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International Consortium on Government Financial Management

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

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International Consortium on Governmental Financial Management

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Foreword

For the last dozen years or so, the World Bank and donors that support its approach have dominated the public financial management reform agenda in developing countries. However, this approach has been subject to increasing criticism in recent years. Two important studies published earlier this year, one by the World Bank itself, provide further evidence that the dominant approach is not working, at least in Africa and the Middle East.

The World Bank approach is based on its Public Expenditure Management Handbook (1998). Around half of this publication is devoted to two reforms, the Medium Term Expenditure Framework (MTEF) and the Integrated Financial Management Information System (IFMIS). These have since become standard reforms to be implemented almost everywhere the World Bank has significant influence. So for example, Mat Andrews (2010), in his study of 31 countries in Sub-Saharan Africa found that “they have alarmingly similar reforms in place” (page 44), “an MTEF was implemented in 28 countries, programme budgeting in 25 and an IFMIS in 20”. As a result of these findings, Andrews calls for “less similarity of reforms and more context appropriateness”, as one of his three main recommendations.

Close reading of the World Bank Handbook shows that some criticism of what became the standard approaches is acknowledged. So this publication admits that “program budgeting has not been very successful in either developed or developing countries” (p.13). However, this became an integral approach to most MTEFs. In addition, the Handbook provides a short section on “getting the basics right” including a list of pre-conditions for what became the standard reform agenda.

Two years ago both the World Bank and the IMF held high-level seminars to review the evidence for the success (or more common failure) of their common approach to public financial management reform. One of the presenters warned that an MTEF may cause “enormous waste, frustration, and illusion—for trivial or non-existent benefits. The same is true of the informatics infrastructure for public financial management” (Schiavo-Campo 2008, p.26).

The recent World Bank paper reviewing the experience of ten countries in the Middle East and North Africa provides further support for this view. It found that two of the five most challenging public financial management reforms were medium term sector strategies and large information technology projects. A “number of countries in the MENA region are attempting to develop forward estimates as part of MTEF reforms, but none has a functioning system at present” (p.16). Similarly the level of success with IFMIS projects was found to be disappointing and one of the ten lessons of the study is to “be wary of large financial management information systems”. These have been found to include a high level of risk in both developed and developing countries. Reference is made to another study that found that “fully 75 percent of IT systems implemented in the United States failed to fully deliver in terms of their time, cost or projected functionality” (p.48).

Mat Andrews, of the Kennedy School of Governance, also emphasises that public financial management reform should be “led by an identification of problems requiring change (not the simple reproduction of technical solutions to change)” and be centred “on internal rather than external change motivation, not external coercion” (p.33).

In contrast, the World Bank Handbook introduced what have become accepted as the three basic objectives for public financial management reform:

- aggregate fiscal discipline
- resource allocation and use based on strategic priorities
- efficiency and effectiveness of programs and service delivery.

These objectives are consistent with the overall message of New Public Management reforms which emphasise efficiency rather than regularity. This is acknowledged by the World Bank Handbook saying that their objectives are a “reformulation of the three functions – control of public resources, planning for the future allocation of resources, and management of resources – that have driven reform over the past 100 years” (p.17). The recent World Bank study also confirms that regularity remains important, suggesting that public financial management must be “conducted in accordance with the relevant laws and regulations; and undertaken with appropriate checks and balances to ensure financial probity” (p.1).

These two studies warn of the significant risks of implementing the currently standard approaches, for example, an MTEF or IFMIS. They also emphasise the continuing importance of control and regularity, and the importance of context and political support for public financial management reform. We have to understand the environment for the reforms, so the expert knowledge and experience of the local public financial management officials is vital, and we have to know what has been proved to work in similar environments.

That is the role of this Journal, to highlight the successes (or otherwise) of the actual experience of public financial management reforms. In the first paper of this issue, Frans van Schaik considers the issue of materiality in government auditing in the context of the development of public sector specific guidance on this subject by INTOSAI, the international body for public sector external auditors, based on the private sector standard. The paper finds significant evidence for the materiality level in the public sector to be different to that in the private sector, despite this evidence, such differences are not clearly documented in the auditing standard. In the process, van Schaik reviews the key considerations for materiality for public sector auditors.

In our second paper, Doug Hadden provides a case study of public financial management reforms in Kosovo. This post-conflict country has sequenced legal reform, improved governance, and achieved international public financial management standards under difficult conditions. Hadden points out that there are numerous lessons in the Kosovo experience linking reform to context that can be leveraged by governments around the world.

Rocky J. Dwyer argues that a credible demonstration of public sector impacts depends on understanding the distinction between inputs, outputs, outcomes and indicators. The first aim of the paper is to provide an enhanced understanding of the current literature, reports and documentation on estimating the impacts and results of government programming and policies. Secondly, it shares the definitions and guidelines used to demonstrate economic impacts. Finally, it presents current best practices in measuring incremental impacts. All of which, Dwyer contends, provides new ways of approaching measurement and accountability that are more effective, strategic, comprehensive and credible to the public.

Pawan Adhikari and Frode Mellempvik argue that developing countries have few alternatives other than to accept the rules and standards developed and prescribed by international standard setters, so as to ensure external legitimacy and financial support. Their paper explores Nepal’s move towards the implementation of International Public Sector Accounting Standards (IPSAS). This study shows an interesting case of how public sector accounting in developing countries is being influenced by international organizations, particularly the World Bank and professional accounting institutions. However, it is not clear from this study that such an approach is ensuring that public financial management reforms are focussed on the key areas in Nepal.

Similarly, in our penultimate article, Caroline Aggestam considers the need to adopt a project management perspective with the adoption of accrual based IPSAS.

Moving from cash or modified accrual based accounting to full accrual accounting under International Public Sector Accounting Standards (IPSAS) can be a challenging endeavor. Ensuring proper convergence to accrual based IPSAS entails not only a vast amount of work in

the accounting arena of any given public sector entity or government but also often major changes in business processes and practices. By using a project management approach in adopting IPSAS an organization/government can make certain that, for example: the project gets necessary support from top management; a sound governance structure is put in place; communication and training plans are developed and managed; new accounting policies are written; and necessary alignment of business processes will take place in a timely manner.

In our final paper for this issue, Rizvana Zameeruddin considers new guidance on accounting and financial reporting for intangible assets from the Government Accounting Standards Board (GASB) in the USA. Zameeruddin considers that when Statement 51 is appropriately used in conjunction with existing guidance, a more faithful representation of the services capacity of intangible assets, particularly in the areas of recognition, initial measurement, and amortization results. This should improve financial reporting by clarifying the classification of intangibles as capital assets and establishing guidance for internally generated intangibles.

As usual, we end this issue with a section reviewing 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!

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Materiality in Government Auditing

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Introduction

There is a striking difference in the approach taken in the preparation of public sector specific guidance on accounting and auditing. While the International Public Sector Accounting Standards Board (IPSASB) issues stand-alone public sector accounting standards, the International Organization of Supreme Audit Institutions (INTOSAI) issues practice notes, which provide supplementary guidance for the public sector, in addition to the considerations specific to the public sector contained in the International Standards on Auditing. There is a similarity in that both IPSASB and INTOSAI fly in the jet stream of private sector standard setters. IPSASB only deviates from the International Financial Reporting Standards (IFRS), issued by the IFRS Board, for public sector specific reasons. INTOSAI adds guidance to the International Standards on Auditing, issued by the International Auditing and Assurance Standards Board (IAASB). These public sector specific practice notes are called International Standards of Supreme Audit Institutions (ISSAI).

In this article we illustrate the approach taken in the preparation of public sector specific guidance on auditing by giving an in-depth analysis of ISA 320 *Materiality in Planning and Performing an Audit* and the public-sector specific practice note included in ISSAI 1320 *Materiality in Planning and Performing an Audit*.

The International Auditing and Assurance Standards Board, the IAASB (2008), revised and redrafted the International Standard on Auditing (ISA) about materiality. This ISA is called ISA 320 (Revised and Redrafted) *Materiality in Planning and Performing an Audit*. ISA 320 is effective for audits of financial statements for periods beginning on or after December 15, 2009.

First, we give a brief summary of the revised standard. We go through a few key requirements and the application material. Subsequently, we focus on the ‘considerations specific to public sector entities’ contained in the standard. We analyze some of the comments made by various public sector organizations in their comment letters to the exposure drafts of ISA 320. The exposure draft and the comment letters can be downloaded from the IAASB’s website (www.iaasb.org). We also analyze how the IAASB in this standard has responded to the arguments that have been put forward in the literature on materiality in government auditing. We conclude with some suggestions for future research.

Prior research in materiality in government auditing

A sizable body of academic research into audit materiality has developed over the years. Iskandar and Iselin (2000) and Messier and others (2005) reviewed and integrated the empirical research in materiality and identified the implications of this research for the audit practice. They also identified many areas for future research. There is, however, little, if any, specific research into materiality in government auditing, although there is a small number of descriptive articles. Price and Wallace (2001, 2002a, 2002b) analyzed the inconsistent usage of the words material, significant, important and substantial in governmental accounting and auditing standards. Some standard setters also use the terms trivial, not clearly insignificant and *de minimis*.

Summary of ISA 320

Background of the revision of ISA 320 is the increased recognition of the need for greater consideration for the nature of an item (and not just its size) and for the circumstances of the entity when determining materiality and evaluating misstatements. The revised ISA 320 provides additional guidance as compared to the existing ISA 320, but is not different in its principles, since the IAASB considers the existing ISA 320 to be conceptually sound. The existing ISA 320 covers two topics: materiality and evaluation of misstatements. The IAASB concluded from comments received that the clarity and flow of the requirements and guidance would be enhanced by addressing materiality and evaluation of misstatements in separate ISAs. The revised ISA 320 deals only with materiality in planning and performing an audit of financial statements. A different ISA, ISA 450 Evaluation of Misstatements Identified during the Audit explains how materiality is applied in evaluating misstatements.

ISA 320 requires the auditor to 1) determine materiality for the financial statements as a whole, 2) determine materiality levels for particular classes of transactions, account balances or disclosures at lower levels than for the financial statements as a whole, and 3) determine a so-called performance materiality which is an amount set by the auditor at less than materiality to reduce to an appropriately low level the probability that the total of uncorrected and undetected misstatements exceeds materiality.

Public sector specific issues in ISA 320

ISA 320 does not contain any public sector specific requirements. All paragraphs relating to the public sector instead are included in the explanatory material. One of the commentators, the Institute of Certified Public Accountants of Kenya, stated in its comment letter that ‘given the unique nature of the public sector audit and its impact on the determination of materiality levels, it will be important if such considerations are included as part of the requirements and not as part of the application material as proposed in the exposure draft,’ but to no avail.

INTOSAI (2007a, 2007b), the International Organization of Supreme Audit Institutions, issues Practice Notes, which provide supplementary guidance to public sector auditors on ISA 320 and ISA 450, in addition to the considerations specific to public sector entities contained in the ISAs. These public sector specific practice notes are called International Standards of Supreme Audit Institutions, ISSAI 1320 and 1450. Ånerud (2007) explains INTOSAI’s approach towards auditing standard setting for the public sector. This approach of issuing practice notes to auditing standards is different from the approach followed by the International Public Sector Accounting Standards Board (IPSASB), since IPSASB issues stand-alone public sector accounting standards.

We now turn to the public-sector specific issues in ISA 320. We will comment, one after the other, on the audit scope, definition of materiality, primary users of financial statements, who determines materiality, how to determine materiality (benchmarks, percentages, qualitative materiality) and the disclosure of materiality.

When the IAASB uses the term public sector, it refers to national governments, regional governments (e.g., state, provincial, territorial), local governments (e.g., cities, towns) and related governmental entities (e.g., agencies, boards, commissions and enterprises). The public sector does not comprise not-for-profit entities which are not part of the government.

Audit scope

The scope of ISA 320 is limited to the audit of financial statements (ISA 320, § 1). ISA 320 therefore does not raise issues relevant to materiality in other audits, such as compliance audit, performance audit or audit of the effectiveness of internal control. The IAASB does not incorporate considerations specific to special purpose audit engagements into the individual ISAs because including material that is not of general application might over-complicate the ISAs. There is a separate ISA, ISA 800, which deals with special purpose audit engagements. ISA 800, however, does not include any public sector specific guidance on materiality either.

ISSAI 1320 (§ P9) adds that if public sector auditors also provide opinions on controls or compliance they separately consider financial statement misstatements, effectiveness of controls and instances of non-compliance when determining materiality levels (INTOSAI, 2007a).

Icerman and Hillison (1989) have argued that the most obvious source of materiality differences between private and public sector audits is the audit scope. The typical scope of audits in the private sector encompasses opinions on financial statements and, to a lesser extent, the adequacy of the internal control structure. Governmental audits may have a wider scope including opinions on whether the entity complied with laws and regulations, whether the entity is managing its resources economically and efficiently, and whether the desired results or benefits are being achieved (performance audits). In addition, public sector entities receiving grants need audits of compliance with rules and regulations and reports on internal controls related to those grants.

Definition of materiality

ISA 320 (§ 2) does not define materiality, but refers the auditor to the applicable financial reporting framework, which usually contains a discussion of materiality for accounting purposes. According to ISA 320 (§ 3), accounting standards provide a frame of reference to the auditor in determining a materiality level for the audit.

ISA 320 states that if the accounting framework does not provide a discussion of materiality, the auditor might use the following definition (which happens to be the materiality definition from IFRS): ‘Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.’ So this definition refers to *economic* decisions. ISA 320 adds the following clarification: ‘The financial statements of a public sector entity may be used to make decisions other than economic decisions.’

An economic decision is generally considered to be a choice between alternative uses of scarce resources, with some kind of objective in mind. And indeed, users of financial statements in the public sector do make decisions other than economic decisions. This is clear when we look at the objectives of financial reporting included in the draft conceptual framework issued by IPSASB, which is: ‘Information provided by financial statements is necessary for the discharge of accountability and helps providers of resources and other users make better resource allocation, political and social decisions.’ Those decisions about resource allocation are clearly economic decisions, but the discharge of accountability and political and social decisions arguably are not. The definition of materiality included in

IPSAS 1 Presentation of financial statements does not refer to 'economic decisions', but to 'decisions and assessments'.

ISA 320 (§ A2) states: 'the financial statements may be used to make decisions other than economic decisions.' However, ISA 320 includes this statement in the considerations specific to public sector entities, while financial statements of both public and private sector entities are likely to be used to make economic as well as other than economic decisions. An example of an economic decision in the public sector is a resource allocation decision. Decisions other than economic decisions in the private sector may include a shareholders meeting of a corporation deciding not to discharge the board of directors on the basis of the financial statements. This point is brought forward by the Office of the Controller and Auditor-General of New Zealand in its comment letter. Several other commentators to the exposure draft commented that the content of this paragraph applies equally well to the private and public sector. For example, the Institut der Wirtschaftsprüfer in Deutschland (the German auditors' institute) argued in its response to the exposure draft that this paragraph is not public sector specific and that the standard should be amended accordingly. Likewise, the International Association of Insurance Supervisors recommended in its response to the ISA 320 and 450 exposure drafts that some of the statements made in respect of public sector entities be extended to apply not just to the public sector, but to all entities subject to statutory regulation, such as insurers.

The topic of materiality is on the borderline between accounting and auditing. Practitioners should tie the accounting standards to the auditing standards in order to appropriately determine materiality (Holder and others, 2003). Management usually does not explicitly determine and document a materiality level to be applied in the preparation of the financial statements.

Primary users of financial statements

ISA 320 (§ A2) states: 'In the case of a public sector entity, legislators and regulators are often the primary users of its financial statements.' It is important to identify the primary users since materiality reflects the auditor's judgment of the needs of users in relation to the information in the financial statements and it is not practicable for an auditor to take account of the expectations of all possible individual users of the financial statements.

Governmental accounting and auditing standard setters and commentators to the exposure draft disagree on the primary users of governmental financial statements. Some standard setters regard the citizenry rather than the legislature as the primary users. The United States Governmental Accounting Standards Board (GASB, 1987) states that financial statements are prepared for those to whom government is primarily accountable (the citizenry), for those who directly represent the citizens (legislative and oversight bodies), and for those who lend or participate in the lending process (investors and creditors). In its comment letter to the exposure draft, the UK Audit Commission raises the issue of the primary users of government financial statements, stating that the definition in terms of 'legislators and regulators' is very narrow. The Audit Commission considers that the standard would benefit from the addition of 'funders and financial supporters' as primary users of financial statements. INTOSAI states in its comment letter: 'For public sector entities, legislators are the providers of funding for various government programs, activities, and functions and regulators frequently evaluate or make decisions about an entity's activities. Financial statements that meet the needs of legislators and regulators will also meet most of the needs of other users. These other users may include bondholders, the media, or citizens. In

situations where public funds are used, the financial statements may also represent a key element of a governmental entity's accountability to the public. However the auditor's target user group is generally the group of legislators and regulators who are in the position of providing funding for and making decisions about the governmental entity under audit.' ISSAI 1320 further elaborates on the users of governmental financial statements.

The Australasian Council of Auditors-General suggests the *pars pro toto* approach to be applied to both public and private sector. The Council suggested the following wording in its comment letter: 'For a profit oriented entity, investors are considered to be the primary users of financial statements. Their needs will also meet most of the needs of other users that financial statements can satisfy. In the public sector, Parliament is considered to be the primary user of financial statements. Parliament's needs will also meet most of the needs of other users such as the general public and rating agencies.' This wording would imply that, if the auditor determines a materiality level that legislators agrees with, the needs of other users are likely to be met as well.

Who determines materiality

ISA 320 (§ 10) states: 'the auditor shall determine materiality'

ISSAI 1320 (§ P6) adds: 'When determining materiality levels for controls and non-compliance, public sector auditors take into account the legislators' and regulators' expectations as regards cost-effectiveness of controls and non-compliance.'

Some regulators in public sector auditing keep it nevertheless to themselves to determine materiality, prescribing in detail benchmarks and percentages that auditors should apply in government auditing. For instance, the Dutch Minister of the Interior and Kingdom Relations issued a ministerial decree mandating auditors of municipalities and provinces (audit firms, usually Big 4) to apply a materiality level of 1% of total expenses for the evaluation of misstatements and 3% of total expenses for significant uncertainties. An uncertainty is a matter whose outcome depends on future actions or events not under the direct control of the entity but that may affect the financial statements.

Similarly, the Dutch State-Secretary of Transport, Public Works and Water Management established materiality levels for the audits of financial statements of waterboards. Also, the Minister of Finance, after consultation with the Netherlands Court of Audit, Parliament and fellow Ministers, decided upon detailed benchmarks and percentages for the audit of financial statements of central government and included them in the handbook for central government auditing. The same percentages apply to the audit of compliance with rules and regulations.

These materiality levels are presented in Table 1. Example: if errors found in the financial statements do not exceed 1% of total expenditures, the auditor issues an unqualified audit opinion.

Table 1. Nature of audit opinion

	Unqualified opinion	Qualified opinion	Disclaimer of opinion	Adverse opinion
Errors in the financial statements (percentage of total expenditures)	≤ 1%	> 1% < 3%	-	≥ 3%
Uncertainties in the audit (percentage of total expenditures)	≤ 3%	> 3% < 10%	≥ 10%	-

Source: Handbook for Central Government Auditing, Ministry of Finance, the Netherlands

Determining materiality

Benchmarks

ISA 320 (§§ A3-A7) deals extensively with the appropriate benchmark as a starting point in determining materiality. Factors that may affect the identification of an appropriate benchmark (such as relative volatility) are listed and various examples are suggested for application. These examples include profit before tax, total revenue, gross profit and total expenses, total equity and net asset value. While these benchmarks are mainly private sector oriented, there is a separate paragraph (§ A9) entitled ‘Considerations specific to public sector entities’, which states: ‘In an audit of a public sector entity, total cost or net cost (expenses less revenues or expenditure less receipts) may be appropriate benchmarks for program activities.’ Net cost (an accrual accounting term) is explained between brackets as ‘expenses less revenues’ (an accrual accounting term) and ‘expenditure less receipts’ (a cash accounting term). In cash accounting environments total expenditures are often used as a benchmark. Expenditure less receipts is commonly referred to as deficit, if expenditures are greater than receipts. In practice the deficit and its opposite, the surplus, are rarely used as benchmarks for the determination of materiality in government auditing, probably because of their relative volatility.

ISSAI 1320 (P11) adds: “For public sector entities that are expected to recover costs or break-even, net costs may not be an appropriate benchmark. In those cases gross expenditure or gross revenues may be a more relevant benchmark.”

It is unclear why ISA 320 (§ A9) refers to program activities rather than the wider term government financial statements. Both the words expenses and cost are used in this paragraph, even though they are generally considered to be synonymous.

The paragraph entitled ‘Considerations specific to public sector entities’ (§ A9) finally states: ‘Where a public sector entity has custody of public assets, assets may be an appropriate benchmark.’ Custody is a particularly evasive term in this respect, because, depending on the financial reporting framework applied, custody of assets does not necessarily imply recognition of the assets on the entity’s statement of financial position. Many accounting standards require recognition of assets if the entity has control over the assets and if future economic benefits or service potential is expected to flow to the entity. With assets in custody this is not always the case. Public assets in custody per se are therefore unlikely to be an appropriate benchmark for the determination of materiality.

Percentages

ISA 320 contains some illustrative examples of percentages to determine materiality, although not in the considerations specific to public sector entities: ‘For example, the auditor may consider five percent of profit before tax from continuing operations to be appropriate for a profit-oriented entity in a manufacturing industry, while the auditor may consider one percent of total revenue or total expenses to be appropriate for a not-for-profit entity. Higher or lower percentages, however, may be deemed appropriate in the circumstances.’ (paragraph A7). Some authors have argued that a guideline can be a starting point, even though it cannot substitute for professional judgment. Raman and Van Daniker (1994) propose a sliding-scale materiality guideline that auditors can use for the evaluation of their professional judgments. INTOSAI in its comment letter opposes illustrative examples of percentages in the standard, as it is concerned that such examples increase the likelihood that these percentages will

become the default percentages used by auditors. For this reason, INTOSAI believed that the specific percentages should be removed from the proposed ISA, and instead that the standard should discuss only appropriate potential benchmarks. Auditors may have good reasons for selecting percentages that differ from those shown in the standard, but could have their judgment questioned simply because it is different from the percentages shown in the standard. INTOSAI was not the only commentator to oppose illustrative examples of percentages in the standard. The United States Government Accountability Office in its comment letter endorses INTOSAI's comment letter. Not only public sector organizations opposed percentages in the standard. The Institute of Chartered Accountants of Scotland states: 'the specific percentage given ... is likely to increase the level of substantive testing undertaken for the audit of some public sector entities. We do not believe this will lead to a demonstrable improvement in audit quality.' ACCA, the UK-based Association of Chartered Certified Accountants, argues that the impact of percentages in a standard is so great that the use of caveats (through the use of wording such as 'Illustrative examples...that might be considered include ...') is insufficient to mitigate the threat that they will become rules, and that auditors will be called on to justify their use of higher levels.

Qualitative Materiality

ISA 320 does not use the words quantitative and qualitative, but refers to size and nature of misstatements instead. Even though many respondents to the exposure draft identified the need for more prominent guidance on the qualitative aspects of materiality, the standard merely explains that 'Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both' (§ 2) and 'The circumstances related to some misstatements may cause the auditor to evaluate them as material even if they are below the materiality' (§ 6).

ISA 450 (§ A16) provides guidance on qualitative materiality by listing misstatements that the auditor may evaluate as material, even though they are lower than materiality for the financial statements as a whole. In the basis for conclusions the IAASB points out that there are qualitative aspects that affect the auditor's professional judgment in determining materiality and tolerable error for planning and performing the audit, and in evaluating the effect of uncorrected misstatements on the financial statements and related auditor's report.

The auditor is therefore alert for such misstatements when performing the audit. However, according to the IAASB, it is not practicable to design audit procedures to detect misstatements that could be material solely because of their nature.

Qualitative materiality refers to the nature of a transaction or amount and includes many financial and nonfinancial items that, independent of the amount, may influence the decisions of a user of the financial statements. Some authors have emphasized that in government, the political sensitivity to adverse media exposure often concerns the nature rather than the size of an amount, such as illegal acts, bribery, corruption and related party transactions. An example is the remuneration of high government officials, such as ministers and top-management of some semi-autonomous agencies, and their travel and hospitality expenses. These pay packages may not be quantitatively material to the financial statements as a whole, but they are politically sensitive. Qualitative materiality considerations therefore should not be ignored – they can and frequently do influence the nature and scope of governmental audits (Ramamoorti and Hoey, 1998).

Disclosure of materiality

ISA 320 neither mandates nor forbids the disclosure of engagement specific materiality considerations for public scrutiny. Although ISA 320 does not require the auditor to communicate materiality, ISA 450 (§ 8) requires the auditor to communicate to management misstatements identified during the audit, other than those that are clearly trivial.

Auditors usually hold the engagement-specific materiality level *sub rosa*. Some authors favor the disclosure of the materiality level, chosen by the auditor for a specific engagement. This might be particularly relevant for audits of governments, because of the importance of transparency. Roberts and Dwyer (1998) have argued that current practice and disclosure regarding audit materiality is paternalistic. That is, the auditor determines materiality on behalf of the user, and does not disclose the determination, while the profession has adopted technical standards that are not explicit enough for users to infer the likely levels of materiality employed on specific engagements. This significantly reduces users' decision making autonomy. Roberts and Dwyer state that auditors should disclose the chosen materiality level, because research revealed that groups of auditors evaluating the same audit situations reach different conclusions about materiality levels. Furthermore, the evidence suggests that auditors' judgments regarding materiality are often not in agreement with those of other classes of reasonable persons.

Disagreement arose for example about the \$51 million adjustment that Arthur Andersen waived on the audit of Enron's financial statements. According to Andersen this amount was not material, using annual reported earnings as a benchmark (Berardino, 2001). Although several commentators questioned this materiality judgment, much of the professional materiality guidance supports Andersen's decision to consider the adjustment immaterial (Brody and others, 2003).

It is unclear why ISA 320 is silent on the disclosure of materiality. A disclosure about this complex topic would involve much more than a single amount for the financial statements as a whole, since there might be different materiality levels for particular classes of transactions, account balances or disclosures. For the audit of group financial statements the materiality may differ between components of the group. Also, the impact of materiality on the audit program might be unclear to many users of the financial statements. The auditor would have a lot to explain.

