased to receive reviews and suggestions of other resources which we should refer to in future issues.

**Fiscal ROSCs and PEFA Assessments: A Comparison of Approaches**

Mario Pessoa and Richard Allen (2010)

This note summarizes the main similarities and differences in approach and coverage of fiscal ROSCs and PEFA assessments. These are two approaches used by international bodies to assess the quality public financial management in governments, especially those in the Global South.

A fiscal ROSC differs from a PEFA assessment in focusing particularly on transparency and accountability aspects of PFM systems, grouped under four pillars:

- clarity of roles and responsibilities for PFM within government;
- open budget processes, covering all PFM-related processes of government;
- public availability of information, specifying the kinds of PFM information that should be accessible to the public; and
- finally, assurances of integrity, covering issues of data quality as well as the need for and quality of external scrutiny of PFM information.

A PEFA assessment focuses primarily on the extent to which PFM systems and procedures deliver efficient and effective outcomes in the six critical areas. It covers fiscal transparency issues insofar as they affect PFM effectiveness. The emphasis is on the budget process itself, particularly in respect of the main PEFA indicator set, although PEFA assessments also include some description of the legal framework for fiscal management, reforms being undertaken, and public access to key information. PEFA assessments have also focused predominantly on low- and middle-income countries, while fiscal ROSCs have also been carried out in a substantial number of high-income countries.

**Achieving Better Value for Money in Health Care**

OECD Publishing (November 2009)
http://www.oecdbookshop.org/oecd/display.asp?K=5KSF5CRSGQNS&LANG=EN

Rising public health care spending remains a problem in virtually all OECD and EU member countries. As a consequence, there is growing interest in policies that will ease this pressure through improved health system performance. This report examines selected policies that may help countries better achieve the goal of improved health system efficiency and thus better value for money. Drawing on multinational data sets and case studies, it examines a range policy instruments. These include: the role of competition in health markets; the scope for improving care coordination; better pharmaceutical pricing policies; greater quality control supported by stronger information and communication technology in health care; and increased cost sharing.
**Strategic Financial Management**

http://www.audit-commission.gov.uk/nationalstudies/localgov/Pages/strategic-financial-management.aspx

This national study from the UK Audit Commission builds on the work done for the World Class Financial Management, especially financial governance and leadership, financial planning, and finance for decision making. The study will review how councils develop and use strategic financial planning tools and will help them to improve strategic financial management and links to the planning of services and other interventions. It will examine the costs and benefits of strategic financial planning, determine which approaches, if any, offer most benefits and identify the key principles of effective strategic financial and risk management.

**No evidence that Public Private Partnerships provide value, says National Audit Office (UK)**


Public Private Partnerships (PPPs) have spread from the UK to many countries, but there is increasing evidence that they may not provide value for money and the alternatives are not adequately researched. UK Ministers do not have strong evidence to show that PPPs offer the best value for money, UK government auditors have warned. In evidence prepared for a parliamentary inquiry in November 2009, the National Audit Office warned: ‘Our view is that private finance can deliver benefits, but it is not suitable at any price or in every circumstance.’ The NAO paper noted that ‘assessing the pros and cons of alternative procurement routes is especially important in the recession’. Rising costs of private finance since the credit crunch had ‘implications for their value for money’. The paper added: ‘We have yet to come across truly robust and systematic evaluation of the use of private finance built into PPPs at either a project or programme level’ – evidence that committee chair Lord Vallance described as ‘quite unequivocal’.

Systems to collect comparable data from projects using different procurement routes were ‘not in place’, the paper said. ‘Unless such systems are established, together with robust evaluation of the overall whole-life costs of alternative forms of procurement, government cannot satisfy itself that private finance represents the best VFM option.’

In Nigeria the government has also seen PPPs as an important way of acquiring public investment, but again recently suffered a set-back. Plans to concession airports to private investors in a public private partnership appear to have been abandoned due to opposition from the trade unions.