Summary of public sector specific comments

Table 2. Summary of public sector specific comments

(ref. sections 4.1-4.6)

	ISA 320	Public sector specific comment
1. Audit scope	Audit of financial statements	More guidance may be needed because of wider audit scope in public sector, e.g., compliance audit, performance audit
2. Definition of materiality	Economic decisions	ISA 320 acknowledges that financial statements in the public sector are also used for other than economic decisions
3. Primary users of financial statements	Investors	ISA 320 identifies legislators and regulators in the public sector
4. Who determines materiality	Auditor	Regulators rather than auditors determine materiality (in some countries)
5. Determining materiality:	Benchmarks	Provides examples, e.g., profit before tax, total revenue, total equity, net asset value
	Percentages	Provides illustrative examples
	Qualitative materiality	ISA 450 provides guidance
6. Disclosure of materiality	Neither mandates, nor forbids	More guidance may be needed because of importance of transparency

From the analysis presented in sections 4.1 through 4.6, summarized in Table 2, we can conclude that ISA 320 does not contain any public-sector specific deviation from materiality guidelines applicable to all audits. This is in spite of the arguments put forward by some authors who think that materiality in government auditing should be different. Carmichael and Holder (1987) refer to the ‘unique considerations that are necessary in making materiality judgments in a government audit.’ The need for public sector specific materiality requirements has been recommended by Raman and Van Daniker (1994). The reasoning is as follows. Public sector entities typically pose a low risk of client financial failure and subsequent discovery of misstatements in financial statements. This relatively stable environment leads to competitive audit pricing practices and an undue emphasis on price in auditor selection by public sector entities. Consequently, the need for materiality guidelines (as a possible standard for an audit’s sufficiency) may be greater in government than in a corporate context. INTOSAI, in its comment letter to the ISA 320 exposure draft (IAASB, 2004), states that difference in materiality may be required: ‘For governmental entities, auditors may need to set materiality levels based on various legal and regulatory requirements or on the visibility and sensitivity of government programs. Government auditors also may have additional responsibilities for detecting fraud, waste, or abuse that might require different materiality thresholds.’

However, since the ISAs are principles-based, it is reasonable to expect little, if any, deviations from the principles. By focusing on the particular facts and circumstances of entities in the public sector, the standards would quickly become rules-based. Although the practical application of materiality guidelines may differ between private and public sector audits, the principles should and do remain the same. The discussion whether a standard on materiality in auditing should include public sector specific requirements and explanatory material is, in essence, a debate about principles-based vs. rules-based standard setting. The standards issued by the IAASB are principles-based. Although the IAASB handbook of

pronouncements has become quite voluminous over the years, the board refrains from issuing detailed rules for specific situations. Some accountants favor the rules-based approach because they argue that rules are needed in order to achieve consistency. Otherwise, different auditors will apply different materiality levels to similar entities. Others think that rules-based standards would quickly become too complex and would not be transparent for users of financial statements. They support a principles-based approach, which provides limited guidance and requires greater use of professional judgment. The principles-based approach is also applied in the IFRS and IPSAS accounting standards. From the above analysis of ISA 320 and the IAASB's reaction to the commentators' responses to the exposure draft, we can conclude that the proponents of the principles-based approach have prevailed.

Future research in materiality in government auditing

Based on the above analysis of ISA 320 it is clear that there are many research opportunities in materiality in government auditing; we will highlight some high potential areas. A review of national government auditing standards and practices might provide comparative information on the variability of the approaches to materiality between countries, including benchmarks and percentages or sliding scales used. It is also important to know to what degree governmental auditors set lower materiality levels for particular classes of transactions, account balances or disclosures than for the financial statements as a whole. Future research might also examine whether auditors and the users of government financial statements (legislators, regulators, citizenry) hold the same view regarding the required level of materiality, taking into account political sensitivity. Last, future research could investigate materiality in audits of compliance with laws and regulations, operational audits and performance audits. There are many research opportunities – and needs for research – when it comes to materiality in government auditing. Standard setting should be based on solid research.

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Public Financial Management Reform in Kosovo

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Executive Overview

The Government of Kosovo has achieved remarkable results in Public Financial Management (PFM) reform. This post-conflict country once managed through a United Nations mandate has sequenced legal reform, improved governance, and achieved international PFM standards under difficult conditions.

Sequencing PFM reform is considered a good government practice, although “it is impossible to prescribe a sequence of reforms which is appropriate in all circumstances (DFID 2001).” There are numerous lessons in the Kosovo experience linking reform to context that can be leveraged by governments around the world.

Achievements
• Improved governance as demonstrated by Public Expenditure and Financial Accountability (PEFA) assessments
• Appropriate sequencing of PFM reform
• Capacity built for budget execution, cash management and procurement government-wide
• Decentralization of budget execution reflecting successful capacity building
• PFM achieving International and European standards

Importance of Public Financial Management Reform

Research has shown a statistically relevant link between good governance indicators and development (Kaufmann, Kraay & Mastruzzi 2008). For example, countries whose governments achieve higher good governance indicators tend to have higher GDP per capita and longer average life expectancy.

PFM reform is acknowledged to be a mechanism to improve good governance. “The

quality of public financial management (PFM) systems is a key determinant of government effectiveness. The capacity to direct, manage and track public spending allows governments to pursue their national objectives and account for the use of public resources and donor funds (de Renzio & Dorotinsky 2007).”

Financial Management Information Systems (FMIS) or Government Resource Planning (Government Resource Planning) are recognized as technology tools to assist in PFM reform. “The establishment of an FMIS has consequently become an important benchmark for the country’s budget reform agenda, often regarded as a precondition for achieving effective management of the budgetary resources. Although it is not a panacea, the benefits of an FMIS could be argued to be profound. (Diamond & Khemani 2005).”

History of PFM Reform in Kosovo

PFM reform in Kosovo began with the United Nations Mission in Kosovo (UNMIK) in 1999. UNMIK created an administrative structure creating the “Central Fiscal Authority (CFA), later renamed the Ministry of Finance and Economy (MINISTRY OF FINANCE AND ECONOMY) (Rodin-Brown 2008).” The financial system was upgraded through the use of an Integrated Financial Management Information System (IFMIS) funded by the Canadian International Development Agency (CIDA), the Swedish International Development Agency (SIDA), and the United States Agency for International Development (USAID) (Rodin-Brown 2008).

USAID provided funding for “the main areas of government fiscal management: tax policy and analysis, tax administration, expenditure policy, budget management and control, intergovernmental fiscal relations, and sub-national government finance (USAID, 2006).”

Since 1999, the Government of Kosovo has enhanced legal reform, control, fiscal decentralization and purchasing.

Challenges

Economic

Kosovo has experienced dire macroeconomic conditions during and after the breakup of the Yugoslav federation. The economy “was essentially decimated by the Kosovo War (Tang 2010).” “Kosovo is one of the poorest countries in Europe (World Bank 2009).” Improved economic development is critical to country stability (Bytyci 2009).

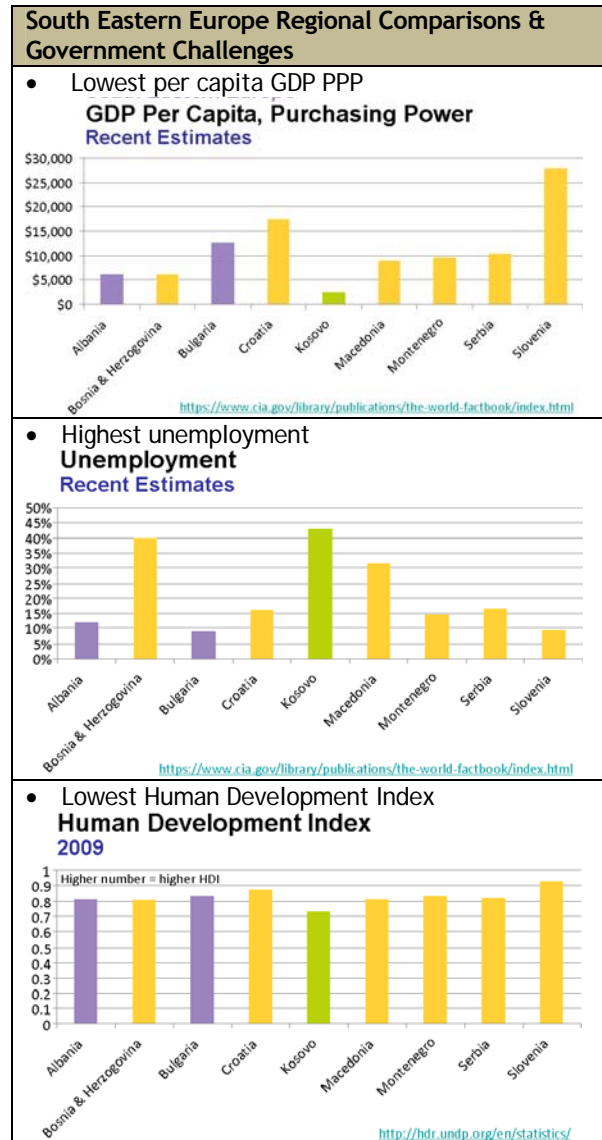
Capacity and Sustainability

Like many post-conflict countries, Kosovo has been challenged to effectively and financially achieve sustainable PFM reform. PFM capacity needed to be built. “The Albanian-speaking majority who remained in Kosovo after the war did not include an experienced cadre of technical, professional and managerial specialists ready to take up key positions (USAID 2006).” Capacity building required government ownership in order to ensure sustainability. At first “public expenditure management in Kosovo was almost entirely handled by internationals (Sigma 2004).”

Government Goals

The Government of Kosovo has strategic plans to increase economic growth, improve governance, and reduce poverty (Tang 2010). These plans are also designed to achieve European Union membership (Tandberg & Pavesic-Skerlep 2009).

Improved Governance and Transparency



The Government of Kosovo recognizes how good governance can improve development results (MTEF 2009). Social cohesion can be achieved through governance reform through transparent institutions, decentralization and improved access to citizen services (World Bank 2009).

The Government of Kosovo is now focused on executing the full budget in order to achieve the best results (Tang 2010 and MTEF 2009). Public Expenditure and Financial Accountability (PEFA) assessments have been used by the Government of Kosovo to set priorities for improved governance.

The Government of Kosovo has achieved significant improvements in governance between 2007 and 2009 according to the PEFA assessments. The 2009 PEFA assessment exceeds PEFA assessment averages (de Renzio 2009). This assessment also exceeds the average for South Eastern Europe, although many countries in the region have not completed a PEFA assessment or have not completed an assessment for more than two years.

It should be noted that the government context is critical in assessing PFM. Governments focus on those assessment criteria that is critical for improvement. Even the Government of Norway was not able to achieve top marks across all criteria (Mundal 2008). The Government of Kosovo has achieved excellent results (B and higher) for over half of the assessment criteria.

PEFA Assessments
<ul style="list-style-type: none"> Donor Partnership: "PEFA aims to support integrated and harmonized approaches to assessment and reform in the field of public expenditure, procurement and financial accountability"
<ul style="list-style-type: none"> Completed two Public Expenditure and Financial Accountability (PEFA) assessments
<ul style="list-style-type: none"> Over 75 National and Sub-national PEFA assessments have been completed
<ul style="list-style-type: none"> Less than 10 countries have completed two PEFA assessments
PEFA Comparisons
<ul style="list-style-type: none"> Kosovo PEFA improvements from 2007 to 2009
<p><i>Government of Kosovo</i> PEFA Comparison 2007 to 2009</p> <p>PEFA Scores</p> <ul style="list-style-type: none"> A B or B+ C or C+ D or D+ No score
<ul style="list-style-type: none"> Kosovo exceeds international average <p><i>Government of Kosovo</i> PEFA Score Comparison to Average</p> <p>Legend: 2009 Kosovo (green), 2007 PEFA Average (yellow)</p> <p>Criteria: A. Credibility of the budget; B. Comparability and Transparency; C(i) Policy-Based Budgeting; C(ii) Predictability and Control in Budget Execution; C(iii) Accounting, Recording and Reporting; C(iv) External Security and Audit.</p>

2009 Kosovo PEFA Assessment - "A"
<ul style="list-style-type: none"> PI-3 Aggregate revenue out-turn compared to original approved budget
<ul style="list-style-type: none"> PI-5 Classification of the budget
<ul style="list-style-type: none"> PI-7 Extent of unreported government operations
<ul style="list-style-type: none"> PI-16 Predictability in the availability of funds for commitment of expenditures
<ul style="list-style-type: none"> PI-17 Recording and management of cash balances, debt and guarantees
<ul style="list-style-type: none"> PI-25 Quality and timeliness of annual financial statements

Sequence of PFM Reform in Kosovo

Phasing of PFM “reform, through achieving gradual manageable steps (DFID 2005)” is considered a good practice. The sequence of reform depends on the country context. “Implementing public finance reforms of any kind requires an understanding of the entire public finance system in place in that country. It requires an understanding of the institutional arrangements (Rodin-Brown 2008).”

Technology solutions like Government Resource Planning should follow reform. “The Kosovo environment was unique; the fiscal management requirements were NOT. System implementation can be achieved in a matter of weeks; financial management reform takes years (Brajshori 2007).” Governments tend to implement budget, treasury and accounting standards before embarking on performance management initiatives (Tandberg & Pavesic-Skerlep 2009).

Legal Reform

Legal reform is required before embarking on public financial management reform (Spietzer 2008).

“Technology is an early building block in creating good governance and must be introduced in a phased implementation to allow absorption of key government reforms. Technology should be supported by sound governance legislation: rules, regulations, finance administrative instructions etc. (Brajshori 2007).”

The Government of Kosovo has phased institution building with the legal framework (SIGMA 2009-PEM). This has resulted in a constitution in line with European standards (EU 2008). Legal reform has also enabled the support for public sector accounting standards such as the IMF Government Financial Statistics (GFS) and the International Public Sector Accounting Standards (IPSAS) (Smith-EMSG 2009, PEFA, 2009).

Budget and Treasury Management

Financial management began by using the practices used by the Yugoslav model (Rodin-Brown 2008). The Kosovo Financial Management Information System (KFMIS), using the FreeBalance Accountability Suite, was initially implemented in 26 days to support budget controls (Rodin-Brown 2008). Successful implementation bred more reform (Brajshori 2007). The KFMIS was extended and modernized following the reform program set by the Government of Kosovo.

Budget execution and treasury management were the initial priorities. Procurement, decentralization and revenue modernization followed. The modernization of PFM enables governments to establish credibility. The Government of Kosovo has established credibility

Good Practice: Sequencing PFM Reform
<ul style="list-style-type: none"> • Kosovo began with simple centralized financial management
<ul style="list-style-type: none"> • Initial system configured to Yugoslav model before updating to international standards
<ul style="list-style-type: none"> • Improvements to financial management processes followed legal reform
<ul style="list-style-type: none"> • Decentralization to line ministries and municipal governments followed capacity building
<ul style="list-style-type: none"> • Support of the Treasury Single Account enables managing all government funds
<ul style="list-style-type: none"> • Addition of government accounting, fixed asset management and purchasing functionality in line with government objectives
<ul style="list-style-type: none"> • Development and improvement of the macro-fiscal framework including support of Medium Term Expenditure Frameworks to align budgets with government objectives
<ul style="list-style-type: none"> • Sequencing of transparency efforts including publishing monthly, quarterly and yearly budget reports

in fiscal management by assuming a portion of Yugoslav government debt (World Bank 2009).

Sequence of PFM Reform in Kosovo: 1999 to 2009		
LEGAL REFORM		TECHNOLOGY MODERNIZATION
<ul style="list-style-type: none"> • UNMIK administration 	1999	<ul style="list-style-type: none"> • Pilot Government Resource Planning system implemented in 26 days
	2000	<ul style="list-style-type: none"> • Full Government Resource Planning project launched
<ul style="list-style-type: none"> • UNMIK Regulation on the Establishment of the Kosovo Board on Standards for Financial Reporting (KBSFR) • Law on Kosovo Civil Service 	2001	<ul style="list-style-type: none"> • Deployment to all 5 Regions
<ul style="list-style-type: none"> • Ministry of Finance and Economy established • Kosovo Accounting Standards (KAS) developed 	2002	<ul style="list-style-type: none"> • Training and Certification of Ministry of Finance • Core system goes live
<ul style="list-style-type: none"> • Law on Financial Management and Accountability (LFMA) • Law on Public Procurement • Public Service Laws on Recruitment, Probationary Period, Appeals, Termination 	2003	<ul style="list-style-type: none"> • Sustainability and Capacity Training • System available in Serbian and Albanian • Deployment to all 30 Municipalities • Payroll interface
<ul style="list-style-type: none"> • Law on International Financial Agreements • Public Service Law on Official Travel 	2004	<ul style="list-style-type: none"> • Revenues module goes live • Local sustainability team in place • Bank Electronic Interface
<ul style="list-style-type: none"> • Medium Term Expenditure Framework introduced • Suppression of Corruption Law & creation of the Office of Ombudsperson • Public Service Laws on Gender Equality and Independent Oversight Board 	2005	<ul style="list-style-type: none"> • Budget system interface • VPN to all budget institutions
<ul style="list-style-type: none"> • Cash and Debt Management division created • All tax and not tax revenue implemented via Treasury Single Account • Law on Internal Auditing • Public Service Law on Civil Service Code of Conduct 	2006	<ul style="list-style-type: none"> • Asset Module goes live • Disaster recover site established • Purchasing Module goes live
<ul style="list-style-type: none"> • First PEFA Assessment • Law on Preventing Conflict of Interest in Exercising Public Function • Independent Anti-Corruption Agency established 	2007	<ul style="list-style-type: none"> • Support for IPSAS and GFS in Chart of Accounts and in 2006 financial reports
<ul style="list-style-type: none"> • Republic of Kosovo Constitution in force • Law on Public Financial Management and Accountability (LFMA) putting MTEF in legal force • Law on Local Government Finances (LLGF) • Law on Local Self Government (LLSG) • Law on Publicly Owned Enterprises 	2008	<ul style="list-style-type: none"> • Chart of Accounts (COA) adapted to support program oriented budgeting
<ul style="list-style-type: none"> • Second PEFA Assessment • PFM Reform Action Plan • Law on Membership of the Republic of Kosovo in the International Monetary Fund and World 	2009	<ul style="list-style-type: none"> • Payment decentralization to hospitals and municipalities • Regional treasuries closed • Enhanced reporting pilot

<ul style="list-style-type: none"> Bank Group Organizations • Law on Public-Private-Partnerships and Concessions in Infrastructure and the Procedures for Their Award • Law on Internal Audit • Law on Public Debt 		
<ul style="list-style-type: none"> • Law on Declaration and Origin of the Property and presents of Public Senior Officials • Law on Salaries of Civil Servants • Law on the Civil Service of the Republic of Kosovo • Law on Access to Public Documents 	2010	

Important Developments

Improving PFM has cross-cutting effects. Many challenges remain in Kosovo because of the historical and macro-economic situation. Nevertheless, there have been improved economic development, financial management, transparency and civil service capacity building.

Economic Developments
<ul style="list-style-type: none"> • "Kosovo and Albania were the only two countries in the Western Balkans that experienced positive economic growth in 2009 (Tang 2010)." • "Amidst signs that the worldwide recession is easing, the slowdown in Kosovo's economic growth has remained orderly (IMF 2009/09)."
Financial Management and Transparency
<ul style="list-style-type: none"> • "Kosovo has made significant progress in establishing a workable public financial management system, including a sound legal framework (World Bank 2009)." • "The greatest strength of the Kosovo PFM is its treasury system; not because of its sophistication in terms of functionality or its classification system, but simply because it is comprehensive and is able to produce timely and reasonable analytical reports (PEFA 2007)." • "Treasury Department external audits show zero (or near-zero) errors. (Smith 2009-EMSG)" • "In the broad sense of the term, the internal control structure has been established in Kosovo. The basic legal framework is sound, with clear structures of accountability (SIGMA 2008)." • "Other strengths are found in the areas of internal audit and control and external audit where the process is in place and capacity is being built up for effective implementation (PEFA, 2009) • "Good fiscal reports are produced based on the information extracted from the treasury system and the reports from the Auditor General are available on the Internet (PEFA 2007)." • "Information about budget execution is produced monthly, quarterly and annually (SIGMA 2006-PEM)" • "Improvement in reports by structure of the budget and present fund balance commitment for each economic category and budgetary organization. All reports are presented in compliance with IPSAS. (PEFA 2009)" • "The quality of Treasury reporting has enabled complex strategic fiscal planning (i.e. MTEF) that is based on detailed current and historical fiscal analysis. Moreover, improvements in Treasury reporting have increased the level of public debate on fiscal issues, including within politics and media (USAID 2006)." • "The 2009-2011 Budget incorporated detailed multi-year ceilings for both capital and recurrent elements. Further, preparation has commenced in full accordance with the timetable specified in the LPFMA. Of most critical importance is that the MTEF was completed by the end of April, which is earlier than previous years and provides a solid base for the rest of the process. (Smith 2009-EMSG)" • Noticeable progress was achieved in the area of availability of main municipal budget process related documents to municipal stakeholders and general public. (Smith, 2009-EMSG)"
Capacity Building
<ul style="list-style-type: none"> • "Comprehensive Training and Certification Program and mentoring of local staff - some are still with Treasury after five years (Brajshori 2007)"

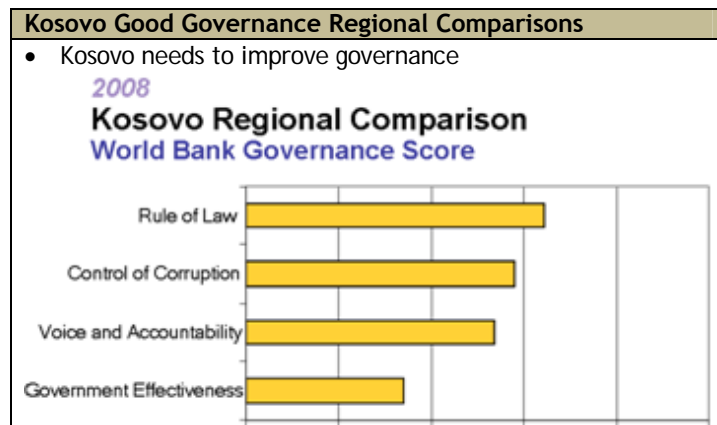
- "A very strong macroeconomic analysis department exists. It is widely acknowledged to be an important and integral part of the MINISTRY OF FINANCE AND ECONOMY. The department uses a small but sophisticated macroeconomic model to perform regular forecasts of the Kosovo economy and analysis of specific issues (Smith 2007-EMSG)."
- "This year, MINISTRY OF FINANCE AND ECONOMY staff took the lead in drafting the Budget Regulation and conducting necessary communication with the UNMIK Legal Office, with the Advisors playing mainly supportive roles. MINISTRY OF FINANCE AND ECONOMY staff demonstrated its capacity to produce required budget documents, with increasing focus on improving the quality of the budget presentation. (Smith 2007-EMSG)"
- "In contrast to preparation of the prior MTEF, which depended on internationals to develop and run the required macroeconomic models and to write most parts of the final document, the analysis and drafting of the 2008-2010 MTEF was largely a Kosovar effort (Redbern, Fox, Gellerson 2009)."

Conclusions

Road to Good Governance

Globalization has created a competitive environment for countries. Risk and opportunity are key drivers for businesses.

Good governance creates country stability and encourages business investment to fuel economic growth. Improving governance is a strategic objective for the Government of Kosovo "to create an effective administration, professional, transparent in accordance with democratic principles and oriented towards providing the best possible services to citizens (MTEF 2010).



Government Resource Planning Modernization Scorecard

The scope of reform and modernization differs among governments based on the country context. Government Resource Planning functionality in the Government of Kosovo is comprehensive and decentralized. Further modernization of automation is part of the PFM Reform Action Plan.

	Functionality	Decentralization	Modernization
Public Financial Management	<ul style="list-style-type: none"> • Budget controls • Assets • Audit 	<ul style="list-style-type: none"> • Line ministries • Regions • Municipalities 	<ul style="list-style-type: none"> • Segregation of duties • IPSAS & GFS • Accrual accounting
Government Treasury Management	<ul style="list-style-type: none"> • Cash management • Cash controls • Debt management • Investment management 	<ul style="list-style-type: none"> • Delegated treasury 	<ul style="list-style-type: none"> • Bank reconciliation • EFT • Treasury Single Account • Cash forecasting
Public Expenditure Management	<ul style="list-style-type: none"> • Expenditure Controls • Purchasing 	<ul style="list-style-type: none"> • Delegated purchasing 	<ul style="list-style-type: none"> • Procurement • e-Procurement • Procurement transparency • Grant management

Government Receipts Management	<ul style="list-style-type: none"> • Non-tax revenue 	<ul style="list-style-type: none"> • Local tax collection 	<ul style="list-style-type: none"> • Case management
	<ul style="list-style-type: none"> • Income tax • Customs 		
Civil Service Management	<ul style="list-style-type: none"> • Payroll • Pensions • Workforce management 	<ul style="list-style-type: none"> • 	<ul style="list-style-type: none"> • Recruitment • Talent management • Capacity building • Performance appraisal • Succession planning • Self-Service
	<ul style="list-style-type: none"> • Civil service planning 		
Government Performance Management	<ul style="list-style-type: none"> • Budget classifications • Management reporting • Budget preparation • Budget circular 	<ul style="list-style-type: none"> • Budget delegation • Bottom-up Budgets 	<ul style="list-style-type: none"> • PEFA assessments • Program budgeting • MTEF • Budget transparency
		<ul style="list-style-type: none"> • Local PEFA assessments • Citizen services 	<ul style="list-style-type: none"> • Macro-fiscal framework
			<ul style="list-style-type: none"> • Scenario planning • Performance budgets • Outcome measures

Items highlighted in white have been implemented, in gray have yet to be implemented

Roadmap for Reform

The Government of Kosovo Public Financial Management Reform Plan (PFMRAP 2009) identified numerous important reforms leveraging Government Resource Planning systems.

Public Financial Management
<ul style="list-style-type: none"> • Reduce under-spending particularly in important infrastructure projects and gradual increase in accrual reporting • Improve timeliness and accuracy of municipal financial data • Improve audit capacity for all budget organizations and reduce delays in reporting external audit reports
Government Treasury Management
<ul style="list-style-type: none"> • More timely revenue reconciliation and daily bank reconciliation reporting • Increase regularity of cash flow forecasts and link debt and cash management functionality
Public Expenditure Management
<ul style="list-style-type: none"> • Reach more markets in public tendering to ensure competitive pricing, simplify and monitor procurement procedures • Grants Commission to manage transfers to municipalities
Government Receipts Management
<ul style="list-style-type: none"> • Improve tax audits and reduce tax arrears while increasing the automation of tax management
Civil Service Management
<ul style="list-style-type: none"> • Improve payroll controls and payroll forecasting • Integration of human resources data to enable improve audit • Support civil service reform through automated human resource management • Upgrade ICT systems to support integrated human resources, payroll and financial management
Government Performance Management
<ul style="list-style-type: none"> • Improve budget formulation and strategic planning - ensure that budget calendar is followed • More effective multiple year planning including better linkage of budgets with government objectives • Use of performance information in budget preparation and improved monitoring and evaluation • Improve managerial reporting • Improve donor coordination

Government of Kosovo Lessons Learned

Many governments can leverage the experience of the Government of Kosovo. Other countries share many of the challenges and opportunities with Kosovo.

Focus of Development
<ul style="list-style-type: none">• "Development strategy should be balanced between effectively implementing programs that could lessen societal tensions in the short-term while simultaneously putting in place the foundations for stable institutions and sustained growth in the medium- to longer-term (World Bank 2009)."
Decentralization for Regional and Ethnic Issues
<ul style="list-style-type: none">• "Institutional strengthening and good governance, including effective central and municipal government and establishment of a level playing field for the different ethnic groups, will be crucial to longer term development and stability (World Bank 2009)."
Technology Follows Reform
<ul style="list-style-type: none">• "Technology is an early building block in creating good governance and must be introduced in a phased implementation to allow absorption of key government reforms. Technology should be supported by sound governance legislation: rules, regulations, finance administrative instructions etc. (Brajshori 2007.)"
Government Ownership Critical to Improvements
<ul style="list-style-type: none">• "Preparing a time-bound Public Financial Management Reform Action Plan designed to address the key weaknesses identified by the PEFA self-assessment (World Bank 2009)."
Donor Co-ordination can Accelerate Development
<ul style="list-style-type: none">• "One of the most important issues affecting reforms in this area is the lack of effective donor co-ordination, which results in an ineffective use of most of the resources provided. (SIGMA 2009-PEM)."

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Telling a More Credible Performance Story: Old Wine in New Bottles

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Abstract: A credible demonstration of policy or program impact depends on understanding the distinction between inputs, outputs, outcomes, and indicators. Moreover, to be trusted by the public, performance reporting needs to focus more selectively on identifying the key measures of performance that will be recognized by stakeholders. The first aim of the article is to provide those involved in the practice of program evaluation with an enhanced understanding of the current literature, reports and documentation on estimating the impact and results of government programming and policies. Secondly, it shares the definitions and guidelines used to demonstrate economic impacts. Finally, it presents current best practices in measuring incremental impact. All of which, we contend, provides program evaluation staff with new ways of approaching measurement and accountability that are more effective, strategic, comprehensive and credible to the public.

Keywords: Performance Measurement, Performance Reporting, Measurement, Impact, Attribution

Introduction

Performance measurement and reporting are now considered to be critical components in public sector accountability (Auditor General of Canada, 1997; Bain, 2002; Bolton, 2003; Organization for Economic Development, 2004; 2007; Treasury Board of Canada, 1998, 2000, 2001a, 2001b, 2002), both in Canada and abroad. Indeed, public sector organizations remain under increasing pressure to measure progress toward results, demonstrate flexibility in adjusting operations to meet expectations, and report on outcomes accomplished. In comparison to private sector organizations, public sector organizations neither seek to enhance their competitiveness nor promote growth—public institutions aim to provide the highest quality of service to the public and manage for results. However, a significant element of public sector reform is the move toward an approach that pays greater attention to the results attained using taxpayer dollars.

While the literature is replete with numerous models for assessing the impact and results of programs and policies, the number of program evaluators familiar with the literature who understand the appropriate methods for estimating and assessing these impacts and results, is rather low, judging by the proliferation of reports with biased methodologies observed by this author.

There are many advantages to having program evaluators better understand impact and results assessment literature. For example, if program evaluators consistently incorporated the principles of impact and results assessment in both summative and formative evaluations, it would afford organizations a stronger way of approaching performance accountability in a strategic and comprehensive manner. This would respond to the changing mind-set of the public regarding performance accountability, while providing management with enhanced information and opportunities to make more effective choices in programming investments.

This article has three intentions. First, it presents a review of the current literature, reports and documentation on monitoring and measuring results and the long-term impacts of

government programming and policies. Second, it shares the definitions and guidelines used to define results and impact. Finally, it presents current best practices in measuring incremental results and impact.

Measuring Impact

According to Artley, Ellison & Kennedy (2002) and the OECD (2007), most American state governments have performance measurements and planning regimes, as do most OECD countries. At the federal level in Canada, the Treasury Board of Canada (2000) ensured a results-oriented focus was launched in 1996, while the Ontario and Alberta provincial governments unveiled their respective Quality Service Initiative and Results-Oriented Government Initiative in 1998.

The literature distinguishes two uses for performance measurement information. From a management perspective, performance information can be used to better understand the contributions to results that a program or policy is making. Furthermore, it enables program managers to determine if a program or policy is the appropriate tool to achieve a desired result where a link can be logically established between activities and results. In this regard, performance measurement is both a search for knowledge tool and an investigative tool.

Second, performance measurement is utilized to explain or demonstrate the performance achieved by a program. In many jurisdictions, there is an increased focus on reporting to elected officials and the public exactly what has been achieved with the tax dollars spent and resources used. Performance measures frequently form the basis of such reporting. According to Mayne (2004, 2006), the question is how performance measurement information can be used to report credibly on what has been accomplished.

The Treasury Board of Canada (2001a) notes that successful performance reporting and management depends on understanding the distinctions between inputs, outputs, outcomes, and impact. Inputs are the resources allocated to programs and organizations. Outputs are the activities government agencies undertake, such as the provision of services. Outcomes are the eventual results of those activities in terms of the public good. Schacter (2002a) notes that indicators are the empirical measures of inputs, outputs and outcomes. Strong indicators are the key to attribution. Hence, the thrust of performance measurement is to train attention on “outcomes”—what ultimately matters the most—and link them to a logic model that connects inputs (resources) with activities, outputs and outcomes.

However, when examined more closely, performance measurement is more than simply “measuring impact”—it entails a management regime that requires an organization to have a clear idea of its objectives and a regular means of reporting its success in achieving them (Goss Gilroy Incorporated, 1997). Performance reporting is different from program or policy evaluation, which typically takes place at specific points in time in a program’s life, and is a more comprehensive analysis of program impact. In the Canadian context, it is imperative that performance measurement is viewed as part of a larger management regime that attempts to link ongoing results with strategic planning, budgeting, and resource allocation.

As denoted by the literature, the development of a successful alternative methodology for measuring economic impact requires an alignment between the above key factors when doing performance measurement.

Stakeholder Agreement - a requirement for credibility and confidence

Performance measurement is difficult enough in its own right, and particularly challenging in the context of non-commercial programs. Measuring performance requires clarity and consensus about objectives, as well as a logical model of causes and consequences based on an understanding of how an organization's actions contribute to outputs and outcomes. Since performance measurement is about measuring the success of a program, it is vital to know what that program is about and what its intended objectives are. It is a difficult task to glean various perspectives from key organizational staff, supplement it with relevant program and financial documentation and then translate these perspectives into a coherent picture. This puts the onus on program design (identification and formulation) and planning, two stages that critically affect a programme's outcomes and impact.

The TBS (2001b) program evaluation protocol requires development of a "profile" i.e., a concise description of a policy, program or initiative, including a discussion of the background, need, target population, delivery approach, resources, governance structure, and planned results. This approach is also endorsed by Schacter (2002a) who observes "...the foundation of a good performance story is a detailed understanding of the program whose performance is to be measured." Schacter (2002b) and Mayne (2006) articulate the first and most important step in developing a performance measurement framework as taking the program apart: analyzing it, dissecting it, and breaking it up conceptually into its component parts. This leads to a clear understanding of the goals and objectives of a program and how these are linked to the mandate of the organization and the needs of the public. Others, such as GGI (1997) and Hatry (2004), suggest that it is essential for an organization to determine the types of business it is in and how it intends to carry out business before it can clearly identify performance expectations. Moreover, to be understood, an organization's public performance reporting needs to focus more selectively, and more meaningfully, on a smaller number of critical aspects or areas of performance. The issue then becomes how to determine these few aspects and how to engender confidence that selections are made to illuminate performance.

The literature on performance measurement illustrates that at the heart of any performance reporting process is a "logic model" that ties inputs to activities, as well as to short-term, intermediate, and ultimate outcomes. Thus, according to Wholey (1992), the logic model as depicted in Figure 1 becomes a conceptual illustration of the "results chain" or how the activities of a policy, program or initiative are expected to lead to the achievement of the expected outcomes. In addition, developing and using a logic model has a number of benefits for program managers, including developing consensus on what the program is trying to accomplish; developing an understanding of how the program is meant to work; clearly identifying the clients of the program; seeking and obtaining agreement on precisely what results are intended, and identifying the key measures of performance.

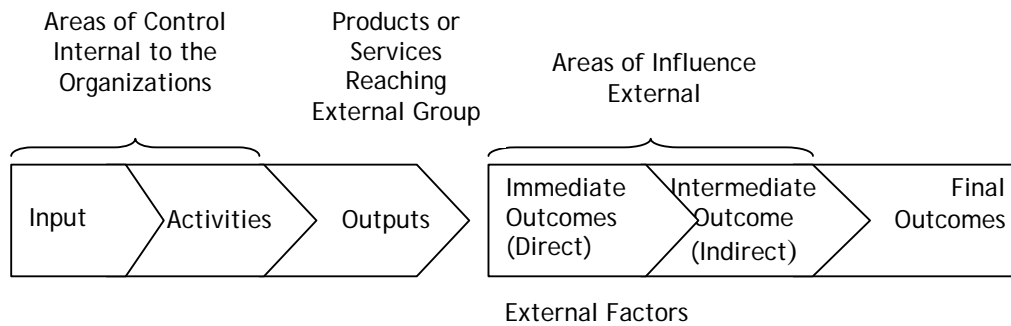


Figure 1: Results Chain

Part of the challenge associated with performance measurement is identifying appropriate indicators for the different levels of outcomes, (immediate, mid-term and long-term) and making judgments about attribution, or the specific contribution of a program, policy or initiative under measurement.

As highlighted in the literature, performance can only be measured if both outputs and outcomes are identified. Even if a program is explicit regarding its intended outcomes, selecting indicators is not automatic. Successful performance measurement depends, in part, on finding logical and credible indicators specific to the program that can be attributed to a program, and which can be successfully measured.

It should be well understood that performance indicators are the measure actually used to assess a specific aspect of performance and that no single indicator is adequate. Therefore, choosing the best set of performance indicators is central to ensuring that the intended results are being measured. In fact, in the absence of a clear relationship between outputs and outcomes, managers must consider the context-sensitiveness of outcomes and understand that there are no right results and that results may be measured by clusters of indicators. In practice, no relationship between outcomes and impact has ever been defined because it is a function of time with many variables and parameters.

According to Canada's Auditor General (1997), results can be measured in many ways by using many different kinds of information when stakeholders agree upon appropriate performance indicators. Without agreement from stakeholders, there is a risk that inappropriate performance will be encouraged.

Align Expenditure to Performance

Performance measurement is not an end in itself. Measurement should contribute to the wider process of governmental resource allocation. Linking resources to results is a mechanism for supporting transparency in the government decision-making process. As well, such steps enrich accountability in a citizen-centered approach.

Under Canadian federal evaluation policy standards, if a program is found to be under-performing, the program could be redesigned, revamped, or resources could even be reallocated to other programs that have demonstrated public benefits. In addition, there is evidence from several jurisdictions to suggest the alignment of resources to results is becoming an economic priority. Many organizations report actual performance against targeted performance.

Alignment is most common between budgeted resources and expected results. According to TBS (2000), aligning actual expenditures with actual performance is less common. While most organizations indicate that they are making progress in tracking results, they are not there yet, and it is a game of getting closer to the ideal rather than achieving perfection.

The nature of a program and political will also factor into the use of performance information against results achievements. For example, in Canada, A-base programs, such as health or policing, that grow with hard economies may not be eliminated without causing harm to citizens, but performance information might lead to more cost-effective ways to deliver them or reveal patterns that allow management to see how to better manage them.

Tell a Convincing Story

There is a paradox of performance measurement, which is acknowledged in the literature. As noted previously, performance measurement is driven by both precision and a clear assessment of the contribution of government programs to specific outcomes. The literature acknowledges that there are significant technical problems associated with disentangling the specific effects of programs from other factors that might contribute to outcomes.

Schacter (2002a) argues that good performance measurement is an exercise in storytelling. He maintains that successful performance measurement must acknowledge an element of judgement. Furthermore, he notes the importance of acknowledging the limits of both the chosen indicators and the evidence for those indicators. According to Schacter (2002a), a well-developed performance framework allows you to tell a convincing story, backed by credible evidence, about the value added by a program to some particular segment of society.

Schacter (2002b) suggests performance measures derive their meaning from high-level outcomes. For example, when a policy has several high-level outcomes, some of which may be in opposing directions, how is performance measurement possible? Finally, Schacter (2002a) articulates that clarity is the touchstone; and it will be up to the performance-measurement framework to force some clarity in relation to high-level outcomes.

Furthermore, as noted by CCAF Canada (2002), selecting the areas or aspects of performance on which reporting will focus is, in fact, a judgment. What constitutes an appropriate focus for reporting will depend on the circumstances, the perceptions and values of key stakeholders, the level of the reporting unit and the views of management.

Both the TBS (2001a) and CCAF Canada (2001) are of the view that performance reporting should not be considered in isolation, but that it is best considered in the wider context of governance, management, and comptrollership. As pointed out by CCAF Canada (2001), getting these factors right is a critical ingredient in the successful establishment of a performance measurement regime. Thus, the exercise of judgment and the allocation of attribution require reflection on an organization's environment. Hence, the organization has to be outward-looking.

The literature highlights four organizational implications of performance measurement. First, if a true performance measurement regime is established, it implies that the organization has a focus on performance and outcomes rather than on process or outputs. Second, there is a willingness to be evaluated at both an organizational and a personal level. Third, there is a focus on continuous improvement so that performance measurement is linked to the development and adjustment of new programs and the allocation of resources. Fourth, there is greater transparency and accountability to both internal and external stakeholders.

While the storyline is the essence of performance measurement, there are no clear links; it requires of management an analytical attitude that accepts uncertainty (see NONIE Cairo conference of April 2009). One can tell a story even if no clear links exist, by analysing the key elements: what was intended, what was done, what happened, what is measured, what didn't work, and what alternatives might be considered.

Do the Possible

According to Mayne (2006), the literature highlights an important shift in the notion of "accountability." Mayne suggests that, in the past, accountability referred largely to the processes followed, the inputs used, and the outputs produced in the public service domain. This focus was consistent with the more traditional view of accountability, emphasizing what could be controlled and assigning corrective action when things went wrong. If the expected process was not followed, improper inputs were used or outputs were not delivered, then responsibility could be placed with the appropriate individual, and appropriate action taken.

Mayne (2001) argues that under the traditional paradigm, there is a reticence within government to accept accountability for results beyond outputs—that is, outcomes over which one does not have full control. In other words, within government, being accountable for outputs has been much more widely practiced in the past than accountability for outcomes. Under this paradigm, establishing the links between activities and outputs (i.e. attribution) is not a significant issue, especially when it can be clearly shown that the program produced the outputs. However, establishing links between activities and outcomes (i.e. attribution of the program to outcomes realized) is a much more significant task.

Hatry (2004) ponders the notion that accountability for results or outcomes asks if you have done everything possible with your authorities and resources to effect the achievement of the intended results, and if you have learned from past experience what works and does not work. Accounting for results of this kind means demonstrating that you have made a difference through your actions and efforts, and that you have contributed to the results achieved. As argued by Hatry (2004), finding credible ways to demonstrate the move toward managing for results is essential, if you are to succeed.

Besides determining the evaluation focus and specific evaluation questions, an appropriate evaluation design must be developed. There are many types of evaluation designs. Of chief interest in choosing the evaluation design is whether to monitor progress on outcomes or whether to show "attribution"—that progress on outcomes is related to program efforts. These "attribution" questions may more appropriately be viewed as "research" as opposed to "program evaluation," depending on the level of scrutiny with which they are being asked (Chen, 1990).

Knowing where to find potential effects can ensure that significant consequences are not overlooked. For example, evaluations which examine the relationship between program activities and observed consequences for mature programs that can define what interventions were delivered to what proportion of the target population likely indicate a direct cause-effect relationship to the program. Where these exist, evidence can be found to attribute the effects exclusively to the program. In addition, effects might arise from a causal process involving issues of contribution as well as attribution (Centers for Disease Control and Prevention, 1999).

Reduce Uncertainty and Increase Public Confidence

As pointed out by Canada's Auditor General (1997, 1998, 2000, 2003), there remains a constant need to rethink what measurement can usefully mean. Even with a carefully designed evaluation study, definitively determining the extent to which a program contributes to a particular outcome is usually not possible. In fact, measurement in the public sector is becoming less about precision and more about increasing understanding and knowledge about what works, thereby reducing the uncertainty about program impact. This view of measurement implies a requirement to gather additional data and information to increase understanding about a program and its impact, even if things cannot be proved in an absolute sense. However, it might allow a reasonable estimate of the magnitude of the impact and suggest directions for future improvements.

Perhaps more importantly, this view recognizes a need to include softer, qualitative measurement tools within the concept of measurement in the public sector. Since the government needs to be realistic about program outcomes, it needs to acknowledge other factors at play that may influence those outcomes. For example, performance measurement is widely accepted in Canada's Employment Insurance program as an important management tool supporting program improvement and accountability. Baritik (2003) notes several challenges impede attribution of success in programs like Canada's Employment Insurance programs: the complexity of regional employment issues reflect multiple determinants and outcomes, which may take years to achieve; the decentralized and networked nature of a national regional centric employment insurance program implementation; and the lack of reliable and consistent data sources; as well as other issues related to attribution. All three of these challenges hinder the ability to attribute desired program results (increased full time employment) to specific employment insurance program such as the continuance of benefits while engaged in full time skills upgrading. However, if properly structured, and with appropriate data collection, mixing a blend of hard and soft measures well as other skills in the program evaluator's repertoire, then attributing skill upgrading programs to increased full time employment may be successful. Mayne (2004, 2006) contends that the government needs to use an approach that acknowledges that these influences exist, rather than pretend otherwise. When other factors are known to be at play, it is not immediately clear what effect the program has had or is having in producing the outcome in question.

Increasingly, it is recognized that performance measurement alone has its limitations, perhaps implying the need to accept some uncertainty about the unavailability of performance measures in some cases. When it is absolutely necessary to have a high degree of certainty regarding a program's contribution, it becomes even more crucial to ensure rigor within the evaluation measurement process. For example, in recent years the OAG (Report of the Auditor General, 2006, 2007, 2008, 2009) has cited several government programs for inadequate information linking expenditures to outcomes.

Measure Attribution

A key challenge in performance measurement is attribution, or determining what contribution a program has been to a specific outcome. Mayne (2001) contends the more difficult question is usually determining what contribution the specific program in question has made to the outcome.

Even with carefully designed evaluation studies, as pointed out by the AG on many occasions, determining the extent to which government programs contribute to particular outcomes is usually not possible.

Mayne and Zapico-Goni's (1997) examination of the literature indicates that performance measurement is being utilized increasingly to measure program performance, although the link to outcomes, including short, medium, and long-term, may not be captured. Generally speaking, program evaluations are designed to assess both the intended and unintended impact of a program based on valid and reliable data collection and analysis. On the other hand, performance measurement is characterized as the ongoing measurement of a program's performance by utilizing performance indicators to track performance. Some might argue that this makes performance measurement focus on process (efficiency) and outputs (effectiveness) rather than on outcomes, which requires a time function to be determined. Increasingly, organizations are endeavouring to measure or track the subsequent impact of programs, policies or initiatives at either the intermediate or final outcomes.

In the absence of a well-designed evaluation study, what can be done to get a measure of attribution of a program? Canada's Auditor General (OAG, 2000) suggests it is possible to structure performance measurement systems to directly acquire attribution measures. For example, in the case of a "normal" or typical performance measurement or monitoring system, the AG recommends the utilization of "contribution analysis" to get a handle on attribution issues. In addition, the AG recommends measuring the impacts on program recipients against the changes occurring for non-recipients. Thus, such approaches become *de facto* evaluations. However, while such an approach is possible, it requires a carefully constructed and often expensive research measurement strategy that is not usually associated with most performance measurement approaches.

The literature is clear on the concept of program "effectiveness." Government programs are designed to produce certain "intended outcomes," such as a healthier public, better living conditions, healthier communities, more jobs, and so on. Cost-effective programs are those that can demonstrate these results. In other words, they contribute to the public view of value for the money expended. However, in the quest to measure program performance, we face two challenges: first, measuring whether or not the intended program outcomes are actually occurring; and second, determining what contribution, if any, the program has made to the outcomes. The second is perhaps the more difficult question in that it attempts to determine how much of the success (or failure) can be attributed to the program.

Despite the difficulties associated with attribution measurement, both Wholey & Hatry (1992) and the TBS (2001a) literature stress that attribution cannot be ignored when trying to assess program performance. In fact, when little can be said about the worth of a program, how can management provide advice regarding future program directions? The AG also urges that management ensure performance measurement takes into consideration the possibility that observed changes in outcomes would have occurred at a lower level or at some future date even without the program or policy. Accordingly, this supports the notion that other factors are at play in addition to the impact of the program activities (other government programs or actions, economic factors, social trends, etc.) all of which can affect outcomes. Hence, this measurement problem needs to be properly addressed to support the notion of results accountability.

According to Wholey & Hatry (1992), program evaluation is one measurement discipline that endeavours to answer the attribution question. The more traditional approach is to utilize a

controlled comparison to estimate what would happen with the program in place versus what would happen without the program. Although social science methodology has been designed to address the issue of attribution, an evaluation study probably remains the best way to address attribution because performance is essential to measure, while program evaluation seeks to understand and explain outputs and outcomes in relation to the overall context and environment.

As previously noted, the current thinking acknowledges the difficulty the public sector has in measuring outcomes and establishing links to program activities in a cost-effective manner. An additional, related problem is the need to deal with accountability; that is, the need to visibly demonstrate that programs have made a difference, and that the actions and efforts of program activities have contributed to the results achieved.

Furthermore, although evaluations and performance measurement studies frequently measure whether or not outcomes are occurring, the more difficult question is determining the contribution of a program to outcomes. How much success or failure can be attributed to the program? What contribution did the program make? What influence did it have?

Plausible Associations Increase Credibility

The literature underscores and emphasizes what is needed for a specific analysis to provide information on the contribution of a program toward the outcomes a program is trying to influence. The literature is unmistakably clear on the subject of simply measuring and reporting performance based on performance measurement systems, without any discussion or analysis of other factors at play. This kind of performance measurement information is thought to have little credibility. Moreover, the literature urges managers to be realistic about outcomes, especially if they are trying to either influence or want to gain insight and understanding as to if and how the program activities are making a difference. Recognizing the other factors at play while still believing the program is making a contribution is a critical first step.

At the end of the day, it can be stated that contribution analysis attempts to explore and perhaps demonstrate “plausible association.” A thought echoed by M. Hendricks, as cited in Mayne who noted “...plausible association is whether a reasonable person, knowing what has occurred in the program and knowing the intended outcomes actually occurred, agrees that the program contributed to those outcomes” (Mayne, 2001, p.8).

Conclusion

Gaining an in-depth understanding of the literature related to best practices in impact measurement is the first step in building a credible methodology for measuring program impact. In addition, utilizing both contribution analysis and other appropriate techniques and approaches to add rigor increases evidence validity and credibility.

Furthermore, as noted by both the TBS and AG, issues need to be explored systematically, and when reporting results, “...paint a credible picture of attribution” (Mayne, 2004, pp.49-50) to increase the knowledge regarding program contribution. As well, AG research (2003) postulates that in most cases, we tend to measure with the aim of reducing uncertainty, rather than proving the level of contribution.

Moreover, if an alternative methodology to measure program impacts, such as building a credible performance story of attribution using all available evidence, has been explored, and if there are gaps in the story, the measurement methodology should recognize this. As

suggested by Mayne (2004, 2006), theory-driven performance measurement, such as contribution analysis, would enable a better understanding of just how programs are working and would support the notion of improved reporting of past performance as well as future performance. Thus, developing an alternative methodology would entail:

- providing a well-articulated presentation of the context of the program and its general aims, along with the strategies it is using to achieve those ends
- presenting a plausible program theory leading to the overall aims (the logic of the program has not been disproved and the underlying assumptions appear to remain valid)
- describing the activities and outputs produced by the program
- highlighting the results of the contribution analysis indicating there is an association between what the program has done and the outcomes observed; and
- developing reasonable explanations for outcome(s) that take into consideration external factors, or clearly demonstrating any influence such factors have had on the outcome(s) in question.

Also, the literature recognizes that measurement is becoming less about precision and more about increasing the overall understanding of program contribution in comparison to intended outcomes. The literature highlights the need to consider the broader array of factors at play that could contribute additional data and information, and have an impact on program results. Lastly, the literature bespeaks the need to keep an open mind when developing alternative methodologies—such an approach will provide a more credible demonstration of program impacts.

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Cash Reporting in Developing Countries: The Case of Nepalese Central Government

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Abstract

International organizations such as the International Accounting Standards Board (IASB), the International Federation of Accountants (IFAC), and the International Organization of Supreme Audit Institutions (INTOSAI) have in recent years acquired accounting expertise by gaining the power to command agendas and standards. The impact of these organizations in the accounting world seems greater and more influential in developing countries. Developing countries are left with few alternatives other than to accept the rules and standards developed and prescribed by these organizations, so as to ensure external legitimacy and financial support. In the context of developing countries, the implementation of accounting standards is seen as imperative in order to avert the possible financial and economical crisis. This paper aims to explore Nepal's move towards IPSASs, contributing to the literature concerning the role of international organizations in disseminating IPSASs in the developing world.

Key Words: Cash Basis IPSAS, Globalization, International Organization, Government of Nepal

Introduction

The wave of globalization has intensified since the 1970s and has altered the rules of the game for countries, international non-government organizations, and enterprises around the world (Cheema and Rondinelli, 2003). The term 'globalization' is defined variously in terms of the perceived shrinking of the world, the separation of time and space, and the interdependence of major national economies, amongst other things (Barrett and others, 2005). With the rise of globalization, countries have lost many of the prerogatives traditionally belonging to them; this especially applies to setting and imposing rules and standards within their defined territories. A variety of international organizations, financial institutions, non-government organizations, and standard-setting institutions have now emerged as international regulators and issue mandatory and soft (voluntary) rules and standards for sovereign states (Jacobsson, 2004).