**Greater Aid Transparency: crucial for aid effectiveness, ODI Project Briefings 35, London: ODI**

Samuel Moon and Tim Williamson (January 2010)

www.odi.org.uk/resources/details.asp?id=4673

This paper sets out and explores the link between donor aid and recipient country budgets, and the role greater transparency about aid can play in improving budget transparency, the quality of budgetary decisions, and accountability systems. The paper goes on to explore how
current initiatives to improve aid transparency can best support better budgets and accountability in aid dependent countries. These efforts provide an important opportunity to enhance the effectiveness of both the recipient governments’ own spending and the aid they receive from donors.

It concludes that publishing better information on aid requires compatibility with recipients’ budgeting and planning systems. The research findings suggest that recipient budgets bear many similarities, but this is not reflected in current formats for reporting aid. Finally, it concludes that the poorest countries will lose out if donors do not publish aid information that is easy to link with recipient government budget systems.

Publishing What We Learned: An Assessment of the Publish What You Pay Coalition
Mabel van Oranje and Henry Parham (2009)

Publish What You Pay (PWYP) is a global civil society coalition that helps citizens of resource-rich developing countries hold their governments accountable for the management of revenues from the oil, gas and mining industries. Natural resource revenues are an important source of income for governments of over 50 developing countries. When properly managed these revenues should serve as a basis for poverty reduction, economic growth and development rather than exacerbating corruption, conflict and social divisiveness.

The PWYP coalition was founded in 2002 by a small, ad hoc group of London-based NGO representatives to tackle the ‘resource curse’ by campaigning for greater transparency and accountability in the management of revenues from the oil, gas and mining industries. Since then, the PWYP coalition has grown to become a global network comprised of community organisations, international NGOs and faith-based groups in more than 70 countries.

The report discusses the origins and evolution of PWYP from 2002 to 2007. It also assesses the effectiveness of PWYP’s advocacy and policy endeavours and examines how the Coalition has operated internationally. In this sense, the report is not only a narrative of PWYP’s history and accomplishments, but a practical tool to shine a light on the strengths and challenges which face a global civil society coalition.

Carbon Trading: How it works and why it fails
Oscar Reyes and Tamra Gilbertson (November 2009)
Dag Hammarskjöld Foundation
http://www.tni.org/carbon-trade-fails

Carbon trading lies at the centre of global climate policy and is projected to become one of the world’s largest commodities markets, yet it has a disastrous track record since its adoption as part of the Kyoto Protocol.

This book outlines the limitations of an approach to tackling climate change which redefines the problem to fit the assumptions of neoliberal economics. It demonstrates that the EU Emissions Trading Scheme, the world’s largest carbon market, has consistently failed to cap emissions, while the UN’s Clean Development Mechanism (CDM) routinely favours environmentally ineffective and socially unjust projects. This is illustrated with case studies of CDM projects in Brazil, Indonesia, India and Thailand.
The UN climate talks in Copenhagen discussed ways to expand the trading experiment, but the evidence suggests it should be abandoned. From subsidy shifting to regulation, there is a plethora of ways forward without carbon trading – but there are no short cuts around situated local knowledge and political organising if climate change is to be addressed in a just and fair manner.

This accessible, well-researched book provides a devastating critique of both the theory and practice of carbon trading.

**Why Has Domestic Revenue Stagnated in Low-Income Countries? London: The Centre for Development Policy and Research, Development Viewpoint 41**

Terry McKinley (2009)


"There has been miserably slow progress in increasing domestic revenue in low-income countries since the 1990s. In order to find out why, this publication draws on an extensive analysis of disaggregated revenue data for low-income countries in sub-Saharan Africa, South and Southeast Asia, and Central Asia.

Based on this analysis, it is contended that the reigning 'tax consensus' has placed an inordinate emphasis on boosting domestic indirect taxes, and the value added tax (VAT) in particular. These taxes cover domestic goods and services in the formal sector.

At the same time, the 'consensus' has advocated eliminating import taxes (in order to liberalise trade) and lowering tax rates on corporate profits (in order to compete with other rate-cutting countries).

Consequently, trade taxes have been particularly hard hit while increases in direct taxes, which cover mainly personal income and corporate profits, have generally been anaemic.

Overall revenue has ended up stagnating because of the resultant reliance on boosting revenue from only one major component, i.e., taxes on domestic goods and services. The pre-eminent instrument for this purpose has been the VAT, which has replaced sales taxes (as well as import duties) in many countries.