Lehman (2005) argues that "globalization impacts on the sovereignty of national states and accounting is implicated". Accounting is probably the discipline demonstrating vividly how countries today are incorporated into a web of organized rule making and monitoring, and becoming less and less influential in their defined territories. In fact, the perspective of international accounting is being developed on the principles of economic rationality intended to achieve global harmonization and increase opportunities for economic globalization (Lehman, 2005, Barrett and others, 2005). The activities of international organizations provide further illustration of how and to what extent the operating context of accounting is being constructed, as well as how accounting is being used to create an amenable environment for globalization. International organizations such as the International Accounting Standards Board (IASB), the International Federation of Accountants (IFAC),

and the International Organization of Supreme Audit Institutions (INTOSAI) have in recent years emerged as experts in accounting by gaining the power to command agendas and standards. They have developed their image as international regulators and are attempting to create financial architecture that may be applied globally (Humphrey and others, 2006).

The impact of international organizations in accounting seems more influential and powerful in developing countries. Developing countries are left with few other alternatives than to accept the rules and standards developed and prescribed by these organizations in order to ensure external legitimacy and financial support. In the context of developing countries, the implementation of accounting standards is seen as imperative in order to avert the possible financial and economical crisis (Humphrey and others, 2006). Mir and Rahaman (2005), for instance, elucidate the scenario of developing countries by demonstrating the role of the World Bank in the introduction of IFRSs in Bangladesh. The World Bank has been applying international accounting standards as a benchmark in its reports on standards and codes (ROSC) to assess the strengths and weaknesses of financial management in developing countries and those in transition (Humphrey and others, 2006). Moreover, a body of literature exists demonstrating how accounting technologies are being used to problematize government activities, thereby encouraging the privatization of government assets - one of the key forms economic globalization has taken over the last decades (Uddin and Hopper, 2001, 2003; Uddin and Tsamenyi, 2005). However, with few exceptions (Adhikari and Mellemvik, 2010; Timoshenko and Adhikari, 2009), a lack of rigorous work has been done addressing the role of international organizations in promoting and disseminating International Public Sector Accounting Standards (IPSASs) in developing countries and countries in transition. This paper therefore aims at exploring Nepal's move towards IPSASs, contributing to the literature on the role of international organizations in disseminating IPSASs in the developing world.

The remainder of this paper is structured as follows. The next section provides a succinct review of the implementation of IPSASs, particularly the cash basis IPSAS in developing countries. The third section outlines some of the weaknesses envisaged in Nepalese cash accounting. The fourth section demonstrates international recommendations for accrual accounting, as well as the country's attempt to implement these recommendations over time. The remaining two sections address the emergence and implementation of the cash basis IPSAS at central government level. The final section provides some closing comments.

Developing Countries and the Cash Basis IPSAS

Substantial changes have occurred in the public sector around the world during the last decades. These changes, collectively referred to as New Public Management (NPM), are propagated as a major driving force for globalization in the public sector. NPM reforms emphasize new management practices through privatization, commercialization, decentralization, and output orientation, amongst other things (Connolly and Hyndman, 2006). Accounting change from the traditional cash basis to business-style accrual is perhaps the most widely discussed NPM reform, at least in the context of developed countries, drawing a great deal of arguments both in support of and against this trend (Carlin, 2005). Moreover, the case of the OECD member countries shows that the availability of multiple standards, including IFRSs, IPSASs, and statistical models have led to further challenges in the implementation and harmonization of accrual accounting (Gårseth-Nesbakk and Adhikari, 2009).

Although there are growing concerns about public expenditure management reforms, the change in the accounting system from cash to accrual has not yet been elevated on top of the public sector reform agenda in the majority of developing countries. Instead, the accounting system in the majority of developing countries is based either on the cash basis or the modified-cash basis and much attention has therefore been given to improvements in the existing accounting standards and procedures. IPSASs, particularly the cash basis IPSAS issued in 2003 and updated with the inclusion of additional requirements for the presentation of budget information in 2006 and the disclosure of external assistance information in 2007 are envisaged as a means of increasing the performance of accounting so as to reflect the internationally agreed minimum benchmarks of best practice in accounting and reporting (Sutcliffe, 2009; Subramanian, 2007).

The study delineates that the cash basis IPSAS, particularly the first part of the cash basis IPSAS, has drawn a great deal of attention while initiating public sector accounting reforms in developing countries, albeit very few countries have adopted the standards in all material aspects (Chan, 2005; Sutcliffe, 2009; Parry and Wynne, 2009). The study of the adoption of IPSASs in South Asia conducted by Adhikari and Mellemvik (2010) does provide one example. The study demonstrates that despite all countries in the region have expressed their interest towards cash reporting and have also agreed to achieve converge their standards with the cash basis IPSAS, each country has in fact been attempting to translate the IPSAS ideas in its own way so as to ensure compliance with specific local requirements (Adhikari and Mellemvik, 2010). This reality has also been acknowledged by the IPSASB's task force established to make recommendations on any modifications or additional guidance that should be considered with regard to the cash basis IPSAS (Sutcliffe, 2009).

Broadly speaking, the popularity of the cash basis IPSAS in the context of developing countries can be explained on at least three grounds. Firstly, international financial institutions such as the World Bank, the African Development Bank, and the Asian Development Bank, amongst others, which provide aid, grants, and loan to developing nations have recommended the use of IPSASs, as part of improvements in governance (Chan, 2005; Torres, 2004). This support of international organizations to IPSASs is underpinned by the fact that many of these international financial institutions are the main sponsors of the IPSASB's projects. A great variety of international organizations, ranging from OECD to NATO to UN have now adopted the accrual basis IPSASs for their financial reporting. Moreover, many of these organizations have participated in the project attempting to harmonize IPSASs with the statistical bases of financial reporting, including the IMF Government Finance Statistics Manual 2001 (GFSM 2001) (Adhikari and Mellemvik, 2008). The pronouncement of IPSAS 22 'Disclosure of Financial Information about the General Government Sector' does provide one example in this regard. Second, the IPSASs are being acknowledged by the accounting profession as the best government accounting alternatives for developing nations lacking internationally approved regulations and standards (Chan, 2005). The third factor is linked to the rise of globalization, as well as the increasing concerns with public sector accounting harmonization at a global level. Government activities in recent years are no longer confined to specific jurisdictions, as an increasing number of sovereign governments now raise, borrow, control, consume, and redistribute resources in international markets (Sutcliffe, 2003). The adoption of IPSASs, particularly part 1 of the cash basis IPSAS, has therefore become important for many developing countries in order to raise the quality of financial information reported to external users and to reap the benefits of economic globalization.

Moreover, there is also evidence showing that the cash basis IPSAS is being promoted to developing countries as a means of elevating their accounting capacity and competence needed for the adoption of accrual accounting in the long run. There is a myth, at least in South Asia, that the accrual basis of accounting cannot be implemented successfully without first complying with the cash basis IPSAS (Adhikari and Mellemvik, 2010). Indeed, it is worth mentioning that not everybody agrees with regard to the perspective that the cash basis IPSAS should be a top priority for developing countries attempting to reform their public sector accounting. Chan (2005) argues that a simpler form of accrual accounting, disclosing at least current fiscal resources and current liabilities is crucial for developing countries to discharge accountability to a wider group of stakeholders. The ECA (2003) has in its study also indicated that those countries in Africa, which have already adopted accrual accounting, are at the forefront of public management reforms. Similarly, Parry and Wynne (2009) argue that several concepts applied in the cash basis IPSAS, including the notion of control, consolidating financial information, third-party payment, amongst other things, have created challenges for the implementation of the cash basis IPSAS in the developing world. The following sections discuss why and how the cash basis IPSAS is being implemented in the government of Nepal.

Cash Accounting in the Government of Nepal: A Call for Reforms

The cash basis of accounting has been used in the government of Nepal since the late 1960s. Presently, government accounting is regulated by three norms, 'the Interim Constitution of Nepal 2007', 'the Financial Procedures Act of 1999' and 'the Financial Administration Regulations of 2007'. An essential part of the Constitution is probably the incorporation of a provision demanding the results and performance of budgetary expenditures. Alongside the financial plans, government entities are therefore obliged to present the accounts of goals achieved from previous spending while submitting their budget proposals. However, the study shows that this requirement of reporting on physical and goal achievements has never been monitored in practice (World Bank, 2002). As a result, despite the existence of the impressive norms, a lack of compliance along with the poor implementation of these regulations has significantly undermined public sector financial accountability in Nepal (ADB, 2005; IMF, 2007).

Indeed, having been developed on the cash and budgetary principle, accounting of fixed assets, liabilities, long term obligations, and commitments etc. are beyond the scope of Nepalese government accounting. Although the accounting act and regulations have allowed government entities to recognize some debtors, particularly staff advances and creditors (mainly suppliers not paid until the next fiscal year), the accounting system does not have any provision to recognize these items in financial statements (World Bank, 2002, 2007; IMF, 2007). In this vein, the accounting system is unable to connect expenditures with results, outputs, and outcomes to be attained through those expenditures, as demanded by the Constitution and financial regulations (World Bank, 2002).

The World Bank (2007) states that although claimed to be cash accounting, the operation of accounting has, to a large extent, been inconsistent and incompatible with the requirements of cash principles. Some of the weaknesses of Nepalese government accounting include the way inventories and advance payments are treated, the omission of 'off budget' transactions, and the absence of accounting policies (ADB, 2005). Advance payments and inventories are considered as expenditures for the fiscal year in which they are procured and as revenues of the year in which they are recovered (Adhikari and Sharma, 2006). The accounting

statements exclude revenues and expenditures incurred through extra budgetary funds, including the road maintenance fund, heavy equipment fund, health tax fund, and alcohol control fund, etc. In fact, such off-budget expenditures from these funds account for about 0.4% of GDP annually (ADB, 2005).

Another weakness of Nepalese government accounting is the absence of a provision allowing the recording and reporting of non-cash items included in the budget such as commodity grants and loans, technical assistance received from external donors, and other direct payments offered by donors. The ADB (2005, p.35) claims that more than \$100 million every year provided by donors in the form of technical assistance is not included in the accounting statements. This is also seen as a factor discouraging donors from using the government's accounting and reporting system while making a decision for reimbursements. It is thought that 3-4% of development spending is disallowed for reimbursement every year due to inadequate accounting and reporting. In addition to this, the Financial Comptroller General Office (2008) states that the accounting system in place is insufficient to track, consolidate, and report arrears. The Auditor General's Office (2008) has recorded approximately 10.78% of the total audited amounts of the fiscal year 2007/2008 as irregularities and stated that approximately 4.90% of the total irregularities are yet to be settled.

Another shortfall of Nepalese government accounting is that accounting statements and reports are generated on an annual basis and very often these reports do not present cumulative expenditures incurred or incomes generated for more than a year. Along with this, the absence of standardized forms and formats has led to considerable ambiguities in the consolidation of government expenditures, revenues, debts, reimbursements, and investments in the annual statements. It is apparent that the audited reports, issued by the Auditor General's Office, exclude basis accounting policies, assumptions, and explanatory notes. Given these drawbacks, comprehending government accounting reports actually presents a real challenge. This complication in reading financial statements is further aggravated by a lack of subjective analysis and interpretation of accounting numbers. The use of accounting data for planning and decision-making by both government and development partners is consequently rare (Adhikari and Sharma, 2006).

International Recommendations for Nepalese Government Accounting Reforms

Both the government and international organizations have in the past emphasized the need for accrual accounting in order to ratify the aforementioned limitations and to improve the quality of government accounting (Adhikari and Mellemvik, 2008). Initially, the notion of accrual accounting was linked to the successful implementation of program budgeting. In 1987/88, the Financial Comptroller General Office (FCGO) together with the Canadian experts initiated an accounting and auditing reform project. A main task of the project team was to provide alternatives for facilitating accounting change and introducing program budgeting (AGO, 1989). The project team developed and presented new accounting and budget codes with a view to underpinning the implementation of accrual accounting and program budgeting (Adhikari and Sharma, 2006). According to Niroula (1991), the new accounting codes, techniques, and classifications designed during the project period were formally endorsed for use on May 31st 1989 and introduced as a trial in approximately ten development programs during the following year. The dissemination of these new accounting and budgeting measures came, however, to a halt after some months without any substantial improvements in financial administration. Inadequate resources and technical skills, and a

lack of government commitment were pointed out as the main causes for the failure of this project (Niroula, 1991). Despite the failure of this project, another study on Nepalese public finance conducted in collaboration with the Asian Development Bank in the late 1990s again emphasized the need for accrual accounting and accounting standards (HMGN, 2005). There is no evidence to suggest that the results of this study were achieved.

Table 1: Expenditure and Revenue at the Beginning of the New Century

(see ADB, 2005: 6)

Item	Fiscal Year 1995/96 - Fiscal Year 1999/2000 Average (Rs. billion)	Fiscal Year 2001//02 (Rs. billion)
Revenue	34.27	48.89
Total expenditure	55.85	79.84
Regular	27.70	42.77
Development	28.15	37.07
Deficit	-21.58	-30.94
Financing Development Expenditure	28.15	37.07
Revenue Surplus	6.57	6.13
Domestic Borrowing	5.68	12.14
Foreign Assistance	15.90	18.80

The escalating Maoist insurgency at the beginning of the new century led to a budget crisis in the government of Nepal. Earnings declined while at the same time expenditures and debt service payments elevated, making the government more dependent on external aid, i.e. from around 50% to 70% for financing development activities (table 1). The government was under pressure to bring about reforms in financial management in an integrated approach covering planning, budgeting, accounting, and internal control, amongst other things, as part of the lending conditions (World Bank, 2002; ADB, 2005). In 2002, the government declared broader public finance reforms by introducing the Medium-Term Expenditure Framework, Immediate Action Plan, Performance Reporting for development projects, Public Expenditure Tracking Survey, and Performance Auditing, just to name a few (Adhikari and Mellemvik, 2008a).

In government accounting, emphasis was put on improving the existing cash basis of accounting, developing and implementing accounting standards corresponding to international standards, and sketching a realistic timetable for a transition towards accrual accounting in the long-run (World Bank, 2002, p.21). In 2004, a committee was formed by including professional accountants representing the Institute of Chartered Accountants of Nepal, the Accounting Standards Board, and the Auditing Standards Board and government officers representing the Ministry of Finance, the Financial Comptroller General Office, and the Auditor General's Office. The committee was given the task of providing recommendations for public expenditure management reforms, including accounting reforms (HMGN, 2005). The committee in its report submitted to the government in 2005 emphasized the need for accrual accounting and presented a five-year road map for transition towards accrual accounting. However, both government and international organizations were in a position to improve and strengthen the operation of cash accounting prior to initiating a step towards accrual accounting. A joint review report of the government, DFID, and the World Bank on Nepalese financial accountability, released in 2005, justified this position. The report urged the government to prioritize improvements in existing cash accounting - rather

than taking a step towards accruals. The Asian Development Bank, in its Nepalese public management assessment report of 2005, expressed a more or less similar opinion emphasizing the need for improvements in cash accounting by adopting IPSASs and GAAP practices. The reports and recommendations of international organizations published in 2005 significantly undermined the idea of implementing accrual accounting first embarked on by the government of Nepal during the 1980s.

A Move towards Public Sector Accounting Standards

In 2005, the Accounting Standards Board (ASB), an independent organ established by the government in 2003 to pronounce accounting standards for private enterprises, made public its intention to initiate work on Nepalese public sector accounting standards in line with IPSASs. The Board launched a feasibility study of implementing IPSASs in Nepalese public entities by mobilizing its own resources and expertise. Interestingly, at the same time, the World Bank also declared a gap analysis of Nepalese public sector accounting and auditing standards by taking into account international standards. This gap analysis was part of the World Bank's project to help South Asian countries implement more effective public financial management. The World Bank appointed three professional accountants representing the Institute of Chartered Accountants of Nepal as local consultants, and formed a task team by incorporating its own local and international public sector specialists. The consultants were responsible for establishing contact with government agencies, distributing the diagnostic questionnaires to major stakeholders and gathering their viewpoints on existing Nepalese accounting and auditing standards, and sketching a draft assessment report. The task team was involved in comparing the identified gaps between Nepalese and international standards and providing inputs in finalizing the report.

In 2006, the ASB was able to receive some financial assistance from the National Planning Commission under the Economic Reform Project sponsored by the World Bank in order to initiate a public sector accounting standards project. Although the Board had initially announced that it would pronounce both the cash and the accrual basis of accounting standards and let the government decide which standards to follow, the lack of funding confined the Board to focusing only on the cash basis standards. The Board appointed a local consultant to prepare a draft of the cash basis Nepal Public Sector Accounting Standards corresponding to IPSASs. At the same time, a steering committee was formed under the Chairman of the Board by including its members, representing both the government agencies and professional bodies to supervise the work of the consultant and to convince the government of the need for accounting standards. The World Bank and other international monetary institutions had expressed full support for the public sector accounting standards project launched by the ASB.

The attempts of the ASB and the World Bank, albeit conducted separately, had seemingly helped develop a positive attitude towards international public accounting standards in the government of Nepal. In fact, the World Bank report of 2007 comparing Nepal public sector accounting and auditing standards with international standards acknowledged the standards setting project undertaken by the ASB claiming that implementation of the cash basis IPSAS would provide Nepal with the opportunity to update its accounting so as to reflect the internationally agreed minimum benchmarks of best practice in cash accounting and reporting. A series of seminars were organized both by the World Bank and the ASB in order to develop a broader consensus on government accounting reforms, particularly the adoption of the cash basis IPSAS. Through these seminars and discussions both the Board and the

World Bank were able to demonstrate to the government stakeholders the areas in which Nepalese government accounting did not comply with international requirements and how these shortfalls would be tackled by adhering to the cash basis IPSAS. Moreover, these two organizations argued that the use of the cash basis IPSAS would provide a means of achieving the longer-term goal of adopting the accrual basis IPSASs (Adhikari, 2007). The discussions and seminars organized by the Board and the World Bank had also proved fruitful in terms of deciding how to initiate the process of pronouncing and implementing public sector accounting standards in Nepal. The government stakeholders were convinced of the need for developing and implementing public sector accounting standards corresponding to the IPSASs through the wider participation of all concerned agencies, including professional accounting institutions, accounting experts, and government stakeholders.

In 2007, as demanded by the accounting professionals and international organizations, particularly the World Bank, the government officially handed over the task of pronouncing public sector accounting standards corresponding to the cash basis IPSAS to the ASB. In fact, Nepal's efforts towards public sector accounting standards have been acknowledged as a model practice in South Asia due to the wider participation of professional accounting agencies, public sector accounting experts, and government representatives in the reform process (Guragain, 2008). It has been expected that the involvement of these major stakeholders in the process of developing and implementing accounting standards would help the country update the standards on a regular basis, as per the amendments of the IFAC.

Implementation of Nepal Public Sector Accounting Standards

The public sector accounting project undertaken by the ASB gained further importance after the Financial Comptroller General Office (FCGO), issued the PEFA report for fiscal year 2005/2006 in 2008. A PEFA benchmark for Nepal based on the PEFA guidelines measured 31 indicators, including three donor-specific indicators related to public financial management (FCGO, 2008). Each indicator was assessed and obtained a score ranging from A to D (highest to lowest) using M1 and M2 methodology prescribed in the PEFA guidelines. The PEFA report conceded the imperativeness of adopting public sector accounting standards to raise the score on a number of PFM indicators. The government was requested to give priority to the implementation of public sector accounting standards by incorporating the latter in its immediate action plan.

In 2008, the ASB initiated the process of pronouncing Nepal public sector accounting standards by hiring a local consultant - a retired Financial Comptroller. The consultant worked closely with the public sector sub-committee and the Board in the formulation of a draft report. The draft of Nepal public sector accounting standards was circulated to the stakeholders for comments and presented to wider groups, including international organizations through seminars and workshops. Apart from some minor amendments in the preface, the introduction, some issues such as the basis of presentation, reporting entities, reporting currency, cash, other cash receipts, and financial statements, amongst other things, Nepal public sector accounting standards are claimed to be a replica of the cash basis IPSAS updated by the IFAC in 2006 and 2007 (ASB, 2009). However, a major deviation between Nepal public sector accounting standards and the cash basis IPSAS seems to be the preparation of financial statements, as the former allows government entities to adhere to the government budget codes, which do not actually correspond with the requirements laid down in the cash basis IPSAS.

Nepal public sector accounting standard (NPSAS) pronounced by the Board was approved for implementation by the government on 15th September 2009 (ASB, 2009). The PEFA secretariat, a unit at the FCGO established to oversee the implementation of the action plans incorporated in the PEFA report has now been given the responsibility of implementing the NPSASs in government entities in cooperation with the ASB. The FCGO has attempted to prepare the annual accounts of the government of Nepal in accordance with the NPSAS in 2010/2011. Moreover, the government has been preparing the comparative statement of budget to actual amounts, which was made affective by the IPSASB in January 2009. In addition to this, the PEFA secretariat has also announced reforms in other areas in government accounting, including the launch of a single treasury accounts system and the integrated government financial management information system in financial and technical assistance of the IMF and DFID, respectively to help implement the NPSAS. While the single treasury accounts system is meant to help the FCGO reinforce control over the budget execution process, the integrated government financial management information system intends to generate both the financial and physical information of each spending unit by using a computer-based system so as to implement the information in the decision-making process (MoF, 2008). The ADB (2009) has acknowledged the progress made in the implementation of NPSAS and claimed that the introduction of the single treasury account and an integrated information system would further ease the formulation of consolidated whole of government financial statements, one of the key requirements of IPSASs. The reports and studies published both by the government and international organizations state that the successful implementation of these reforms would lead Nepal to the next step of public sector accounting reforms focusing on moving towards accrual accounting and the accrual basis IPSASs.

Conclusion

This study shows an interesting case of how public sector accounting in developing countries is being influenced by international organizations, particularly the World Bank and professional accounting institutions. Both international organizations and professional accountants have envisaged IPSASs as a de facto benchmark for improving, evaluating, and harmonizing the government accounting systems of developing nations. To be more precise, the adopting of IPSASs has now become a way of fostering economic globalization in the context of developing countries. The IPSASs are claimed to be important for raising the living standard of citizens in the developing world through increased international trade, foreign direct investment, and improved accountability. Professional accounting institutions and accountants acknowledge the importance of accounting standards in order to promote professionalism in the government sector.

On the other hand, Nepal seems to be very active in adopting new accounting and budgeting ideas propagated by international organizations. This emulation can be understood as the country's attempt to seek and ensure resources and legitimacy from its development partners and international organizations. However, at the same time, the case of Nepal shows that the ideas and practices inheriting the interests of development partners and international organizations often do not correspond to the needs of a specific local context. Nepal's failure to implement program budgeting and accrual accounting, despite several attempts over a period of time, can here serve as an example. The idea of accrual accounting has now been replaced by the cash basis IPSAS. In fact, the way Nepal has approached the cash basis IPSAS through the wider participation of government stakeholders, accounting experts, and

professional accounting institutions has been highly praised by the international community. However, a question has been raised as to whether the decision to implement the cash basis IPSAS actually enhances the quality and consistency of financial information reported by the government of Nepal.

The main reason for this doubt is that the cash basis Nepal public sector accounting standard is being implemented without any endeavors to control off-budget expenditures and settle the existing arrears. The existing accounting system is still incapable of reflecting information regarding third party payments, as the majority of donors and development partners adhere to their own accounting procedures and, in many cases, make direct payments to suppliers, as per the requirements of their national regulations. Moreover, controlling entities are yet to be defined in the government of Nepal, as many boards, funds, public enterprises etc. lie beyond the scope of government accounting. Indeed, this has raised the question of whether the government will be able to produce consolidated statements - as stated by the cash basis IPSAS. Parry and Wynne (2009) argue that the preparation of consolidated government financial statements is a relatively recent innovation in the public sector. Countries such as the USA and the UK have struggled to implement such consolidated statements, let alone Nepal. Moreover, there is still a lack of consensus regarding which entities are to be included in consolidated statements and whether such statements are really needed at the whole of government level (Brusca and Montesinos, 2009).

In addition to this, although the ASB and the Financial Comptroller General Office are empowered to develop and implement standards respectively, there exists neither oversight body nor training institution to boost the competence of government accountants. It is also worth mentioning that developing and implementing standards in private enterprises and achieving convergence with the IFRSs are still on top of the priority list of the ASB. The Board has already clarified that it lacks both the funding and the authority to follow up the implementation process of the standards. As stated by Sutcliffe (2009), the aforementioned institutional, capacity, and other technical constraints are likely to provide a major impediment in the implementation of the cash basis IPSAS in Nepal.

More importantly, what is crucial for Nepal at this moment is perhaps to improve its accounting system so as to take account of 'off budget' expenditures, accounting arrears, third party payments, advances, and deposits, just to mention a few, rather than to initiate a step towards more sophisticated accounting tools such as IPSASs. The idea is that although the adoption of IPSAS is important, both to update the accounting system and to reap the benefits of economic globalization, this should constitute the second step or priority in reforming Nepalese government accounting. As stated by Parry and Wynne (2009), before preparing consolidated government financial statements using the IPSASs, it is more important for the government to provide timely financial statements demonstrating the way the budgets have been implemented. The financial statements should be produced on time and should be simple enough for citizens to use them in order to hold the government to account (Parry and Wynne, 2009). It is equally imperative to maintain financial integrity, or the fight against corruption and fraud, by improving accountability to Parliament and ultimately to the citizens, prior to focusing on the external accountability issues which IPSASs deal with. Similarly, adequate training for government accountants and auditors regarding the use of IPSAS is of the utmost importance - both to implement and sustain the cash basis IPSAS. It is likely that the cash basis IPSAS may experience the same fate, as accrual accounting and program budgeting in the 1980s and 1990s, if the former is

implemented without addressing the aforementioned technical, institutional, and capacity issues.

Last but not least, it is also worth mentioning that the IPSASB should tackle some of the challenging issues envisaged in the implementation of the cash basis IPSAS in the developing world, including the preparation of consolidated financial statements, the definition of accounting entities, the treatment of third party payments, and the recognition of some accrual items, for instance, advances, deposits, unpaid bills etc. while reviewing the cash basis IPSAS. Without addressing these issues, the cash basis IPSAS, as stated by Parry and Wynne (2009), is likely to remain merely a standard - rather than an established international practice.

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A Project Management Perspective on the Adoption of Accrual-Based IPSAS

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Abstract

Moving from cash or modified accrual-based accounting to full accrual accounting under International Public Sector Accounting Standards (IPSAS) can be a challenging endeavor. Ensuring proper convergence to accrual based IPSAS entails not only a vast amount of work in the accounting arena of any given public sector entity or government but also often major changes in business processes and practices. By using a project management approach in adopting IPSAS an organization/government can make certain that, for example: the project gets necessary support from top management; a sound governance structure is put in place; communication and training plans are developed and managed; new accounting policies are written; and necessary alignment of business processes will take place in a timely manner. Sound project management may facilitate cost-effective adoption of IPSAS and a broader strengthening of business practices across the implementing organization/government.