**ActionAid on Tax**


ActionAid UK has published a report, Accounting for Poverty, to underpin its tax campaign. The report draws together a wide range of sources, some familiar and some new, to make the case for tax justice and development.

One new contribution is ActionAid’s calculation that, if every developing country were able to achieve tax revenues equivalent to just 15% of national income (the OECD average is 37%, while Bangladesh raises just 8%) $198 billion per year of new money would be available to fight poverty in the poorest countries.

**A Study on Gap Analysis of Indian Government Accounting with International Standards**

Government Accounting Standards Advisory Board (November 2008)

The Cash Basis International Public Sector Accounting Standard (IPSAS) may be the international standards for public sector accounting, but it cannot claim to represent best practice as it appears that not a single country has implemented this standard since it was first issued in 2003.

The key problem appears to be the mandatory requirement to produce consolidated accounts which should include all controlled entities (including government companies, business enterprises and all parastatal organisations). Many countries have decided that this is not practically possible, is too onerous or would produce misleading information. This includes a number of governments who would otherwise like to have implemented the Cash IPSAS including India, Malaysia, Mongolia, Ghana, Uganda and Malta.

This publication reviews the experience of the Government of India in comparing its approach to financial reporting to that outlined in the Cash Basis International Public Sector Accounting Standard. India is attempting to adopt this standard, but it does not accept some of the Standard’s key requirements, for example, the consolidation of government business enterprises and the disclosure of third party payments.

On the first issue, the document actively argues against providing such a consolidation. “Though this is fundamental requirement of Cash IPSAS” it says, “it is likely to cause more distortion than bringing in clarity in the financial statements of government” (page 9).

It is hope that the current review of the Cash Basis IPSAS will result in the development of a more practical standard which most governments which are not experimenting with the accrual basis will be able to use. However, what is really needed is some extensive research to identify current best practices in public sector accounting and to codify this. We need to develop international standards, from the bottom up, based on existing good practice not on pre-conceived ideas borrowed from the private sector.

**Gender Budgeting: Practical Implementation Handbook**
Sheila Quinn (2009)

The book’s focus is “to act as a guide to the practice of gender budgeting.” It is, however, not really suited for those who have no prior knowledge of gender budgeting; there are many other publications which articulate the rationale for, the background of, and the history of gender budgeting, and a sample of these are listed toward the end of the handbook in the resources section. The handbook assumes an understanding of gender budgeting, of the objectives of a gender equality strategy, of the ways in which gender inequality manifests itself, of the need for structural change in order to tackle unintentional gender bias, and of the basics of gender mainstreaming as a strategy to address gender equality. Gender budgeting, as a tool of gender mainstreaming, cannot be implemented without a grasp of these fundamentals.

Gender budget pilot initiatives have over the years brought about a new and deeper understanding of gender issues. Adopting a gender budgeting strategy requires prior experience in addressing gender equality. The chapter, "How to do Gender Budgeting" starts by discussing the type of experience and conditions that need to be in place in order to engage with gender budgeting. The temptation in using this handbook might be to skip these sub-sections and move ahead to the text dealing with specific tools and approaches. There is a considerable demand for specific tools, for the ABC of what to do, so to speak. However, the fundamentals cannot be by-passed or short-circuited. This is particularly the case if the
The practice of gender budgeting is to move beyond an analytic exercise to a mainstreaming strategy. The experience of many practitioners is that, since the tools need to be adapted, it is most important to focus on developing an approach based on local circumstances. The actual tools of analysis, of reformulation, and of mainstreaming will emerge when the goal has been identified.

**What are the real risks of adopting accrual accounting?**

Many conference presentations, journal articles and books extol the virtues and benefits of the public sector adopting accrual accounting, but few provide any real evidence of the actual experience. Two audit reports from the Auditor General of the Cayman Islands provide a brutally frank and honest account of what can go wrong.

In July 2008, the Auditor General, Dan Duguay, issued a special report, “describing a very grim assessment of the state of financial accountability reporting throughout the Cayman Islands Government”. Ten years after the Cayman Islands agreed to adopt accrual accounting, the first accrual accounts were 2.5 years late and the Auditor General found the “current situation deplorable” and he believed that “the legislative assembly has lost control of the public purse”.

In the second report, issued in April 2010, the Auditor General concluded that, “the state of financial accountability reporting has gotten worse in the two years since I last reported on this matter”. Despite the Government spending an additional $1 million in the last fiscal year to address the problem, the Auditor General assessed these efforts as being, “too limited and therefore; insufficient to address the situation”. He concluded his second report by saying, “I believe this situation has become a national crisis that could lead to tremendous consequences for the Cayman Islands Government if not addressed immediately”.

The Cayman Islands are not a poor country, the per capita income is one of the highest in the world and, as it is a tax haven and financial services centre, there are many qualified accountants available locally. If the introduction of accrual accounting can go so horribly wrong in the Cayman Islands, imagine what could happen in the many developing countries where accrual accounting is still actively being promoted for the public sector.

The next time you hear a speaker listing the many benefits claimed for accrual accounting ask what the actual evidence is from the few countries which have adopted this approach. The objective and authoritative studies, from the UK for example, suggest that the costs are significant and that the actual benefits are minimal. Now we have reports from the Cayman Islands of the very real risks involved of adopting this approach to public sector accounting.

The first report of the Auditor General on the *State of Financial Accountability Reporting* (July 2008) in the Cayman Islands Government is available from [http://tinyurl.com/accrualcayman1](http://tinyurl.com/accrualcayman1)

The second report of the Auditor General of the Cayman Islands, issued in April 2010, is available from [http://tinyurl.com/accrualcayman2](http://tinyurl.com/accrualcayman2)
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.

Nos gustaría publicar artículos y comentarios que:

- alienten la colaboración entre profesionales y otros que estén involucrados en la gestión financiera.
- contribuyan al avance de los principios y normativas de la gestión financiera gubernamental, especialmente en colaboración a las buenas prácticas implementadas.
- identifiquen problemas o debilidades. A través de las opiniones dominantes de la reforma de la gestión financiera en el sector público; y
- ayuden a los gerentes financieros del sector público a identificar sus propias soluciones a los retos presentados.

Sería de nuestro beneficio, recibir contribuciones de individuos o equipos que trabajan en los países en desarrollo. Invitamos a los potenciales autores a consultar las previas publicaciones: [http://www.icgfm.org/digest.htm](http://www.icgfm.org/digest.htm)

Los trabajos son aceptados y publicados en inglés, francés o español.

Actualmente la revista no dispone de un sistema de revisión de doble ciego (en que la identidad tanto del autor como del revisor no se revele) como norma usual. El objetivo es brindar una opinión o experiencia confidencial de las contribuciones enviadas y ofrecer sugerencias editoriales (detalla si fuera necesario) para ayudar al autor producir un trabajo digno de publicación. Sería posible proveer una revisión de doble ciego si un autor individual la solicita.

Entrega de manuscritos

La entrega o publicación de manuscritos es sin costo alguno.

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 cualquier 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 sinopsis 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:*


**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.

**La Junta Editorial**

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*Bodø Facultad de Administración al Nivel de Pos-grado, Noruega (de Nepal)*

Hugh Coombs  
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Consultor sobre la Gestión Financiera Pública, anteriormente Contador General de Zimbabwe, basado en los E.U.
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Consultor sobre la GFP, basado en E.U.
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Norvald Monsen
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Mathew Tsamenyi
Universidad de Birmingham, RU
Andy Wynne (Editor)
iDILMAT soluciones de formación, Ghana
Owen Zhang
Oficinal 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 réservons 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 exempte 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/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, ou 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 :

1. **articles** :

2. **livres** :

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

4. **livres traduits**

5. **reference à un rapport** :

6. **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.

**Comité de Rédaction**
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iDILMAT des solutions de formation, Ghana
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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.

Editorial Board
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*University of Siena, Italy*

Norvald Monsen
*Norwegian School of Economics and Business Administration*

Ayodeji Ogunyemi
*National Audit Office, UK (from Nigeria)*
We would also like to hear from other individuals who would be willing to assist with the editorial work of the Journal. The work would consist of reviewing potential contributions, suggesting whether they should be accepted for publication and making editorial recommendations to improve the quality of submissions.

Please contact the editor, Andy Wynne (andywynne@lineone.net), if you would like to discuss the role of the editorial board and for any input you could provide.