Key words: Project management, IPSAS, accrual accounting

Introduction

In our contemporary world there is a clear push towards furthering the conversion to accrual accounting among governments¹ and public sector entities (however, this has only been acted upon in a few countries). This movement is pursued, among others, by the international standard setter, the International Public Sector Accounting Standards Board (IPSASB)², issuer of International Public Sector Accounting Standards (IPSAS)³. In a recent communication IFAC has, for example, issued a series of recommendations⁴ for consideration by the G20 countries at their meeting in June 2010. IFAC specifically points out that:

“many governments adhere to the cash basis of accounting, IFAC and the International Public Sector Accounting Standards Board (IPSASB) encourage the adoption of accrual-based accounting as it reinforces the principles of transparency and accountability. Under the accrual basis of accounting, transactions and other events are recognized when they occur (and not only when cash or its equivalent is received or paid). Therefore, transactions and events are recognized and reported in the financial statements of the periods to which they relate.” (IFAC, 2010)

¹ Only approximately one third of OECD countries have actually adopted full accrual accounting either for the whole of government accounts or at ministry or agency level (Pretorius & Pretorius, 2008, p.27).

² International Public Sector Accounting Standards Board (IPSASB) is a standard-setting board under the International Federation of Accountants (IFAC).

³ IPSAS were first developed in 1996. The IPSAS are available free of charge on IFAC's website, see www.ifac.org.

⁴ IFAC has focused the recommendations on the need for greater transparency and accountability in public sector finances, and built on the previous submissions IFAC provided to the G20 in March and July of 2009 (see www.ifac.org).

IPSAS are, more specifically, financial reporting standards for application by governments (other than for government business enterprises (GBEs⁵) and other international public sector entities, such as the European Commission (EC), the Organisation for Economic Co-operation and Development (OECD) and the family of organizations within the United Nations. In an era when IPSAS is strongly promoted at the global level it would seem profoundly relevant to consider methods through which new accrual-based accounting standards can be implemented in public sector entities.

The implementation of IPSAS (or another authoritative and recognized accounting standards) is often seen as an integral part of public sector entities' quest to strengthen governance.⁶ The convergence to accrual accounting within the public sector is often understood within the broader context of wanting to strengthen efficiency and thus New Public Management (NPM). United Nations Educational, Scientific and Cultural Organization (UNESCO) has in the context of their implementation of IPSAS emphasized that since public entities "manage public funds, these organizations have to operate with demonstrable integrity and professionalism. By providing a more uniform, transparent and commonly accepted standard, IPSAS helps public entities to meet this requirement" (UNESCO, 2008, p.1). Some of the challenges in this process are embedded in the informational requirements of the vast cast of actors that have a stake in the change of accounting practices. Public entities are particularly exposed to the reactions and judgment of numerous stakeholders such as civil society, the media and governments, before, during and after the implementation of accrual-based accounting standards, such as IPSAS. Making the change to accrual accounting in public entities and in particular within governments is dependent on political support and on the necessary legal provisions being made.

Today there are 26 IPSAS⁷ under the accrual basis and one covering cash based accounting. Each IPSAS prescribes authoritative requirements that may require further adaptations to deal with the requirements of the organization/institution in which they are implemented. Application of all standards is mandatory for fully IPSAS compliance.

Accrual is a method of accounting (often called accrual accounting) whereby economic activities (rather than cash flow) of financial events are considered. Two complementary principles are used together to determine the point at which expenses and revenues are recognized. According to the revenue recognition principle, revenues are realized and earned, whether or not they are received in cash. Jointly, according to the matching principle, incurred expenses are matched to related (recognized) revenues, whether or not such expenses are actually paid in cash. In practice these accounting changes will have a material impact on the format and content of the financial statements produced in the future. The

⁵ GBEs as defined by the IPSASB are profit-oriented entities. Accordingly, they are required to comply with International Financial Reporting Standards. A GBE: 1) is an entity with the power to contract in its own name; 2) has been assigned the financial and operational authority to carry on a business; 3) sells goods and services, in the normal course of its business, to other entities at a profit or full cost recovery; 4) is not reliant on continuing government funding to be a going concern (other than purchases of outputs at arm's length); and 5) is controlled by a public sector entity.

⁶ IFAC Study 13 on 'Governance in the Public Sector: A Governing Body Perspective' highlights the need for good governance in the public sector (IFAC, 2001). Study 13 draws on the empirical research by Kaufman et al. (1999) pointing to extant evidence on the strong causal relationship between good governance and better development outcomes (p.1).

⁷ The number of accrual based IPSAS will soon increase as the IPSASB in 2009 closed the comment period for a number of draft IPSAS.

changing accounting principles are expected to increase reported assets, and liabilities are expected to increase substantially. These changes will be the result of, for example, full recognition of liabilities (including employee benefit obligations such as after service health insurance, annual leave and repatriation grants) and recognition and depreciation of fixed assets such as buildings, vehicles, furniture and equipment.

Today full accrual basis is frequently referred to as best accounting practice both in the private and in the public sector.⁸ However, a large proportion of the literature dedicated to accrual accounting in the public sector focuses on whether it is actually beneficial or not. Studies on the use of accrual-based accounting in the public sector (in this case on the government of the United Kingdom) have reported that accrual-based accounting has assisted decision-makers to better understand how they are using their financial resources by, among other things, offering more detailed information to manage assets and liabilities. This has assisted decision-makers to identify underutilized assets and to dispose of those no longer required (National Audit Office, 2008). Other studies have taken a more critical approach to accrual accounting in the public sector, pointing to the fact that there is a lack of empirical research indicating that benefits outweigh costs in moving from cash based to accrual-based accounting (Wynne, 2007). Arguments are also being made that accrual accounting is based on a private sector model that is not appropriate for the public sector as it may divert attention away from the real issues (Christensen, 2007).

The focus of this paper is of a more practical nature, concerned as it is with the project management practices that are required when implementing the accrual-based IPSAS. The accrual-based IPSASs are to a large extent and were applicable to the public sector, based on the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB). IPSAS, however, deal specifically with public sector specific financial reporting issues that are not dealt with in IFRSs.

There are numerous challenges for any organization or government moving from cash based accounting or modified accrual-based accounting.⁹ The work challenges facing any public sector entity seeking to implement accrual-based IPSAS lies not only in the accounting arena but also across all organizational processes as business practices have to be aligned with the new accounting requirements. The first important step in adopting accrual-based IPSAS is thus to recognize that it is a project that reaches well beyond that of accounting in any given public sector entity. The scope of a project to adopt accrual-based IPSAS will thus affect most or all business practices and also external stakeholders, who will ultimately receive new information in the annual financial statements. This means that successful project management of an IPSAS implementation needs to include consideration of and involvement and communication with all internal and effected external stakeholders of the public sector entity. It is thus crucial that the project manager is attentive to the nature of the project, combines demanding accounting work with the broader interests of the public sector agency. This paper seeks to provide an overarching introduction to some good project management practices that can be applied when adopting accrual-based IPSAS. In order to enable an understanding of a project management approach to adopt accrual accounting in the public

⁸ It should be noted that although accrual accounting practices are spreading within the public sector, numerous governments that have implemented IPSAS have opted for the cash basis IPSAS (IFAC, 2008).

⁹ Modified accrual accounting is a governmental accounting method where revenue is recognized when it becomes available and measurable. Expenditure is typically recognized in the period in which the liability is incurred.

sector, this paper draws upon relevant literature as well as a multiple-case study of international institutions¹⁰ that have either adopted accrual-based IPSAS or are in the process of doing so. The primary empirical materials originate from document reviews and interviews. The exemplary model (figure 3) on how the adoption of accrual-based IPSAS can be implemented in an organizational or governmental context through a project management approach is based upon data on the project management processes from the institutions included in this study in combination with PRINCE2 project management methodology.

The paper is structured into four key segments: a review of relevant literature, adopting accrual-based IPSAS hereunder; governing the implementation process, pre-conditions for converging to accrual accounting, the project management process, and continuous project management activities. The paper closes with some concluding comments.

A review of relevant literature

The debate on the use of accrual accounting in the public sector has been ongoing for nearly two decades. In 1993 the OECD expressed a need to adopt accrual accounting to facilitate and include “accounting and reporting on the allocation and use of total economic resources (both cash and non cash) at the disposal of managers” (p.3). Converging to accrual accounting within the public sector is often associated with a quest to strengthen efficiency and accountability (i.e. NPM reforms). Nevertheless, despite numerous governments and other public sector entities embracing accrual accounting, a number of studies have criticized such reforms of accounting systems in the public sector. Chan (2003), for example, has raised the issue of appropriateness of public sector to uncritically imitate private sector practices (see also Newberry and Pallot, 2005; Johnsen and Lapsley, 2005; Benito and others 2007; Wynne, 2007). Johansen and Lapsley (2005) suggest that the public sector accounting system need innovative approaches that goes beyond that of imitating the private sector. Benito and others (2007) emphasize that it is necessary that public accounting conform to the informational requirements of its cast of actors. These studies reiterate the idea that reform ‘rarely satisfies the prior intention of those who initiate it’ (March & Olsen, 1989, p.65). In practice uncertainties over the outcome of adopting accrual accounting in any governmental or organizational setting frequently create resistance and skepticism to such accounting changes. Taking into account such inherent resistance and skepticism when planning the adoption of new accounting practices is critical. In this context studies that deal with the organizational and implementation aspects of the adoption of accrual accounting are highly relevant.

Another implicating factor for any change within the public sector is that of the political nature of many of the activities undertaken within governments and international organizations. In practice this means that political influences will frequently be at work at the various stages of both the decision to implement accrual accounting and the subsequent implementation process.

A number of studies have been carried out to explore change in public sector accounting practices. Important contributions to understanding public sector accounting change have built on Luder’s governmental Accounting Innovation Model also known as the Contingency Model” (Luder, 1992). The key intention of Luder’s contingency model is to allow for a better understanding of the factors that affect implementation of public sector accounting

¹⁰ Five institutions have been researched.

changes and innovations. Through his model Luder explains change by interactions between four modules: stimuli, structural variables of information users, structural variables of information producers, and implementation barriers (Luder, 1992). The studies carried out, in large drawing on the contingency model, were however criticized by Ouda (2004) for suffering from “shortcomings, such as: 1) black boxes, 2) the lack of treatment of government accounting innovations from a comprehensive perspective, 3) emphasis of the context of innovations rather than their content, 4) greater concern with the initiation phase rather than the actual transition phase, and 5) being considered as explanatory models rather than prescriptive models” (p.63). An overall concern that the literature did not provide any understanding of how an implementation framework could be formed to put accrual accounting into practice was raised (Ouda, 2004). In order to address such shortcomings Ouda introduced a basic requirements model for successful implementation of accrual accounting in the public sector (Ouda, 2004). The basic requirement model proposes a number of critical assumptions that need to be present for successful transition to accrual accounting.¹¹ Drawing on the assumptions outlined Ouda concludes that “successful implementation of accrual accounting in the public sector and attaining of the target benefits of that implementation demands efforts of different parties to create conditions appropriate for its introduction and to put it into practice” (Ouda, 2004, p.82). An important contribution of Ouda’s model is its emphasis on the fact that there is a need for a number of factors and changes that can support and justify the introduction of accrual accounting.

Building further on the basic requirements model, a more comprehensive prescriptive model of the transition to accrual accounting in central government emphasizes that reform processes emerge as a result of the collaboration of a set of factors, namely: context factors such as culture; behavioral factors such as willingness; content factors such as the treatment of specific accounting issues; and capacity factors such as IT (Ouda, 2010, p.64). Echoing the project management approach to adopt accrual accounting, Ouda (ibid.) also points to the importance of carrying out the implementation in phases “with a clear plan of progress established from the outset” (p.90). This paper takes a closer look at how such a plan can be established in an organizational / government setting through the use of project management methodology.

Adopting IPSAS - A project management perspective

Making the transition from cash (or modified cash) accounting to accrual accounting presents a number of major technical, administrative, cultural and communicative challenges. This paper suggests that these challenges can be managed, in a practical context, through the use of project management methodology. The accounting literature as described provides insight into the complex nature of instituting accounting changes within the public sector. This insight may serve as important input throughout the implementation process, and also as

¹¹ The assumptions are: 1) the more correspondent the public administrators’ culture with the culture upon which the governmental accounting system is premised, the more easily change occurs; 2) support from leaders in the public sector, both political and within the bureaucracy, support from professional and academic bodies; 3) establishment of intensive communication strategy; 4) willingness and qualifications of the staff required to develop and implement the accounting changes; 5) consultation and co-ordination with the governmental entities that will apply the accrual accounting; 6) estimation of the adoption costs is critical in determining the financing required for the implementation process; 7) overcoming and tackling of some specific accounting issues in initial phase; 8) building an appropriate information technology capacity (Ouda, 2004, p.81-82).

critical contribution to considering pre-conditions for converging to accrual accounting as well as factors to consider post implementation.

Pre-conditions for converging to accrual accounting

Governments and public sector entities often embrace features of political or bureaucratic environments. Within political and bureaucratic environments a number of implementation barriers may come into play that can increase the cost or time required to implement accounting change (Christensen, 2002). A study of the New South Wales adoption of accrual accounting highlighted a number of specific implementation barriers, such as “inadequate public sector accounting expertise and also flawed accounting records, especially asset records” (ibid., p.101). Recognizing such implementation barriers and the specific features of political environments can aid our understanding of some of the pre-conditions for converging to accrual accounting. The following pre-conditions are beneficial for any implementing entity to consider (see also Khan & Mayes, 2009; Ouda, 2010); the existence of an acceptable cash accounting or modified cash accounting based system, political support, support of the legislature, technical capacity and adequate information systems. Failing to consider extant pre-implementation factors when moving towards a convergence to accrual accounting may place an implementing entity at risk of having a limited understanding of the interactions at stake between the technical accounting, legislative, political, and management aspects, which may in turn increase the risks at stake throughout the implementation and post-implementation phases.

Initiating a project management process

Two of the most substantial challenges, for most public sector entities, seeking to adopt accrual-based IPSAS are those of keeping the implementation process within a reasonable timeline and, relatedly, adopting the standards in a cost-effective manner. It is crucial that the change process entails senior management support, risk management, quality assurance, communication, internal and external stakeholder involvement and support. The inherent political influences that are at play during the various stages of both the decision to implement accrual accounting and the subsequent implementation process need to be recognized throughout the project management process. In addition, the success of the implementation of accrual-based accounting involves close integration of all practice areas (such as human resources, contracting, IT, and so forth) of the implementing entity (see Figure 1). Adopting accrual-based IPSAS will often entail new accounting rules, new IT tools and new work procedures as well as training for users within any implementing agency. Figure 1 illustrates, at a high level, the IPSAS implementation description at the EC.

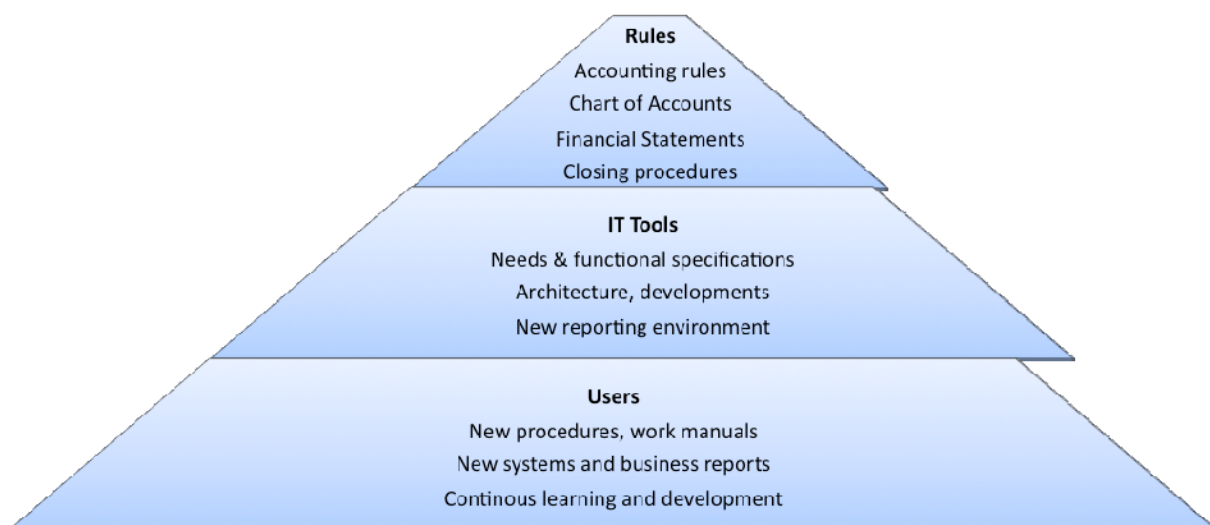


Figure 1. Change requirements (see also Gracia (2006)).

Important lessons from the introduction of accrual accounting among OECD countries are that: 1) the transition is not just a technical exercise, it requires culture change and needs to link with wider public sector management reforms; 2) the phasing of implementations needs to be carefully planned; 3) there is a need for greater accountancy skills and appropriate IT systems; and 4) the importance of communication, with all internal and external stakeholders should not be ignored or underestimated (OECD, 2002; Diamond 2002; Athukorala & Reid 2003; Pretorius & Pretorius, 2009).

A sound project management approach assists organizations in managing such challenges. The first step for any entity is naturally to select and define their project management methodology. This paper primarily draws on, but is not limited to, the principles of a public sector project management methodology, namely PRINCE2.¹² PRINCE2 refers to the second major version of 'Projects in Controlled Environments' (PRINCE) and is a registered trademark of the Office of Government Commerce (OGC) of the United Kingdom.¹³ Numerous international institutions are opting to draw on project management methods to manage the adoption of accrual-based IPSAS (see for example FAO 2009; UNICEF 2009; UNDP 2009)¹⁴. One example, of a organization who is drawing on PRINCE2 is the United Nations Development Programme (UNDP), which has recognized numerous benefits from drawing on an internationally recognized project management approach to manage their implementation of accrual-based IPSAS. They state in a briefing to their Executive Board that "IPSAS is being introduced according to PRINCE2", in this case the project has been set-up on the basis of three key pillars; policy, change management and IT (UNDP, 2009).¹⁵ The Food and Agriculture Organization (FAO) has also formalised its implementation of

¹² The most current revision was released in 2009 as part of the Prince2:2009 refresh project (to read more on this view, see www.apmg-international.com).

¹³ To read the full methodology, see '*Managing Successful Projects with PRINCE2*' (2009 Edition, Office of Government Commerce, United Kingdom).

¹⁴ Materials on the IPSAS implementation processes can be found at the respective websites of the cited organizations.

¹⁵ See www.undp.org.

IPSAS, which is being “planned, managed and monitored in accordance with the PRINCE2 best practice project methodology” (FAO, 2009, p.5).

A useful companion to any selected project management method is Study 14 on the ‘Transition to the Accrual Basis of Accounting: Guidance for Governments and Government entities (Second Edition,2003). This study highlights a wide range of transitional paths between cash and accrual-based accounting, making it particularly informative as a starting point for any entity that seeks to implement IPSAS.

Governing the implementation process

Once a public sector entity has considered and tackled critical pre-implementation conditions, such as, overarching political and stakeholder support, review of legislative requirements, implementation barriers and an overall review of capacity factors such as IT, the entity may proceed to initiate an implementation project for the adoption of accrual accounting. The key theme of this article is to suggest that such an implementation project may benefit from drawing on established project management methods. Following such a project management approach ensures that an entity implements accrual accounting within a clearly defined framework. PRINCE2, the project management method drawn upon in this study, describes procedures to coordinate human resources and activities in a given project. It defines how a project is designed and supervised. Prince 2 also addresses what to do if the project has to be amended, if it does not proceed and develop as originally intended. Prince 2 and other project management methods, divide any project into manageable stages, enabling efficient control of resources. A project management methodology should ensure that each process within a project is defined by specified key inputs and outputs and with specific goals and activities to be carried out. Working by pre-defined inputs and expected deliverables gives automatic control of any divergence from the plan. Prior to exploring the management of an implementation process of accrual accounting, drawing on a project management approach, the paper will consider the importance of ensuring proper governance of the implementation process.

Successful governance of the implementation process of accrual-based IPSAS requires a sound and supportive tone at the top. Formal project management methodologies, such as PRINCE2, include the set-up of a project board as an integral part of governing the project management process. A successful project requires a strong project board that ensures the right support and involvement of top management.

Tone at the top

A necessary first step towards adopting accrual accounting is to ensure the support from top management. Setting and transmitting the right tone at the top most often involving strong commitment from, for example, executive director, deputy executive director and Chief Financial Officer,¹⁶ is essential for the success on any implementation project. The tone at the top plays a crucial role in echoing the value and relevance of adopting new accounting standards throughout the public sector entity. The accounting literature has highlighted that changes in accounting systems and accounting innovations are frequently subject to resistance (Scapens, 1994). The right tone at the top signals management’s emphasis on the importance of producing more comprehensive financial reporting and greater disclosures for

¹⁶ Or equivalent titles.

stakeholders. It is a critical aspect of reducing resistance to changes in accounting systems brought about in the context of implementing accrual-based IPSAS. At an early stage in the implementation project it may be beneficial for management to frame and communicate to the organization not only their strong support for accrual accounting but also their commitment to manage the adoption of new accounting standards in a cost-effective manner and to manage the risks in the process. Securing a strong tone at the top prior to initiating a project will cultivate a positive attitude that signals management commitment to project excellence which ultimately motivates staff across the implementing entity to extract value out of the project. Lack of interest and involvement among top management can allow other activities to take priority which is ultimately not favorable to the implementation project and may lead to delays and a non-cost-effective adoption of accrual accounting practice.¹⁷

Project board

The project board is a governing mechanism accountable for the success of a project. It is critical that the project board members have the necessary authority and responsibility to make decisions and commit resources to the project. It is also beneficial if some project board members have a sound understanding of accounting and financial reporting when implementing accrual-based IPSAS. The board essentially delegates the day-to-day running of the project to the dedicated project manager.

The composition of the board will vary depending on the organization's operations, structure, geographical presence and the nature of the organization's activities. The structure of a board commonly includes a project executive, senior users and suppliers and the project manager.

The project executive is accountable for the project, supported by the senior user(s) and the senior supplier(s). The Executive's role is to ensure that the project is focused throughout its life cycle on achieving its objectives and delivering a product that will achieve the forecast benefits. The executive has to ensure that the project gives value for money, ensuring a cost-conscious approach to the project, balancing the differing demands of the business, user and supplier.

The senior users are responsible for specifying the needs of those who will use the final product(s). In the case of implementing accrual-based IPSAS, the final products are the IPSAS-compliant financial statements. Senior users are thus required to ensure user liaison with the project team and to ensure that the solutions developed within the project will meet user needs and regulatory requirements.

The senior suppliers represent the interests of those designing, developing, and implementing the project products. This role is accountable for the quality of products delivered by the supplier(s). The senior supplier(s) must have the authority to commit or acquire supplier resources as required. In some projects the user may share the design authority or have a major say in it. If necessary, more than one person may be required to represent the suppliers.

The project manager has the authority to run the project on a day-to-day basis on behalf of the project board within the constraints laid down by the board. The project manager is responsible for the day-to-day management of and decision-making for the project. The project manager's prime responsibility is to ensure that the project produces the required

¹⁷ Support of top management is broadly emphasized in the overall literature on project management (see, for example, Shehu & Akintoye, 2009).

products to the required standard of quality and within the specified constraints of time and cost. In the case of implementing accrual-based IPSAS the project manager will need a dual set of skills: an overarching understanding of IPSAS and accounting and an in-depth understanding of project management. Identifying an official with both sets of skills is often a challenging endeavour. An interviewee from a public sector entity which is in the process of implementing IPSAS expressed that “*appropriate human resources has been the single biggest implementation challenge*”. The interviewee however also indicated that much of the knowledge required was built up across the project management team “*as we went along*” and that a key outcome of the implementation process was the creation of in-house IPSAS expertise.

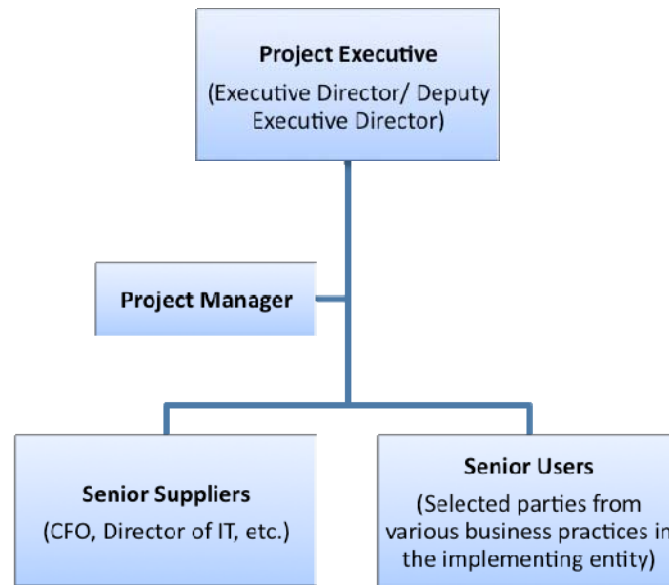


Figure 2. Project board structure.

In the case of implementing accrual-based IPSAS, one of the most important aspects in setting up the project board is to include the director/deputy director and or Chief Financial Officer (CFO) in the role of project executive (see figure 2). Depending on the implementing organization the Chief Financial Officer could alternatively serve as one of the senior suppliers as illustrated in figure 2.

The United Nations Children’s Fund (UNICEF), for example, emphasized in its business case¹⁸ that the project board comprised of UNICEF business process owners and representatives from various field offices (UNICEF, 2009). The Food and Agriculture Organisation (FAO), in reporting on their first IPSAS project board meeting¹⁹ note, in similarity to UNICEF, that various business process owners are included. In the case of FAO their project board includes the Directors of Finance division, Office of Programme, Budget and Evaluation and the Information Technology Division (FAO, 2007). In moving towards accrual accounting, in particular if the implementing entity uses (modified) cash accounting as a starting point, it is crucial that it is communicated across the organization that the project

¹⁸ The establishment of a business case is an integral part of the initiation phase of a project (cf. PRINCE2). UNICEF’s business case is available at www.unicef.org.

¹⁹ In November 2006.

is organization-wide and thus not limited to being an ‘accounting’ project. The nature of the project thus requires representatives from across business practices in any entity implementing accrual-based IPSAS.

UNICEF further states in its business case that its project board is chaired by their Deputy Executive Director (UNICEF, 2009). The presence of senior management at the executive level is significant in conveying the importance of the project across the organization.

For public entities that implement IPSAS it may also be important to consider appropriate geographical representation within the project board. In the case of UNICEF they have included representatives from various field offices. Considering inclusion of representatives from various geographical locations of the implementing entity will ensure consideration and coverage of business processes across the organization. In addition it will also ensure a motivation and involvement of staff across geographical boundaries.

The establishment of an effective project board is crucial to ensure that the adoption of accrual-based IPSAS produce visibility and drives accountability throughout the implementing entity.

The project management process

The first step under PRINCE2 is to write a business case²⁰ and project definition. The purpose of a business case is to describe the justification for establishing and continuing the project in question, making it the heart of any project. An integral part of defining the project is to establish a project resourcing strategy subject to approval by the project executive.

The focus of the business case is thus on outlining the rationale for the implementation of accrual-based IPSAS. This will address critical issues such as: why we need to implement new accounting standards/accounting methods; the benefits (both tangible and intangible) and risks; what are the potential costs; and an estimate of how long the project will take? The business case will be updated throughout the project process. When using a project management approach, such as PRINCE2, to adopt accrual accounting the implementation project is divided in to manageable components and phases as designed by the project manager. What is important to note is that the specific design and deliverables of each phase (such as in the example provided in figure 3) will vary based on the organizational and/or governmental context. The project plans must thus be designed to fit the needs and context of the implementing entity.

From a high-level perspective, adopting accrual-based IPSAS can be divided into a number of phases for example, an initiation stage, a requirements stage, a design stage, and an implementation stage as shown in figure 3. The aim is the production of IPSAS-compliant annual financial statements and an organization in which business processes, practices and regulations have been aligned with the new accounting environment.



Figure 3. Phases in the implementation process.

²⁰ The business case is an integral part of what PRINCE2 terms the Project Initiation Document (PID).

The purpose of the initiation stage is to complete the planning, scheduling and organizational aspects of the IPSAS implementation project. If the implementing entity follows, for example, the PRINCE2 methodology, the project will produce a standardized set of documents for start-up, implementation and closure of the project. This will provide a clear basis for the success of the IPSAS implementation.

The writing and approval of a business case will, following PRINCE2, be an integral part of the initiation stage. For an entity that draws on a project management method when adopting accrual accounting it will thus become compulsory to attend to the intentions of those who initiate new accounting practices through the establishment of a business case. A well defined and controlled business case and subsequent project management processes may thus strengthen implementing entities ability satisfy the intentions of those who initiate the change of accounting practices. In addition a project management method such as PRINCE2 will enforce communication to all relevant stakeholders on the underlying motives of accounting reform. This supports a continuous awareness of the importance that the accounting reform fulfills its original planned intentions.

At the end of the initiation stage a Project Initiation Document (PID) (a PRINCE2 term) is to be written and subsequently approved by the project board. The PID typically includes a series of other documents, including the business case, terms of reference of the project, communication plan, risk register, project tolerances, overall project plan, and any project controls or inspections as part of quality assurance of the project. This means that a PID will enable, for example;

- an initial plan with the key project phases (for example as suggested in figure 3);
- definition of work-streams (work packages) within such project phases and milestones;
- overarching time and resource plan.

Establishing a PID will thus often also involve the establishment of core team preparedness. This entails instituting representation from the leading organizational unit (financial reporting/accounting) as well as from other business practices. The PID will typically be updated and amended throughout the life of a project.

The “requirements stage” is then intended to work specifically with the impact on IPSAS on specific areas of financial activities and the respective change requirements that will be required. Examples can include: accounts receivable and revenue recognition; assets, procurement and inventory; financial reporting and presentation; client reporting; accounts payable; general ledger; and, more broadly, management reporting with the figures produced by accrual accounting.

The requirements stage is the time for the critical work of reviewing and establishing appropriate interpretations of the IPSAS vis-à-vis the concerned implementing agency.²¹ This entails careful analysis of differences between pre-IPSAS accounting practices and deemed accounting practices under IPSAS (fit-gap analysis)²². UNESCO (2008), for example,

²¹ This may require mapping business processes.

²² In this context a fit-gap analysis denotes a process whereby one analyses to which extent current accounting practice fit (meets IPSAS requirement) or whether there is a gap (current accountancy practice does not meet IPSAS requirement). Identifying and writing up the fit-gap analysis will serve as the basis for estimating the amount of work required to become IPSAS compliant. The project team work collaboratively to recommend solutions to resolve identified gaps.

emphasized that a gap-analysis between current accounting practice and the accrual-based IPSAS, served as the basis for the project plans and the setting up of milestones. UNESCO added that the gap-analysis informed them that “some gaps have an impact on day-to-day operations within UNESCO entities and others relate more to accounting and financial reporting processes”(UNESCO, 2008, p.2). The fit-gap analysis is thus a key component of the project management process and an apparent risk in adopting accrual-based IPSAS is not to recognize gaps between current accounting practice and the IPSAS. It is important at an early stage to identify and value assets as this is frequently one of the more challenging (and expensive) steps in moving to accrual accounting practices. Already, in the requirements stage, it is also important to address existing IT systems – will the accounting changes require the purchase of new computer systems, upgrades or other changes? The requirements stage of the project management cycle in the context of adopting accrual-based IPSAS is crucial in that it establishes the basis for the full implementation. More specific deliverables that may be produced during the requirements stage include, for example:

- An IPSAS policy review document with the purpose of detailing, by each [relevant] IPSAS standard current accounting policy of the implementing entity versus IPSAS requirements. Based on such analysis the IPSAS policy decision document should make a preliminary high-level assessment of whether each IPSAS is likely to have a significant impact on the business processes of the implementing entity.
- Establishment of a detailed training and communications strategy. While the business case in the initiation stage will have considered and established high level training and communication plans, these plans should be further developed and deployed during the design stage.
- Review IT and/or ERP systems readiness for accrual accounting. The purpose is to establish a preliminary understanding of the changes that will be needed to meet new accounting requirements.
- Establishment of change management requirements and capability developments. Underlying business case and the IPSAS policy review document can assist an implementing entity in determining what new capabilities, in terms of, for example, human resources and technology, will need to be developed.
- Establishment of a preliminary transition work plan. A transition work plan would typically cover required steps to converge from the current accounting practice of the implementing entity to accrual-based IPSAS. The focus should be on operational aspects such as opening balances, data conversion.

In every step of the project management of an IPSAS implementation it is critical to recognize that the work in the accounting area always needs to be thought through in the broader organizational context to ensure that all relevant parties within the organization are aware and involved in the reforms. The move to full accrual accounting creates changes across the organization/government not only in the accounting area.

The focus during the “design stage” is on data requirements and advancing new accrual-based accounting policy within the implementing entity. The design stage is critical for the success of implementation and often includes numerous challenges. During the design stage an implementing entity may thus be faced with numerous implementation barriers. Such barriers may include for example; obstacles in the capability creation process, legal barriers; organizational culture and the inherent willingness to change, weaknesses in documentation

of pre-accrual accounting practices, size of jurisdiction and specific accounting factors (see also Ouda, 2010). A number of studies that have examined the conversion to accrual accounting in various country settings have placed emphasis on the lack of governmental accounting expertise and problems in regard to asset recognition as the two major implementation obstacles (see for example Lapsley and Pallot, 2000; Christensen, 2002). Ensuring that the project manager in charge of a project to adopt accrual-based IPSAS is aware of the key implementation barriers during the initiation phase will facilitate special consideration of the risks associated with these barriers and thus ensure that consideration of such risks is embedded in the design of project management plans.

A number of deliverables are produced in the design stage, below are some examples:

- Reviewing and extending the IPSAS policy decision document produced in the requirements stage.
- Establishing IPSAS compliant policy instruments. More specifically this entails the establishment of necessary accounting policy that ensures compliance with IPSAS.
- Establishing IPSAS reporting design, including IPSAS statutory, donor (if applicable) and management reporting. Data requirements analysis, with a focus on identifying current data sources, data for future purposes and of making such data IPSAS compliant.
- Establish format for future IPSAS compliant financial statements of the implementing entity.

The “implementation stage” is the final formal stage, and the objective here is to finalize data cleansing and data gathering aspects of the transition plan and to execute the adoption of IPSAS-compliant financial statements. Getting the IT systems in place to ‘go live’ with accrual accounting practices is often a long and challenging process that runs through all four stages of the implementation process and is finalized in the implementation stage. This is also the stage where the format of management reports is finalized. The specific tasks embedded in the implementation stage may include:

- A number of IPSAS transition tasks such as, for example, establishment of data entry tools; data gathering and cleansing; asset and liabilities valuation; and income data.
- Issuance of IPSAS compliant financial reports. Adhering to IPSAS with a zero risk tolerance.

The project management cycle described for the adoption of accrual-based IPSAS provides one approach through which an implementing entity can manage these accounting changes. The effort required for a public sector entity to make the change to accrual accounting is often immense. Any implementing public sector entity has its own culture, management style, organization, political and legal environment to be taken into account in setting up any project aimed at changing accounting practices.

Operationalising the project management process

The operationalisation of the project management process will depend on a number of factors, such as the; governmental or organizational context, size of the project, timeline and budget. For the purpose of adopting accrual-based IPSAS the day-to-day project management is run by the project manager and governed through the project board. The project manager will frequently be employed in the finance / accounting area but will encompass a certain

level of working knowledge in project management. Many of the tasks that are to be undertaken in the phases of the project management process (figure 3) can be sub-divided into thematic accounting-work-areas in order to make the overall process manageable and driven by subject-matter experts within the implementing government/organization. The thematic accounting work-areas could include: revenue management; asset management; leases, foreign exchange; financial reporting; employee benefits; and so forth. This means that in practice, the project manager, will often identify, in collaboration with the members of the project board and/or the CFO, one lead person for each of the accounting work-areas. Products from each of the thematic accounting work-areas will be required to complete overall project products, such as IPSAS compliant accounting policy. In this context it is crucial to re-emphasize that the project board (figure 2) shall have enough power to be able to grant the necessary resources to the project. Adopting accrual-based IPSAS will require involvement from staff members across the organization, not only from accounting and finance (see FAO, 2009).

Continuous Project Management activities

In addition to the required tasks embedded in each of the steps in the project management and implementation of accrual-based IPSAS there are certain activities that are continuously ongoing throughout the implementation process. These activities are communication, training, risk and quality management.

Communication and training

In managing an IPSAS implementation project it is essential to include communication and training as key project components. The project board meetings can serve as opportunities to bring up any and all issues that emerge throughout the adoption process and in this context also address and discuss communication and training needs as an iterative process. An organization implementing accrual-based IPSAS will thus benefit from establishing a communication and training plan that becomes visible across the organization. The communication and training plan should include a stakeholder mapping against which the project manager can identify communication and training needs for each group of stakeholders.

It is essential that training is not provided too early in the project as staff may lose the knowledge gained before they can put it into practice. Training should thus be a continuous factor in any accounting reform project and not a one-off exercise, and it should be carefully matched against the progress in the projects and the corresponding user needs. Training can be facilitated through the use of internal expert practitioners and external parties. It is beneficial for an organization to develop internal experts who can carry out training as this will facilitate the maintenance of this knowledge within the organization.

Risk and quality management

For the management of risk in the adoption of accrual-based IPSAS, organizations may choose to draw on principles of risk management often stipulated in project management methodologies. A quality plan is often closely interlinked with the risk management plan. Any implementing entity needs to address each IPSAS and analyze the risks associated with each standard for the organization. This will provide the basis to capture the risks in the accounting arena. However, due to the wide scope of a project that aims to adopt accrual accounting it is important to recognize that the risks go beyond those in the accounting arena. Such risks include, but are not limited to: lack of support from top management; lack of

cross-functional (across business practice) coordination and work efforts, lack of targeted and cross-organizational communication; lack of resources; and lack of targeted and customized training.

Post-implementation stage

Converging to accrual-based IPSAS will usually increase the financial information produced by any implementing public sector entity. In the post-implementation phase there are critical communication and training factors to take into account in order to enable proper use to be made of the new financial information and to ensure that the accounting changes are understood across the implementing entity and its key stakeholders. This means that training in the new accounting practices, supporting business process and managerial benefits should not stop after the implementation phase, rather it may need to be escalated in order to reap any benefits of moving to accrual accounting. In addition communication efforts to both internal and external stakeholders on the new financial information available in the financial reports is likely to be required in order to ensure that this information becomes meaningful and understandable by those who use it (see also Ouda, 2010).

Concluding Comments

The successful adoption of accrual-based IPSAS is seen as a step towards strengthening an organization's financial reporting and hence also the accountability and transparency of the implementing entity. Good project management is invaluable when adopting accrual-based IPSAS. It is, however, critical that an organization that seeks to adopt accrual-based IPSAS ensures not only sound project management, but also that there is a sound 'tone at the top'. In any organization implementing new accounting standards, proper direction and focus from top management are essential to secure the active participation of staff across business practices and across functional levels.

Identifying a project manager who possess the necessary skills in both accrual accounting, more specifically IPSAS and in project management will benefit the successful advancement of the project. The project manager will frequently serve in a mediating and communicating role between business practices and it is thus very valuable if the project manager has an overall understanding of the entity's business processes and practices.

Throughout the implementation process, continuous communication with all key stakeholders is essential. The communication requirements of the various stakeholders will vary and it is thus important that the project manager analyses the needs of each key stakeholder group. The project board meetings can then be utilized to approve and, if needed, adjust the continuous communication strategies.

Training in combination with communication is critical to promote a positive view and establish the necessary knowledge needed in the organization to operate with accrual-based accounting practices. It is thus important that a training program is designed to allow affected staff, and in some instances external stakeholders, to receive the necessary training and understanding of what changes will be introduced in the organization by the change in accounting practices. The detailed training plan that is designed when adopting accrual-based IPSAS should include the training requirements of all staff, across business practices and levels, throughout the organization. The training component does not end when the project ends but should rather be seen as a continuous process as the IPSAS are subject to changes and updates, and the organization may introduce new business processes that require new accounting processes to be established.

Establishing risk and quality management as a continuous aspect of the implementation project will increase the awareness of risks and potential quality issues. Such awareness is crucial in attempting to reduce risk and increase quality throughout the project cycle, thus an important integral part of securing successful adoption of accrual-based IPSAS.

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GASB Statement No. 51:

New Guidance on Accounting and Financial Reporting for Intangible Assets

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Abstract:

Before the issuance of Statement 51, the question of where public sector accountants in the US should look for guidance about reporting and accounting for intangible assets was unclear. An intangible asset was most likely accounted for under Statement 34, which defines an intangible asset as a capital asset; together with Accounting Principles Board Opinion (APB) No. 17, *Intangible Assets*, and Financial Accounting Standards Board (FASB) Statement No. 142, *Goodwill and Other Intangible Assets*. Some of the questions existing guidance raised were: should easement rights be reported, should assets donated to the government be reported differently from assets purchased, how should water rights be reported, how should internally created intangibles be valued, which intangibles, if any, should be amortized? After conferring with FASB, the International Accounting Standards Board (IASB), the American Institute of Certified Public Accountants (AICPA), and the International Public Sector Accounting Standards Boards GASB issued Statement 51 to clarify existing guidance. When Statement 51 is appropriately used in conjunction with existing guidance, a more faithful representation of the services capacity of intangible assets, particularly in the areas of recognition, initial measurement, and amortization results can be made. This ultimately improves financial reporting by clarifying the classification of intangibles as capital assets and establishing guidance for internally generated intangibles.

Introduction

On July 10, 2007, the Government Accounting Standards Board (GASB) issued Statement No. 51 (Statement 51), *Accounting and Financial Reporting for Intangible Assets*, which provides comprehensive guidance on identifying, accounting for, and reporting intangible assets. Statement 51 is effective for periods after June 15, 2009. Statement 51 clarifies the circumstances in which intangible assets should be considered capital assets as described in existing GASB Statement No. 34 (Statement 34), *Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments*. Statement 34 is unclear as to whether or when intangible assets should be considered capital assets for financial accounting and reporting purposes. Lack of specific authoritative guidance in this area has resulted in confusion for state and local governments accounting for and reporting intangible assets. Statement 51 was issued to help clarify the reporting of intangible assets. This article discusses Statement 51 and provides guidance regarding its implementation.

Background

Accounting Principles Board Opinion (APBO) 17 issued in 1970 was the original authoritative guidance for identifying, accounting for, and reporting intangibles. APBO defines intangible assets as patents, trademarks, and copyrights, but it does not define intangibles based upon their characteristics. This raised questions as to whether assets such as computer software and land use rights were intangible assets. In a delayed response,

GASB issued Statement 34 in 1999, Paragraph 19 of Statement 34 defines capital assets as “land, improvements to land, easements, buildings, building improvements, vehicles, machinery...and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.” This helped to clarify the reporting requirements but there were still questions as to the precise definition of an intangible asset. Statement 51 requires that an intangible must first be an asset, that is, it must be a resource that has a present service capacity and is presently controlled by the government and it must be intangible, be non-financial in nature, and have an initial useful life greater than one reporting period. Although the definition of intangible assets is now reasonably clear, there is a lack of clarity in determining what “non-financial in nature” means for purposes of Statement 51. Non-financial in nature generally means that the definition of an asset is met but the asset lacks physical substance. An asset that is non-financial in nature is one that is not in a monetary form similar to cash and investment securities and it represents neither a claim nor a right to assets in a monetary form such as a receivable. It is likely that GASB’s intent was not to include cash, investment securities, and receivables as intangible assets so logically, non-financial in nature when applied to intangibles means that the asset lacks any physical substance but meets the definition of an asset.

Under Statement 51 all intangible assets not specifically excluded by its scope must be classified as capital assets. Governments possess many intangible assets, including the following:

- Right-of-way of easements
- Other types of easements
- Patents, copyrights, trademarks
- Land use rights
- Licenses and permits
- Computer software, purchased or licensed, or internally generated

Some intangible assets depend upon a tangible asset for their use, for example a right of way easement depends upon the tract of land that the easement rests upon. That is, the government has a contractual right that is non-physical in nature, to use the surface of a tract of land or road that is tangible in nature, for an intended purpose. Under Statement 51, this right is an intangible asset which is to be amortized.

Intangible assets may be internally or externally generated. Internally generated assets are created or produced by the government or by an entity contracted by the government, or they are acquired from a third party; these assets require a reasonable effort to achieve their expected service capacity. With some exceptions, outlays of capital used to generate internally created goodwill should generally be expensed as incurred. On the other hand, intangible assets acquired or created primarily for directly obtaining income or profit, capital leases, or goodwill from a combination transaction are investments and are not subject to Statement 51. An intangible asset should be recognized as such only if it is capable of being separated and sold, transferred, or licensed, or if the asset arises from contractual or other legal rights regardless of separation of such rights. Statement 51 is effective for periods beginning after June 15, 2009, with the provisions generally applied retroactively.

What is not an Intangible?

The government has a statutory power to levy taxes and charge for license fees. Once the government exercises its power to levy taxes and assess fees for licenses it may result in the creation of an asset such as a receivable. However, having the power to assess a fee is not in and of itself an asset. For example, if a restaurant wants to apply for a liquor license it must fill out an application and pay a fee; once the government exercises its power to charge for the license fee, the fee amount becomes an account receivable asset for the government.

Characteristics of Intangibles

In determining the characteristics of an intangible asset, GASB began by noting that an intangible asset lacks any physical substance and has an initial useful life extending beyond a single reporting period. GASB then looked at its own Concepts Statement No. 4, *Elements of Financial Statements*, which provides the definition of an asset. From there, the definition of an asset was expanded to include intangible assets; that definition was then incorporated into Statement 51. Intangible assets are those assets that are non-financial in nature, do not consist of a prepayment for goods or services, and would not require a settlement of a fixed or determinable amount (Statement 51, Page 13, Paragraph 13).

Categories of Intangibles

Intangible assets should be categorized based upon their acquisition method and the method of acquisition could be a deciding factor in determining the timing of the recognition of the asset (Statement 51, Page 15, Paragraph 36). Initially, GASB categorized intangibles into five groups, as the categories of intangibles were further considered by GASB, it determined that Statement 51 was applicable to only two groups of intangibles, those groups are:

1. Intangible assets created or acquired through a combination with another entity.
2. Intangible assets created through statutes or the inherent nature of the government entity.

Intangible Assets Created or Acquired Through a Combination with Another Entity

At present, Statement 51 does not apply to intangible assets, except for goodwill, created through a combination transaction such as a purchase or pooling of a business. Until further guidance is given, GASB recommends that governments follow existing authoritative guidance for combination transactions—for example, APB Opinion 16, *Business Combinations* which applies to all intangible assets, not strictly goodwill (Statement 51, Page 15, Paragraph 38).

Intangible Assets Created Through Statutes or the Inherent Nature of the Governmental Agency

Through the Constitution or a charter, the government has the power to directly compel or control the actions of another party. Examples of such powers include the power to tax, the power of eminent domain, the power to require use of certain activities, and the power to regulate. One of the more important powers held by the government is the power to tax; levying taxes results in the government having taxes receivable. Taxes receivable do not constitute an intangible asset because even though taxes have the power to produce assets, they themselves are not intangible assets. Therefore, government powers are not themselves considered intangible assets and so are not within the scope of Statement 51.

Accounting for Intangibles

The government should disclose identifiable intangible assets in its financial statements as it would any other capital asset. An intangible asset is identifiable when it can be separated from the government and sold if necessary, or if the asset arises from contractual or other legal rights, regardless of whether those rights are separable or transferable. As noted in Statement 51, intangible assets are also capital assets, those assets that are non-financial in nature and that extend beyond a single period. The capitalization rules for intangibles are the same as those for other capital assets as defined in Paragraph 19 of Statement 34. If the intangible is purchased by the government, it is reported at its historical price, if the asset is a donation, it is reported at fair market value at the time of acquisition. A capital asset that is being amortized should be reported separately from capital assets that are not being amortized. In general, capital assets that are financed through taxes are reported in the government activities column of the government-wide statement of net assets.

Although it is reasonable to assume that most intangible assets are used in the day-to-day running of a business in some way or another, it is equally reasonable to assume that in some instances the primary purpose of an intangible asset is to provide an economic benefit. An intangible asset used in daily operations would be properly classified as a capital asset falling within the scope of Statement 51, whereas as an intangible asset whose primary purpose is to provide economic benefit would be more appropriately classified as an investment. GASB Statement No. 31, *Accounting for Certain Investments and for External Investment Pools*, defines an investment as a “security or other asset acquired primarily for the purpose of obtaining income or profit.” In general, assets that are held primarily for the generation of income are investments rather than capital assets. Investments are excluded from the scope of Statement 51.

Internally Generated Intangible Assets

Internally generated intangible assets are defined as assets created and held by the government. They can include assets created by a governmental contractor and also assets that are purchased and that require a reasonable amount of effort by the government to expect to achieve serviceable capacity. Internally generated intangible assets include computer software, patents and trademarks, and copyrights. A higher degree of research activity is associated with internally generated intangible assets than with other assets. For various reasons, including lack of funds or technological infeasibility, the risk of abandoning a research project before its completion is greater with internally generated intangible assets than with tangible ones. The uncertainty regarding whether an internally created intangible asset will ever extend beyond the testing stage gives rise to the question of when to begin capitalizing the assets. Purchased or donated ready-to-use assets are easier to capitalize because it is easier to determine the cost of such assets. In determining when to begin capitalizing an internally generated asset still in development, Statement 51 provides the following four alternative methods:

1. Expense all outlays as incurred
2. Capitalize all outlays as incurred
3. Capitalize outlays when incurred once specified conditions are fulfilled and expense all outlays up to that point (Also known as the “specified-conditions approach,” under Statement 51).

4. Accumulate all outlays on the statement of net assets as a deferred outflow until the achievement of present service capacity can be determined (also known as the “successful-efforts approach,” under Statement 51).

The premise of the first approach, to expense all outlays as they are incurred, is based on the lack of assurance that the project will actually be completed. The second approach assumes the exact opposite of the first approach, which is that a capital asset is created from the moment it is conceptualized. These two approaches are extreme in nature, and there is a far greater likelihood that an internally generated intangible asset will not make it to service capacity. There is, however, a point at which the risk that an internally generated intangible asset will not make it to service capacity is sufficiently minimized. It is this concept that helps explain the method of capitalizing all outlays as they are incurred.

Since the individuals responsible for generating internally created intangible assets are in the best position to determine the specified conditions required before the intangible asset is considered complete, the third method of accounting for these assets is the most appropriate method of accounting for outlays associated with the internally generated intangible assets still in development (Statement 51, Page 19, Paragraph 47).

The fourth and final method of accounting for internally generated intangible assets as outlined in Statement 51 is the successful-efforts approach. This approach allows the preparers to determine when a capital asset in process has actually been created. This method allows for internally generated intangible assets to be capitalized earlier in the process while still safeguarding against impairment of the asset or its incompleteness in the future.

In determining whether an internally generated intangible asset in development should be capitalized, GASB looked at the various types of internally created intangible assets and the guidance provided in International Accounting Standard (IAS) 38, *Intangible Assets*. IAS Standard 38’s approach towards accounting for internally created intangible assets is very similar in nature to the guidance provided in Statement 51. Some of the more common factors to be considered in determining whether internally generated intangible assets in development should be capitalized are as follows (Statement 51, Page 4, Paragraph 8):

- Lack of human or financial resources to complete the project
- Lack of management interest in completing the project
- Inaccurate assessment of the needs or wants of potential internal or external users of the asset generated by the project
- Technological or technical infeasibility of the creation of the asset
- Obsolescence of the asset created

The nature of the outlay for internally generated in-process intangible assets is essentially the same as the type of outlay for tangible in-construction assets, and therefore existing guidance and practice in this area for capital assets should also be followed for internally generated in-process intangible assets.

Example

Facts. Northwestern University School of Medicine conducts ongoing research in developing medical instruments that improve the efficiency and effectiveness of medical procedures. One area of research has to do with supplies used to close surgical incisions,

such as stitches and staples. After months of exploratory research in this area, researchers discovered a combination of microfibers that, when used for stitches, initially proved to be significantly more durable than existing stitches and that would dissolve upon the natural healing of the wounds. Researchers believe that the newly discovered stitches would be especially effective for surgeries requiring large incisions. In March 2017, the new discovery was presented to the university research board committee. After hearing about the new discovery, the research board committee formally authorized seven full-time researchers and \$8.6 million dollars to fund personnel and other outlays for a project to develop the new material for the stitches. The research board committee would ultimately like the seven full-time researchers to obtain a patent for the new stitch material. The committee believes that the technological advancement of the new microfiber stitch, supported by the patent, would improve the quality of the services provided to the patients of Northwestern Hospital.

Reporting. Northwestern University School of Medicine should capitalize outlays associated with the development of the project and acquisition of the related patent in its statement of net assets upon the authorization of resources by the research board committee (March 2017). At this point, the specified-conditions criteria for recognizing internally generated intangible assets have been met. The objective of the project has been identified: the acquisition of a patent related to the creation of a new stitch material formed from a combination of specific microfibers. Northwestern University has determined that the patent would provide service capacity through the improvement of services provided to patients at Northwestern Hospital. The initial tests and other general research performed provide a basis for the technical feasibility of the creation of the new stitch material. Lastly, the research committee's commitment of the seven personnel and the \$8.6 million to fund the outlays of the project demonstrates the university's intention, ability, and effort to continue or complete the work needed to acquire the patent. No outlays associated with the project incurred prior to meeting the specified conditions in March 2017 should be capitalized; those outlays should be expensed as incurred (Statement 51, Page 40, Paragraph 2, Example 2).

Internally Generated Computer Software

Internally generated computer software is probably the most common type of internally generated intangible asset. The development cycle for internally generated computer software is different from other types of internally generated intangible assets, such as patents and trademarks. In determining how to account for internally generated computer software, GASB looked to existing authoritative guidance on the matter, in particular the AICPA's Statement of Position (SOP) 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*. Although SOP 98-1 specifically excludes governments, the actual method of accounting for the costs of internally generated computer software was very similar to that found in FASB Statement 10, *Accounting for Internal Use Software*. SOP 98-1 states that capitalization of software outlays begin when the preliminary project stage is completed and when the government formally agrees to fund the project. This is consistent with Paragraph 8 c of Statement 51, in particular for multi-year projects. Generally speaking, the nature, not the timing, of the activities related to internally generated computer software is the key to when it should be accounted for.

To help determine which outlays for internally generated software should be capitalized Statement 51 identifies three stages of activities in creating and installing software: the preliminary project stage (expense as incurred), the application development stage

(capitalize), and the post-implementation operation stage (generally expensed). Statement 51's guidance for computer software is consistent with existing guidance.

Example

Facts. In August 2014, the City of Kensington Department of Tax Assessment identified the need for new property tax assessment and billing software. After identifying this need, the city assembled a project task force composed of staff from various city departments. From August through November 2014, the task force performed numerous tasks related to the project—in particular, the following:

- Determining the performance requirements of the new software through interviews with operators of the software and users of information to be provided by the software
- Determining the system requirements for the new software, including assessing the compatibility of existing hardware and other interfaced software, such as the city's general ledger system.
- Assessing in-house information technology resources to determine whether the software should be developed internally or if commercially available software should be purchased
- Issuing a request for proposals for commercial software packages and installation services and conducting interviews with proposing vendors

Based on the recommendation of the task force, the city of Kensington awarded a contract in the amount of \$20 million to Strand Software Corporation to acquire a perpetual license to use its property tax assessment software as modified by Kensington's needs. As part of the contract, Strand would be responsible for the installation and modification of the software, while three of Kensington's employees would be dedicated to the project full time until its completion. Kensington included a \$22 million appropriation in its 2015 general fund budget to cover the cost of the software.

The software was installed from February 2015 through August 2015. Testing of the software and any resulting modifications were completed in October 2015, at which point the software was considered to be substantially complete and operational. Entry of tax year 2016 assessment information and applicable tax rates, and training of software end users and operators occurred from October 2015 through December 2015 so that the software could be used to produce Kensington City's 2016 tax bills. Kensington's year-end is December 31.

Kensington determined that the aggregate outlays of the software project were \$19.5 million, comprised of the following:

- Outlays associated with task force activities from August through December 2012: \$2.5 million
- Outlays for commercial software and installation services: \$14.6 million
- Outlays for payroll and related costs associated with employees involved in installation and testing of software: \$1.5 million
- Outlays for payroll and related costs and costs associated with employees involved in entry of new tax year (2016) assessment information and applicable tax rates: \$0.9 million.

The accumulation of the project outlays by activity has been provided to facilitate this example. For accounting and financial reporting purposes, only the accumulation of project outlays that will be capitalized will be required.

Reporting. The activities of the task force should be considered preliminary project stage activities, and the related outlays should be expensed as incurred. Therefore, for the fiscal year ended December 31, 2014, Kensington should record the outlays associated with the task force activities of \$2.5 million as an expense in its government-wide statement of activities and as an expenditure in its general fund balance statement of revenues, expenditures, and changes in fund balance.

The acquisition of the license to use the commercially available software and the installation and testing activities occurring in 2015 should be considered application development stage activities. The related outlays of \$16.1 million should be capitalized in the 2015 government-wide statement of net assets since the preliminary project stage had been completed in November of 2014 and since Kensington had included an appropriation to fund the software development in its 2015 general fund budget, providing evidence of its commitment to complete the project. These outlays would be recorded as an expenditure in the 2015 general fund statement of revenues, expenditures, and changes in fund balance.

The training activities occurring in 2015 are post-implementation or operation stage activities and should be expensed as incurred. The outlays associated with the data entry activities should also be expensed because they related to the entry of new tax information. Therefore, for the fiscal year ended December 31, 2015, Kensington should record the outlays associated with the training and data entry activities of \$2.4 million as an expense in its government-wide statement of activities and as an expenditure in its general fund statement of revenues, expenditures, and changes in fund balance (See Statement 51, Page 43, Paragraph 1, Example 3).

Measurement

The measurement of intangible assets follows existing authoritative guidance for capital assets. If intangible assets are donated to the government, the assets should be recorded at their fair market value plus any additional costs incurred in putting them in place. Statement 51 does not contain a global methodology for calculating the fair market value of an asset, as there is clearly more than one way to do so (Statement 51, Page 29, Paragraph 73).

Impairment

Impairment occurs when the fair market value of the asset is less than its reported or carrying value. A common impairment is that to goodwill. All goodwill is usually assigned to an entity's reporting units that will benefit from that goodwill. Once assigned, the goodwill is reviewed at least once every accounting period to determine if its recorded value is greater than its fair value. If the fair value is less than the recorded value, then the goodwill is impaired and must be written down. The impairment loss should be recognized in the income statement unless it arises on a previously valued asset. This charge reduces the value of goodwill to the fair market value and is considered a "mark-to-market" change. Correct impairment calculation provides a more accurate financial picture because the assets are valued in real terms. FAS 142 *Goodwill and Other Intangible Assets* has provided significant discretion in arriving at fair value and to date the calculation of fair value has been more of an art than a science. As can be expected, management is often hesitant to book an impairment

charge because it provides the users of the financial statements an opportunity to evaluate management and its decision-making record.

Existing authoritative guidance on the reporting for impairment of capital assets is found in Statement No. 42 (Statement 42), *Accounting and Financial Reporting for Impairment of Capital Assets*. In deciding whether additional disclosure requirement for determining, measuring, and reporting impairments of intangibles was required, GASB considered whether the provisions of Statement 42 should be applied to intangible assets or whether there were unique indicators of impairment for intangible assets. Despite there being some indicators of impairment unique to intangible assets, such as a change in contractual terms or a change from an indefinite useful life to a definite useful life, GASB concluded that there was nothing specific to the nature of intangible assets that required additional disclosure.

Amortization Issues

Amortization is the allocation of the cost of the intangible asset over its useful life. By reporting amortization expense in its financial statements, governments are able to present relevant information about the cost of providing such services to the users of its financial statements. Contract law or regulation rather than physical condition generally limits the useful life of an intangible asset. Obsolescence may also limit the useful life of an intangible asset. Under Statement 51, if contract law, regulation, or obsolescence places no restrictions on the useful life of the intangible asset, then the asset is considered to have an indefinite life. It makes little sense to amortize an intangible asset with an indefinite useful life because its service capacity is never diminished. Therefore Statement 51 states that the carrying value of intangible assets with an indefinite useful life should not be reduced through amortization.

Example 1

Facts. In February of 2014, Mayfair County acquired the right to draw water from a lake on the property of a local corporation in exchange for a fee of \$50 million. Mayfair County has an option to renew the rights at no additional cost. Mayfair County can draw an unlimited quantity of water from the lake. The County's rights to withdraw water expire 25 years after the execution of the contract, which is in February 2039. The rights may be renewed for another 15 years at no additional cost to the County, subject to the mutual agreement of the parties.

Mayfair County does not think that another source will provide a water supply to sufficiently meet the demands of its inhabitants. The County believes that it will renew its contract in February 2039. Mayfair County anticipates that the corporation will agree to renew the contractual rights because it is a significant user of the County's water supply and the main employer of Mayfair County residents. Mayfair County has a calendar year end.

Reporting. In its government-wide statement of net assets as of December 31, 2014, Mayfair County would recognize a capital asset of \$50 million for the acquisition of the water rights. A capital outlay expenditure of \$50 million would be recorded in Mayfair County's capital projects fund statement of revenues, expenditures, and charges in fund balance for the year ended December 31, 2014.

As there is evidence that Mayfair County will seek and be granted renewal of the water rights without additional costs, the useful life of the water rights will be 40 years, the original 25-year term of the rights plus the 15-year renewal term. Using straight-line amortization, annual amortization expense related to the water rights of \$1,250,000 (\$50 million over 40

years) would be recorded in Mayfair County's government-wide statement of activities beginning in 2014.

Example 1-1

Facts. Assume the basic facts of Example 1, except that Mayfair County's renewal fee is not \$0, but rather \$15 million to the local corporation if it chooses to renew its water rights for an additional 15 years at the end of the original 25-year period.

Reporting. The acquisition of reporting rights would be recognized in Mayfair County's government-wide and capital project fund financial statements as in Example 1. No recognition of the additional outlay to renew the water rights would be made until the renewal is executed or the outlay is made, whichever occurs first.

The useful life of the water rights should be limited to the original length of the contractual right—that is, 25 years. Since Mayfair County would be required to make an additional payment to execute the 15-year renewal period in an amount that is greater than nominal in relation to the level of service capacity expected to be obtained through the renewal, this period should not be considered as part of the useful life of the water rights acquired in exchange for the original \$50 million payment. Using straight-line amortization, annual amortization expense related to the water rights of \$2 million (\$50 million over 25 years) would be recorded in Mayfair County's government-wide statement of activities beginning in 2014.

Example 1-2

Facts. The basic facts here are the same as in Example 1, except that Mayfair County's contract with the corporation has no expiration date. Mayfair County expects that the water obtained through exercising of the rights provided under the contract will be essential to meet the needs of its inhabitants' demand for water for the foreseeable future.

Reporting. The acquisition of the water rights would be recognized in Mayfair County's government-wide and capital project fund financial statements as in Example 1.

Since the contract places no limitation on the life of the water rights and since Mayfair County does not expect to cease utilizing the water rights in the foreseeable future, the water rights should be considered to have an indefinite useful life. The water rights should not be amortized unless there is a change in circumstances that limits the life of the water rights, making the life finite. In that case the water rights should be tested for impairment, and any remaining carrying value should be amortized over the asset's new estimated life.

Effective Date and Transition

The effective date of Statement 51 is for periods beginning after June 15, 2009. This allows individuals ample time to determine the carrying value of the intangible assets acquired but not reported in previous periods. This delayed effective date also permits enough time to establish cost-accounting processes and accounting policies and procedures that may be necessary to appropriately apply the recognition provisions related to internally generated intangible assets in addition to establishing their correct costs (Statement 51, Page 33, Paragraph 83). Retroactive reporting of internally generated intangible assets or intangible assets with indefinite useful lives is encouraged but not required.

Conclusion

Statement 51 is the new authoritative guidance on intangible assets. In contrast with previous requirements, Statement 51 identifies intangible assets as capital assets. Furthermore, Statement 51 provides additional guidance on issues related specifically to intangible assets, including those intangible assets that are internally generated or purchased externally. Generally speaking, Statement 51 has effectively eliminated most of the confusion of reporting for intangibles found under Statement 34. Despite the extended period of time granted to implement procedures consistent with Statement 51, there will be additional administrative costs involved. A large percentage of those costs will be spent on the valuation of the actual assets, those costs, however, can be determined only as preparers actually begin advising their clients regarding the implementation procedures.

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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.

Pre-requisites for a Medium Term Expenditure Framework

Andy Wynne and Ron Quist

PEFA reports have now been published for most countries of the Global South (www.pefa.org). Many of these reports provide lessons which would benefit other countries. One example is a listing of the pre-requisites for the development of a Medium Term Expenditure Framework (MTEF) included in the 2009 PEFA report for Ghana. This report was written by Ron Quist of IDILMAT (<http://www.idilmat.com>) based on his extensive experience of reviewing the results of introducing MTEFs in many countries.

Too often an MTEF has been promoted by donors as one of the basics of public sector financial management reform. As a result, the initiative has often failed. In many countries the actual budget horizon (the time period over which ministries etc can be sure about the level of resources they will receive) is much less than a year. In this situation, the three-year standard timescale of an MTEF is over ambitious.

The term “MTEF” is used to refer to very different ways of stretching the time perspective of the annual budget. For example, in developing countries the MTEF may be seen as:

1. either as instrument for fiscal discipline and prioritisation under a hard budget constraints;
2. or a strategy costing exercise used for negotiation budget increases with the MOF or additional support from the donors.

Where it has been successfully implemented, the MTEF has contributed to a focus on policy priorities and to an increase aggregate fiscal discipline. However, the number of countries where this reform has been successfully implemented is very small and largely restricted to developed countries. In a recent survey of public financial management reforms across the Middle East and North Africa the World Bank found that, a “number of countries in the MENA region are attempting to develop forward estimates as part of MTEF reforms, but none has a functioning system at present” and suggested that “The argument for developing sector based forward estimates to provide a medium term perspective is compelling, but this is a major reform and should only be initiated once more basic improvements to the PFM system have been completed.” (World Bank, 2010, p.16 – reviewed later in this section).

A comprehensive MTEF can only be effective when circumstances and capacities permit. In other cases it might distract attention from the immediate needs for improving the annual budget and budget execution processes. In a number of African countries, the MTEF was introduced prematurely, and is turning out to be merely a paper exercise. This calls for caution in considering the implementation of an MTEF and only considering this reform instrument where the necessary pre-conditions have been met.

These views are confirmed by the recent World Bank report (2010 – see review later in this section) on Middle East and North African countries. This review found that “the

development of MTEFs and greater performance orientation into the budget, are often both technically demanding and run up against powerful vested interests. In many cases, their successful implementation may depend upon underlying systems, procedures and practices being in place that may not exist. It is therefore not surprising that their implementation is frequently delayed or halted” (World Bank, 2010, p. 58).

According to Ron Quist, the pre-requisites for the successful introduction of an MTEF include (Ghana PEFA report 2009, p.89):

- mature and effective institutional arrangements to support policy bodies to debate and agree, implement and monitor medium term strategic allocations
- a credible macro-fiscal framework – within which effective policy debate (sector working groups) can reconcile sector allocations with medium term fiscal ceilings;
- a budget classification that can readily incorporate policy objectives
- fully costed sector strategies (investment costs plus forward linked recurrent expenditure)
- a high degree of credibility of the budget which is implemented as agreed by parliament;
- an orderly budget process developed within a definite calendar guided by a well-developed budget call circular
- a budget process with clear elements of bottom-up participation fully reconciled with top-down discipline
- predictability in budget execution
- accurate, regular and timely financial reporting in a classification structure consistent with the MTEF
- effective internal and external audit.

Similar findings were reported by Richard Hughes of the IMF at its seminar on “Medium-term Expenditure Frameworks: Lessons from Success and Failure in Advanced and Developing Countries” (October 2008) – <http://blog-pfm.imf.org/pfmblog/2008/10/whither-medium.html>

These lessons are summarised in the following table which is taken from this report:

Issue	Lesson from Advanced Countries	Implications for L/MICs
Model Design	Tradeoff between coverage, detail and discipline in MTEF design	a. Is the emphasis on detailed program-by-program projections undermining the line ministry as a unit of control and accountability?
		b. Should we rethink the drive to include volatile aid flows within MTEF ceilings?
Origins	Most MTEFs introduced to maintain discipline after public finances had turned the corner	c. Should we be marketing MTEFs as a tool for delivering fiscal consolidation?
Annual Budget	All MTEFs had credible annual budget as a foundation	d. What use is an MTEF in a country whose annual forecast error for expenditure is more than 50%

		real expenditure growth?
Caution	All countries build considerable caution into their medium-term fiscal projections	e. How much caution should L/MICs build into their MTEF projections?
		f. Should that caution be explicit or implicit in those projections?
Supporting Institutions	MTEFs underpinned by strong, capable MoFs within powerful executives	g. How many MoFs have the capacity to enforce the discipline demanded by an MTEF?
	Clear procedures needed to ensure legitimacy, responsibility, flexibility and discipline	h. Is TA too focused on MTEF preparation to the neglect of MTEF enforcement?
Political Economy	Credibility of and commitment to MTEF projections waxes and wanes with political strength of the Govt	i. Should we expect MTEFs to be any more durable in L/MICs than in advanced countries?

“Reference Guide to Modern Trends and Best Practices in Public Financial” - for the Arabic World

45 directors and senior officials from ministries of Finance and Planning of a number of countries from the Middle-East and Western Asia gathered on the 1st and 2nd of June 2010 at the Basil Fuleihan Institute of Finance (Lebanon) to participate to a regional workshop entitled "Public Finance Reform: A Roadmap for Modernization and Good Governance".

This workshop, organized in cooperation with the Economic and Social Commission for Western Asia – ESCWA, served as a space for dialogue and exchange of experiences between officials involved in conducting Public Finance reforms in their respective countries.

The meeting was also an occasion to launch the Arabic language “Reference guide to Modern Trends and Best Practices in Public Finance Management”.

The contents are of this guide are:

Chapter One: The need to reform Public Finance

- Public finance management: understanding the budget cycle
 1. Steps to sound budget preparation
 2. Managing budget execution
 3. Oversight and monitoring
- The rationale behind reforming public finance
- Modern trends in reforming public finance management

Chapter Two: Tax and expenditures reforms

- Current trends in reforming tax systems
 1. Requirements of a modern tax system
 2. Rethinking fiscal policies

- Current trends in reforming public expenditures
 1. Shortcomings of public expenditure management in developing countries
 2. Challenges of effective planning and forecasting
 3. Modernizing public procurement
- Current trends in reforming treasury and cash management

Chapter Three: Modern approach to budget and public accounting

- A practical approach to performance budgeting
 1. An introduction to program and performance budgeting
 2. Transition steps from line-item to performance budgeting
 3. Designing a program budget
 4. Performance measurements and indicators
 5. Roles and responsibilities of major stakeholders
- Modern trends in public accounting
 1. The International Public Sector Accounting Standards (IPSAS)
 2. The Government Financial Statistics (GFS)

Chapter Four: Improving performance and accountability

- Performance management and evaluation
 1. Improving human resources and managerial performance
 2. Improving financial reporting
 3. The key role of oversight institutions and internal audit
- Principles of accountability

This Arabic language guide is available from: <http://css.escwa.org.lb/ecri/docs/guidev12-09.pdf>

For more information, please contact the Institute of Finance: contact@if.org.lb

Public Financial Management Reform in the Middle East and North Africa

A new report "*Public Financial Management Reform in the Middle East and North Africa: An Overview of Regional Experience*" surveys the experience of public financial management reform across the region. This includes a review of the results for PEFA reviews for 10 countries across the region.

One of the most important functions governments perform is that of mobilizing and deploying financial resources to achieve their objectives. The way in which this money is spent has huge implications for their broader development trajectory.

For governments to perform their spending function well, their public financial management (PFM) practices should meet certain well-established criteria

Government spending should be *affordable*, in that it takes place within a framework that ensures expenditure is consistent with monetary and fiscal policy objectives and sustainable in the long term.

Governments should *optimize the allocation of public resources* between different sectors and expenditure categories in a way that reflects their policy priorities, including sustainable growth as well as human and social development.

Such expenditure should be *efficient*, in that it maximizes output for a given set of inputs, and *effective*, in that it supports the successful realization of the government’s goals.

It should also be *transparent*; and *regular*, that is conducted in accordance with the relevant laws and regulations; and undertaken with appropriate checks and balances to ensure financial probity.

While such objectives are relatively straightforward, their realization can be challenging. The study provides 10 lessons or promising practices from the experience in the region:

- Know the Value—and Limitations—of Political Economy Analysis
- PFM Reform as Means and Not Ends
- Context Matters, so Swim with the Current
- The Wisdom of “Muddling Through”—Grand Strategy versus Incremental
- Establish Basic Systems before Contemplating More Advanced Reforms
- When Possible, Keep Reforms Quick, Simple and Mutually Reinforcing
- Be Wary of Large Financial Management Information Systems
- Internal Challenges: Leadership, Coordination, Skills and Incentives
- External Stakeholders—Useful, but Don’t Count on Them
- Lessons for Donors: Be More Strategic, Selective, Modest and Flexible.

In many countries in the Middle East and North Africa, public financial management reforms have been on the agenda for a decade or more. This report seeks to reflect upon this experience to date and better understand the nature of the public financial management challenges confronting these countries.

A summary of the successful and challenging public financial management reforms in the region is provided by the following table (p.35):

Successful PFM Reforms	Mixed	Challenging PFM Reforms
<ul style="list-style-type: none"> • Improving budget classification • Improving budget transparency • Reforms in tax and customs 	<ul style="list-style-type: none"> • Enhance macro-fiscal capacity • Budget integration • Streamlining ex-ante control processes • Commitment control • Payroll management • Treasury operations • Reform of accounting systems • Internal and external audit 	<ul style="list-style-type: none"> • Medium term sector strategies • Improving budget scope and coverage • Introducing performance into the budget • Procurement reforms • Large information technology projects

This study surveys these reforms across ten Arab countries: Algeria, Egypt, Iraq, Jordan, Lebanon, Morocco, Syria, Tunisia, the West Bank and Gaza and Yemen. They were selected partly because they are places where the World Bank has been heavily engaged on public financial management issues and been able to gather a wealth of comparative information.

They also represent an interesting cross-section of administrative traditions and different levels of development. Taken together, these countries are home to over two thirds of MENA's population and nearly one third of its GDP. Many of the findings from this analysis will be of relevance to other MENA countries as well.

<http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/MENAEXT/0,,contentMDK:22634529~pagePK:146736~piPK:226340~theSitePK:256299,00.html>

How Far Have Public Financial Management Reforms Come in Africa?

Mat Andrews (2010) Harvard, Kennedy School of Governance

How strong has African public financial management become? How do African public financial management systems now facilitate effective public financial management? Where are the next challenges and how can they be met?

A recent paper addresses these questions, using PEFA analyses to identify central themes of the continent's recent public financial management story. The themes emerge from the quantitative and qualitative data from the 31 central government PEFAs completed prior to mid-2008 in Sub-Saharan Africa. The World Bank (2010) study reviewed above similarly uses the results of PEFA analyses for 10 countries in North Africa and the Middle East.

Some of the key findings of this research are:

“Three themes are identified across the process areas in African public financial management systems:

- (i) Budgets are made better than they are executed;
- (ii) Practice lags behind the creation of processes and laws; and
- (iii) Actor concentration pays.

The first theme relates the observation that budget preparation processes are comparatively stronger than budget execution and oversight processes across all African countries. In public financial management jargon, this is commonly presented as ‘upstream processes are stronger than downstream processes’.

The second theme is more nuanced, showing across all process areas that African public financial management systems generally suffer from an implementation deficit—laws and processes may be in place but seldom affect actual behavior. The theme reflects a new institutional differentiation between de jure and de facto reform and is shown in the words of one recent diagnostic, “Legislation and procedures have been improved ... [but] implementation has not yet been achieved.”

The third theme offers even more specificity, suggesting that processes are stronger when narrower, concentrated sets of actors are involved in implementation. Processes are weaker where they involve multiple players, especially outside of central public financial management entities like the budget department or treasury.” (p.1)

“Themes also arise in explaining why countries fall into different leagues. A range of factors are seen to influence the quality of public financial management systems and outcomes, presented as five major themes:

- Growing economies have stronger public financial management.
- Stability delivers PFM progress, although there may be a peculiar ‘starting from scratch’ dividend for countries enjoying post conflict stability.
- States with larger domestic, non-mineral income sources have stronger public financial management.
- Longer periods of broad reform commitment foster public financial management progress.
- And, Colonial heritage matters (maybe).” (p.3)

On the final of the above points, Andrews says that this is certainly true for external audit and may also be true for internal audit.

The paper also questions whether “context is taken seriously in reform design?” (p. 42). The paper identifies five leagues in terms of the quality of public financial management (at least shown by the PEFA reports). “The leagues were shown to be significantly different. However, they have alarmingly similar reforms in place” (page 44). So, for example, of the 31 countries reviewed an MTEF was implemented in 28 countries, programme budgeting in 25 and an IFMIS in 20. All the countries had introduced commitment controls, COFOG analysis of expenditure, a single treasury account and IPSAS.

As a result of the study, Andrews makes the following three recommendations for public financial management reform:

- there should be less focus on technicalities and more on reform ‘space’
- there should be less concentration and more coverage
- there should be less similarity of reforms and more context appropriateness.

The paper is available from:

web.hks.harvard.edu/publications/getFile.aspx?Id=548

Gestion des dépenses publiques dans les pays en voie de développement

Daniel Tommasi (2010)

Le présent ouvrage offre un éclairage sur cette problématique dans les pays en développement. Se limitant aux systèmes de gestion des dépenses publiques de tradition francophone, il décrit les principales étapes du cycle budgétaire. Il examine comment les systèmes de gestion des dépenses publiques contribuent à améliorer l’efficacité de la dépense et la fourniture efficiente de services.

Il pose la question de l’équilibre à trouver entre les différentes finalités, parfois contradictoires entre elles, des politiques publiques. Il répond ainsi à trois objectifs: fournir des repères sur les systèmes de gestion des dépenses publiques et la manière dont ils contribuent à la réalisation des politiques publiques ; structurer la démarche d’analyse de ces systèmes pour mieux en appréhender les forces et les faiblesses et mettre en évidence les déterminants clés de réussite des grandes réformes de gestion des dépenses publiques.

This work provides an overview of public expenditure management in Francophone countries from the Global South. The author takes a balanced and sometime critical view of some common reforms, for example, MTEF, IFMIS and accrual accounting.

<http://www.afd.fr/jahia/Jahia/site/afd/lang/fr/pid/75218>

Review of the Cash Basis International Public Sector Accounting Standard - Report of the Task Force

Andy Wynne

At its June 2010 meeting, the International Public Sector Accounting Standards Board (IPSASB) received and considered the *Report of the Task Force for the Review of the Cash Basis IPSAS*. The IPSASB agreed that a Project Plan will be developed to revise the *Cash Basis IPSAS*. Further, the IPSASB also agreed that material should be developed to support and/or initiate projects with other partners interested in the Cash Basis IPSAS and potential implementation guidance that might be developed.

“The primary objectives of the review are to identify the major difficulties that public sector entities in developing economies have encountered in implementing the Cash Basis IPSAS, and to determine whether the IPSAS should be modified, or if further guidance should be provided, in light of those difficulties.” (p.1)

“Respondents confirmed that the Cash Basis IPSAS is not widely adopted. The most frequently identified obstacles to its adoption are application of a “pure” cash basis model and the requirement for full consolidation. Differences between the Cash Basis IPSAS and existing legislation and practice, and the need for additional training and support are also identified as significant obstacles to its adoption.” (p.3).

Thus the Task Force recognised that the Cash Basis Standard has not been widely adopted (indeed it is difficult to identify any government which has properly and fully implemented the Standard), even though it was first issued over seven years ago. The Task Force report identifies four main reasons for this:

- the Standard refers to the cash basis, in contrast almost all governments use the modified cash basis (for example, reporting the level of government debt)
- the Standard requires the full consolidation of all entities controlled by a government including government business enterprises (parastatal organisations), this is done by very few governments currently and would be a very complex operation
- the Standard does not represent current practice which is enshrined in law in many countries and so cannot be easily changed
- additional training would be required in many countries before the Standard could be implemented.

The Task Force went on to provide a dozen recommendations to revise the Standard which, when implemented, through the proposed project plan, should go some way to overcoming these major challenges to its adoption. The recommendations are summarised below.

Recommendations:

1. The (revised) Cash Basis Standard should be retained and its relationship with Study 14 on the implementation of the accrual basis should be clarified.

2. Guidance on modified cash/accrual should be developed with other entities.
3. The requirement to consolidate all controlled entities should be revisited, but may still require this after a 3 – 5 year implementation period.
4. The Standard should be reviewed on a regular basis.
5. The anticipated period for the issue of financial statements (six or three months) should not be amended.
6. The relationship between third party settlements and assistance in kind should be clarified.
7. Some disclosures on external assistance should be move to part I (from part II).
8. Consideration should be given to adding requirements on narrative and performance reporting.
9. The presentation of budget information should be reviewed.
10. Disclosures on financial instruments should not be added to the Standard.
11. Part II of the Standard should be deleted and a checklist developed on disclosure requirements.
12. Mechanisms should be developed to support education and training for the Standard in developing economies.

The full report is available from:

<http://www.ifac.org/PublicSector/Meeting-FileDL.php?FID=5595>

Open Budget Survey 2010

In October 2010 the International Budget Partnership (IBP) was due to release the results from the third round of the International Budget Partnership's Open Budget Survey — the world's most comprehensive, independent assessment of whether central governments countries provide the public with access to budget information and opportunities to participate in the budget process. This round of the Survey provides comparative data on budget transparency, participation, and oversight in 94 countries, including nine countries that were included for the first time (Chile, Slovakia, Spain, Italy, Portugal, Mozambique, Mali, Timor Leste, and Iraq). The first round in 2006 evaluated 59 countries, followed by the 2008 Survey that included 85.

In preparation for the release, the IBP recently met with partner researchers from 55 of the countries covered in the 2010 Survey. They discussed the Survey's findings, key messages, and plans for disseminating the research and using the findings to increase transparency, participation, and accountability in their countries.

In addition to the international release of the Survey there will be nine regional launches in Central and South America; West, East and Southern Anglophone Africa; Francophone Africa; Central, South and Southeast Asia; and the Middle East and North Africa. Further, partners participating in the Survey will organize activities in their countries, which will include workshops, press conferences, and radio programs.

What Makes the Open Budget Survey Different from Other Transparency and Governance Assessments?

The Open Budget Survey differs from other assessments of government transparency and accountability, such as Public Expenditure and Financial Accountability Assessments, Fiscal Reports on the Observance and Standards and Codes, and the Global Integrity Index, because of the following.

- It is based on research conducted by independent civil society experts, rather than government officials or donor agency staff. This avoids issues related to self-reporting and conflict of interests in the assessment and reduces bias.
- It focuses on public access to government budget information. In contrast, other initiatives usually focus on the government's capacity to produce budget information. They do not examine whether, how, and to whom this information is disseminated. One of the strengths of the Survey is the emphasis it places on whether and when information is released to the public. Both the production and release of information are necessary to facilitate participation throughout the budget process. Stakeholders are not only those who manage the resources (i.e., government ministries) but the *people* who own the resources (i.e., the citizens), who must be able to access the relevant information needed to hold the government accountable.
- It includes questions on opportunities for public participation in the budget process, legislative oversight, and the SAI. This is relevant because effective accountability not only centers on transparency but also on the strength of these institutions. Even when information is available, the oversight bodies must have the effective power to hold the executive to account. This means that they should have sufficient resources, independence, and freedom to inquire about the executive's management of public money. In 2008 the OBI results showed that budget oversight was frustrated by the limited access to information and weak formal oversight institutions. What will the OBI 2010 results show?

Details of the report are available from:

<http://www.openbudgetindex.org/>

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Global Auction of Public Assets: Public sector alternatives to the infrastructure market & Public Private Partnerships

by Dexter Whitfield (2010, Spokesman)

Reviewed by Stewart Smyth, Queen's University Management School, Belfast - s.j.smyth@qub.ac.uk

For over fifteen years there has been a growing academic literature on the Private Finance Initiative (PFI) / Public Private Partnerships (PPPs)²³. Much of this literature is critical of PFI as a policy, especially within the accounting field. These criticisms have ranged from technical issues concerning drafting of contracts, the questionable enforceability of penalty

²³ Whitfield, uses the term PPPs to include PFI and other partnership / privatization projects across the globe such as P3s in the USA and Canada.

clauses to the opaqueness of the comparison process between the PFI project and the equivalent public sector alternative (known in the UK as the public sector comparator). These criticisms more often than not are explored using individual case studies or by looking at whole sectors, for example Allyson Pollock's work on the NHS. Dexter Whitfield's new book is different; it seeks to move the debate over PPPs onto a global stage looking at public infrastructure as a whole. Whitfield's ambition here is admirable. His central argument is that the PPP policy has created a global market in public infrastructure; they are more than just related but are one and the same thing and as such need to be examined together. This examination has two aspects. Firstly, Whitfield establishes both what is meant by public infrastructure and also its importance in modern society. "The public infrastructure provides basic human needs – homes, water, energy for light, heat and cooking ..." (p.13); as well as transport, hospitals, schools, leisure facilities, communication networks, buildings and networks for the criminal justice system and social and political activity. Whitfield lays out his case early on:

What is at stake is far greater than any cost difference between public and private investment, obtaining new or improved buildings and networks ... What matters is social justice, the transition to a low carbon economy, sustainable economic and social development, the transformation of public services, the regulation and control of markets, and taxation/use of public services. (p.14)

Moreover the "... quality and access to infrastructure determines community well-being, social justice, cultural life and governance" (p.13). The first part of the book sets out the evidence to support these claims developing a political economy of infrastructure.

However, it is in the second and major part of the book in which Whitfield shows how the global market in infrastructure has developed. Whitfield's work is firmly rooted in the critique of Neo-liberalism that he and others such as David Harvey have been developing for many years. Infrastructure projects have been subject to the kind of financial engineering we have seen in the banking sector in recent years. This includes financialisation, gearing, marketisation of assets and the growth of a secondary (re-sale) market. These policies are encouraged from the very top, with supra-national bodies like the OECD and the World Bank group pushing PPP policies. Whitfield quotes from the OECD's *Global Infrastructure Needs* study in 2007, where its first three recommendations are:

1. Encourage public-private partnerships (PPPs) as a means of raising additional financing for infrastructure investment and diversifying business models;
2. Encourage the investment of pension funds and other large institutional investors in infrastructure;
3. Make greater use of user charges for funding infrastructures. (pp. 69-70)

The report goes on to state why infrastructures make a good investment opportunity:

"... with their low-risk and steady-return profile, [they] are of considerable potential interest to such funds" (p.81). A great strength of Whitfield's book is the uncovering of the links between this global policy aspiration and real examples of PPP projects. In the process he exposes the myriad of connections between banks and financiers, global construction and management companies, consultants and policy advisors. Of course each of these parties needs to get paid and so PPP projects allow for profit taking at different stages, starting as would be expected at the initial stage of design, construct and operate. However, profit is also extracted when a project is refinanced and when equity is sold in the special purpose vehicle

(SPV) set up to fulfil the PPP contract. A central theme running through Whitfield's critique is the lack of transparency and democratic accountability in infrastructure PPPs such as the use of tax havens. For example Babcock & Brown Public Partnerships is registered in the UK tax haven of Guernsey, with over 50 PPP assets; 59% of them in the UK and 18% in Australia. These projects include the new Dublin courts building and 75% of the schools in Alberta, Canada. What all of this shows, is that the needs of international finance and capital accumulation are put ahead of any notions of democratic accountability or social justice.

Having set out the international context and developed a political economy of infrastructure, the middle chapters of the book work through huge amounts of detail to support the arguments developed previously. There are tables covering the size of sovereign wealth funds, global listed infrastructure funds, the extent of transactions in the secondary market and other sources of money for PPPs. This is then followed by a country-by-country analysis covering North America, Europe, Australia and the BRICS countries. This is a comprehensive resource but at times the level of detail can become overwhelming and a good approach could be to use this detail for reference purposes.

I do have one criticism, or possibly a suggestion for future work. While Whitfield outlines both what and how public sector alternatives to PPPs could be achieved, the discussion is at a rather abstracted level. This is all the more stark when you consider the detailed examples in the country by country analysis of PPP projects. Whitfield rightly points out, "we have to change the political culture from responding with 'Keep the...' campaigns to a practice of articulating demands and ideas about the future provision, finance, governance and delivery of services in alternative plans" (p.324). He also shows the flaws in the trade union response in the UK to PFI, of adopting the *twin-track strategy* of campaigning nationally against the policy but negotiating locally – in practice there was no effective national campaign and locally trade union issues such as protection of transferred staff pay and conditions dominated. This still leaves the question of how the alternatives to existing privatisation policy can be brought about. In answering this, further chapter(s) that look at case studies of popular resistance to attempted PPPs could be added. Whitfield has in passing shown that these exist in the chapter on *Abandoned and terminated projects*; for example the huge and intense uprising and demonstrations by people in Bolivia against water PPP projects. Bolivia is not an isolated case and shows a further step that the literature on PFI/PPP needs to take before we can not only have a full understanding of the process but also a coherent response and method for achieving a public infrastructure based on democratic, open and equitable access for all.

Overall, Whitfield successfully sets out the terrain on which the debate over privatisation and PPPs should now take place. And for that reason alone is an important contribution and indeed agenda-setting contribution to a topic of central importance in any modern society.

The basics of integrity in procurement: A guidebook

Kari Heggstad, Mona Frøystad and Jan Isaksen

Chr. Michelsen Institute, Norway February 2010

This guide aims to provide an overview of central issues on anti-corruption and procurement. Practitioners can use the guide to get a basic understanding on how corruption might occur in procurement, why mitigating corruption in procurement is important, where the risks are and how to address the risks.

Awareness of corruption risks in procurement is important, because corruption can occur at any point in the procurement cycle and is not always easy to detect. A large percentage of the total government expenditure passes through government procurement systems, and the risk of mismanagement and corruption is high if the processes are not structured and managed in a transparent, accountable and professional manner. Extra vigilance is therefore required when assessing the level of corruption risk in procurement.

Many country procurement systems are fundamentally sound in terms of their basic organization and procedures. However weaknesses in execution, compliance, monitoring and enforcement are commonplace.

This guide aims to give an introduction to the basics of anti-corruption thinking in procurement. Organisations such as OECD, Transparency International, the World Bank and the UN together with researchers and institutions provide anti-corruption and integrity advice for procurement officers, and the authors have gathered the general knowledge and advice from these guides into one short beginner guide.

The basic questions answered in the guide are:

- What is procurement and corruption?
- Why and how does corruption occur in procurement?
- Why is it important to prevent corruption in procurement?
- What are the main risks at all stages of the procurement process?
- What are the main mitigating strategies at all stages of the procurement process?
- Where can you find more information?

The guide is available from: <http://www.cmi.no/file/?971>

Expanding Tax Bases is Key to Development and Democracy in Africa

African countries should expand their tax bases to collect more revenues to finance their development, build state institutions and to improve national dialogue and, more generally, their social contracts with citizens. These are the conclusions in two new studies on taxation in Africa issued earlier this year.

The *2010 African Economic Outlook*, by the OECD and the African Development Bank, concludes that African countries' deepening of their tax bases does not necessarily mean increasing tax rates. Instead, taxes must be applied to different economic activities, from the extraction industries to personal income, while exemptions must be systematically eliminated.

In the long term, Jean-Philippe Stijns, main author of the study, says that, "African countries must create a highly qualified, well-paid, and honest tax administration elite to make sure that the state can collect the financial resources it needs to pay for development programmes".

Stijns named two examples of African countries that have succeeded in creating such elites.

"Uganda and Rwanda, two of the countries with the lowest income in the African continent and which suffered devastating civil wars in the recent past, have been able to put in place a qualified, efficient tax administration consisting of an elite of public servants isolated from political struggles," Stijns said.

If low income countries have accomplished that, every other country in Africa can do it, Stijns pointed out.

The *2010 African Economic Outlook*, co-authored by experts from the African Development Bank and the United Nations Economic Commission for Africa, confirmed that African economies have been weakened by the recent global recession at a time when they are under pressure to make additional efforts to achieve the millennium development goals.

The world economic crisis brought a period of high growth in Africa to a sudden end. Average economic growth was slashed from about six percent in 2006-2008 to 2.5 percent in 2009.

The crisis further reduced already low tax revenues, especially in the poorest countries. Annual taxes per capita in 2008 ranged from between 20 to 40 dollars in Burundi, Guinea-Bissau, the Congo Democratic Republic, Sierra Leone and Ethiopia, to almost 5,000 dollars in Equatorial Guinea and almost 12,000 dollars in Libya.

"Helping African states to broaden their tax base gives them incentives to engage more directly with their citizens and better consider their needs," Stijns insisted. These incentives also encourage the building of legitimate state institutions and to enhance social dialogue.

Download the *2010 African Economic Outlook* from:

http://ec.europa.eu/development/services/events/hdrd/documents/african_economic_outlook_2010.pdf

These conclusions correspond with those of another report, titled "Africa Tax Spotlight", by the London-based Tax Justice Network (TJN), this summarises recent studies carried out by African, European, and U.S. economists on the African tax systems.

Samuel Fakile, professor of economics and state finances at Covenant University, Ota, Nigeria, said that, "tax revenues are relatively low in most countries in Africa. Raising additional tax revenue is further constrained by weak state legitimacy, as taxes have often not translated into improvements in public service delivery."

Furthermore, Fakile said, "taxation is a core governance function. It has the potential to shape relationship between state and society in significant and distinctive ways. In Europe, tax not only helped create the state, it helped to shape the state."

Fakile complained that international trade liberalisation has forced African countries to reduce tariffs and thus to collect less tax revenues. Further liberalisation will worsen this loss.

He also called for the abolition of free zones that offer tax holidays. "Free zones lead to a shrinking in the tax base and to further complication of the tax administration and are a major cause of revenue loss and leakage from the taxed economy," Fakile said.

A key element for the future of tax justice in African countries, he pointed out, is the "education of the young, the next generation of taxpayers, on the significance and role of taxes.

"Outreach activities including TV and radio coverage, advertising and tax- themed programmes will help children and adults to understand the civic responsibilities of paying taxes."

The Tax Justice *Africa Tax Spotlight* is available from:

http://www.taxjustice.net/cms/upload/pdf/Africa_Tax_Spotlight- May 2010.pdf

Other background papers are available on this topic from:

http://ec.europa.eu/development/services/events/hdrd/hdrd_background_material_en.cfm

Domestic Resources Mobilization in Sub-Saharan Africa

The North-South Institute (NSI) has been working on case studies exploring the potential for domestic resource mobilization in five Sub-Saharan countries: Burundi, Cameroon, Ethiopia, Tanzania and Uganda.

Begun in 2008, the project seeks to bridge the gap between research and practice regarding the mobilization of domestic resources. Economic development is a domestically driven enterprise. No amount of foreign assistance or investment in its myriad forms can substitute for a coherent, dynamic and domestically driven capital accumulation, intermediation and mobilization process. It is vital that such a process take root even in the poorest of countries so that over time they may wean away from aid and other unpredictable external flows that have hitherto disproportionately financed their development needs.

In tandem with in-country workshops being held September 2010, organized in collaboration with the Banque de la Republique du Burundi, University of Yaoundé in Cameroon, the Department for International Development (UK) in Ethiopia, the Tanzania Revenue Authority and the Ministry of Finance in Uganda, NSI has produced a series of briefs highlighting research findings from each of the five case studies. These are available from:

<http://www.nsi-ins.ca/english/research/progress/58.asp>

The Experience of Medium Term Expenditure Framework & Integrated Financial Management Information System Reforms In Sub-Saharan Africa - What Is The Balance Sheet?

Mfandaedza Hove & Andy Wynne (2010)

A Medium Term Expenditure Framework (MTEF) and an Integrated Financial Management Information System (IFMIS) are two of the standard reforms promoted and supported by the World Bank and other aid agencies in almost every country in Sub-Saharan Africa (including 28 and 20 countries respectively of the 31 with a PEFA review – Andrews 2010). This paper provides a balance sheet of the relative success, or otherwise, of these reforms over the last decade (up dating the earlier paper by Wynne – 2008).

The aims and objectives of the MTEF and the IFMIS are outlined, indicating the initial hopes for these reforms and the increasingly strident warnings that this promise was not being delivered.

A case study is provided which considers the introduction of MTEF and IFMIS reforms in Rwanda. This demonstrates the limited success of these reforms even in a country committed to fundamental change and provided with significant resources by the donor community.

The paper then argues that it was the economic problems across Sub-Saharan Africa, especially in the late 1970s and early 1980s, resulting from external events, which led to a worsening of the quality of financial management and governance. This contrasts with the dominant view that it is poor governance that is holding back economic development across the continent.

This leads to considerations of effective alternative approaches; the need for real country led reforms which build on the particular existing public sector financial management system in

each country; and puts a priority on basic internal financial controls and reforms which have been clearly proved to be successful in similar environments. An incremental approach, which utilises and enhances local capacity, is considered to be far more likely to succeed than big bang approaches like MTEF and IFMIS.

The full paper is available from:

www.acbf-pact.org/knowledge/documents/Occasional_Paper_9.pdf

Invitation to Potential Authors

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

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

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

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

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 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:

- articles:

Schick, A (1998) 'Why Most Developing Countries Should Not Try New Zealand Reforms', *The World Bank Research Observer*, Vol.13, No.1, February. pp.123-31

- books:

Guthrie, J. Humphrey, C. Jones, L. R. & Olson, O., (2005), *International Public Financial Management Reform*, Greenwich, Information Age Publishing

- citations from edited books:

Flynn, N (2002) 'Explaining New Public Management: The Importance of Context', in K McLaughlin, S Osborne and E Ferlie (eds.) *New Public Management: current trends and future prospects*, London, Routledge

- translated books

Adorno, T. W. *Negative Dialectic* (Frankfurt: Suhrkamp, 1966). *Negative Dialectics*, E. B. Ashton (trans) (1973) New York, Seabury Press

- reference to a report.

World Commission on Environment and Development (1987) *Our Common Future* ('The Brundtland Report') Oxford, Oxford University Press

- references to material on the Internet

Dorotinsky, Bill (2008) *Public Financial Management Reform: Trends and Lessons*, ICGFM DC Forum, June

<http://icgfm.blogspot.com> (6 September 2008)

Charts, Diagrams, Figures and Tables

These should all be called figures, numbered consecutively in arabic numerals, with a brief title in capitals, labeled, axes etc. The text should indicate where the figure is to appear.

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We would also like to hear from other individuals who would be willing to assist with the editorial work of the Journal. The work would consist of reviewing potential contributions, suggesting whether they should be accepted for publication and making editorial recommendations to improve the quality of submissions.

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

International Journal of Governmental Financial Management -
www.icgfm.org/digest.htm

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 réformes 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'essai 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/le poste et l'institution d'affiliation (ministère, université, etc.), l'adresse email et les remerciements éventuels
- l'auteur ne doit pas utiliser des termes ou styles sexistes ou discriminatoires, comme par exemple "elle/lui" ou "il/elle"
- un usage limité des abréviations pour faciliter la lecture
- des références appropriées (voir ci-dessous) à la littérature sur le sujet pour soutenir les faits, les affirmations et les opinions ; toutes citations doivent être référencées correctement

- les notes de bas de page, identifiées dans le texte par un numéro en exposant, ne doivent pas comprendre des citations, et doivent être listées à la fin de l'article juste avant la bibliographie

Référencement du texte

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

Corkery, J., (1995) 'Réforme du service public: Obstacles et aides' *Bulletin DPMN*, Vol. 3, No.1, août, pp.9-11

2. livres :

Conso, P., & Hemicic, F., (1999), *Gestion Financière de l'entreprise*, Paris, Dunod

3. citations provenant de livres publiés :

Verley, P. (1995) 'Histoire économique et théorie économique', dans R Boyer et Y Saillard (eds) *Théorie de la régulation. L'état des savoirs*, Paris, Éditions La Découverte

4. livres traduits

Carnegie, D. *The Leader in You* (New York: Dale Carnegie & Associates, 1993).

Comment trouver le leader en vous, D. Weyne (trad) (1994) Paris, Hachette

5. référence à un rapport :

Banque Mondiale (2007) *Rapport sur le développement dans le monde 2007 – Aperçus régionaux : Afrique subsaharienne* ('Rapport sur Développement et Générations Futures'), Washington DC, The World Bank

6. références aux matériels sur l'Internet

Yahyaoui, Thami (2007) *L'économie politique de la réforme des pensions au Maroc*, Conférence de la Banque Mondiale, Décembre
<http://info.worldbank.org/etools/docs/library/241514/YAHYAOUICHYPRE911decembre2007.pdf> (12 mars 2009)

Graphiques, Diagrammes, Figures, Tableaux

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

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

Veillez prendre contacte avec Andy Wynne - andywynne@lineone.net – si vous souhaitez discuter du rôle du comité de rédaction et de quelque proposition d'amélioration.

Invitación a posibles Autores

La revista *International Journal on Governmental Financial Management (IJGFM)* es un foro para académicos, profesionales y el público en general para el debate de las muchas disciplinas involucradas en la gestión financiera gubernamental. Éstas incluyen la contabilidad, la auditoría, el proceso presupuestario, la gestión de la deuda, la tecnología de la información, la gestión impositiva y la del tesoro.

Nos gustaría publicar artículos y comentarios que:

- alienten la colaboración entre profesionales y otros que están preocupados por la gestión financiera.
- contribuyan al avance de los principios y normas de la gestión financiera gubernamental, especialmente al describir las buenas prácticas existentes.
- identifiquen problemas o debilidades a través de una crítica de las opiniones actualmente dominantes sobre las reformas 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 comunes.

Sería de interés especial recibir contribuciones de individuos o equipos que trabajan en los países en desarrollo. Invitamos a los potenciales autores a consultar los números anteriores de la revista en: <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 un comentario confidencial de las contribuciones enviadas y ofrecer sugerencias editoriales (detalla si fuera necesario) para ayudar al autor a producir un trabajo digno de publicación. Sería posible proveer una revisión de doble ciego si un autor individual la solicitara.

Entrega de manuscritos

No cobramos tasas por la entrega o publicación de artículos.

Los manuscritos deberán ser enviados como anexo a un mensaje electrónico dirigido al redactor, Andy Wynne: andywynne@lineone.net con copia a icgfm@icgfm.org.

Serán bienvenidas ideas para artículos y éstas podrán ser comentadas con el redactor antes de entregar el texto completo. El redactor está dispuesto a responder a indagaciones informales sobre la conveniencia de trabajos 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 un trabajo 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 principales 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 citas deben venir acompañadas de una referencia completa.
- las notas de rodapié, identificadas en el texto con un número superescrito no deben incluir citas 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 citas 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 citas 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 materiales disponibles 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:

- Schick, A (1998) 'Why Most Developing Countries Should Not Try New Zealand Reforms', *The World Bank Research Observer*, Vol.13, No.1, febrero. pp.123-31.
Barrientos, Eduardo Gana (1994) 'Procesos de integración subregional y coordinación de políticas macroeconómicas', *Información del Comercio Español*. 732:8-9. pp. 131-142.

Bekinschtein, José A., Maizal, Nélica. (1994) 'La integración regional en Asia-Pacífico: Vías de participación.' *Integ. Latinam*. 19:1-2. pp. 31-42.

2. libros:

Guthrie, J. Humphrey, C. Jones, L R. & Olson, O., (2005), *International Public Financial Management Reform*, Information Age Publishing, Greenwich.

Stolovich, Luis. (1993) *El poder económico en el MERCOSUR*. Centro Uruguay Independiente, Montevideo.

3. citaciones de libros compilados:

Flynn, N (2002) 'Explaining New Public Management: The Importance of Context', en K McLaughlin, S Osborne y E Ferlie (eds.) *New Public Management: Current Trends and Future Prospects*, Londres, Routledge.

Haug, G. (2005) 'Pluralidad e intereses compartidos de las Universidades Europeas', en F. Toledo, E. Alcón, y F. Michavila. (eds) *Introducción a la contabilidad Financiera: un Enfoque Internacional*. Barcelona: Ariel. pp. 35-49.

4. libros traducidos:

Adorno, T. W. *Negative Dialectic* (Frankfurt: Suhrkamp, 1966). *Negative Dialectics*, E. B. Ashton (trad.) (1973) Nueva York: Seabury Press.

5. referencia a un informe:

WCED (World Commission on Environment and Development) (1987) *Our Common Future* ('The Brundtland Report'); Oxford: Oxford University Press.

6. referencias a material del Internet:

Dorotinsky, Bill (2008) *Public Financial Management Reform: Trends and Lessons*, ICGFM DC Forum, Junio

<http://icgfm.blogspot.com> (6 Septiembre 2008)

Cuadros, diagramas, figuras e tablas

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

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Universidad de Birmingham, RU (de Ghana)

Nidhi Walia
Thapar University, India

Andy Wynne - el editor
iDILMAT, Ghana (de RU)

Owen Zhang
Oficina Nacional de Auditoría de China

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

Tenga la bondad de contactar al redactor, Andy Wynne - andywynne@lineone.net – si le gustaría comentar sobre el papel de la junta editorial y cualesquier sugerencias que usted pudiera ofrecer.