

The International Consortium on
Governmental Financial Management



Public Fund Digest

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International Consortium on Governmental Financial Management

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

The Consortium's international activities include:

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

In addressing issues, the Consortium embraces many disciplines of governmental financial management including: accounting, auditing, budgeting, debt administration, information technology, tax administration and treasury management. These areas provide the general frame of reference for the programs, activities and operations of the Consortium.

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The editor invites submission of articles, research papers, letters and reviews of books and documents. Please submit articles to the editorial office indicated below. Also, requests for information on the Consortium should be addressed to:

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International Consortium on Governmental Financial Management General Information

“Working globally with governments, organizations, and individuals, the International Consortium on Governmental Financial Management is dedicated to improving financial management by providing opportunities for professional development and information exchange.”

Our **mission** includes three key elements. First, it highlights that, within the international community, the Consortium is unique—it serves as an “umbrella” bringing together diverse governmental entities, organizations (including universities, firms, and other professional associations), and individuals. At the same time, it welcomes a broad array of financial management practitioners (accountants, auditors, comptrollers, information technology specialists, treasurers, and others) working in all levels of government (local/municipal, state/provincial, and national). Additionally the mission statement emphasizes the organization’s focus on activities to promote professional development and the exchange of information.

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

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

- 1. Sustaining Members:** organizations promoting professional development, training, research or technical assistance in financial management; willing to assume responsibility for and to actively participate in the affairs of the Consortium. Each Sustaining Member has a seat on the ICGFM’s Board of Directors and receives 10 copies of all ICGFM publications to be distributed within their organization. (Dues: \$1,000)
- 2. Organization Members:** government entities with financial management responsibilities, educational institutions, firms, regional and governmental organizations, and other professional associations. Six organization members serve on the ICGFM’s Board of Directors and organization members receive 5 copies of publications to be distributed to their members. (Dues: \$250/\$150*)
- 3. Individual Members:** persons interested in, dedicated to, or working with activities directly related to financial management and who wish to be members in their own right. Six members of the ICGFM Board of Directors will be selected from among all individual members. Each individual member will receive a copy of all ICGFM publications. (Dues: \$100/\$50*)

* A special discount is offered to developing countries, countries with economies in transition and regional groups and organizations in such countries to encourage their participation. This discount is available to **all countries other than** Australia, Canada, China, Egypt, European countries (**except transition economies**) India, Iran, Israel, Japan, Kuwait, Libya, Mexico, New Zealand, Nigeria, Oman, Saudi Arabia, United Arab Emirates, USA, Russia, and Venezuela.

Foreword

The lead articles in this issue address the area of education in public sector financial management. Many developing countries and countries in transition are in the process of improving their capacity to better understand the financial management issues. Certification programs are identified for those individuals that might want the additional credentials that recognize their higher level of professionalism.

Every country has a need to establish laws relative to budget and accounting. A couple of examples (from Armenia and Azerbaijan) are included in this issue to assist those countries that might be interested in passing or revising their budget and accounting laws. It is not intended that these examples serve as models laws to be adopted. Rather, it is hoped that each country will establish those laws that cover the basic aspects of budgeting and accounting as reflected in these laws.

Accountability is always a critical issue when discussing financial management in the public sector. A case study on the level of accountability in Bangladesh is included to demonstrate their experiences. An excellent paper has been issued by FEE to reflect how best (or when) to adopt accrual accounting and budgeting by governments. Further, some additional problems of accrual accounting is identified by Ouda.

For the benefit of our readership, we try to stay on the leading edge. In Vol II, No. 2, 2002 of the *Public Fund Digest*, we published an article defining the benefits of XBRL. In this issue, we include an article further identifying the development of this reporting tool as applied to the private sector and government business enterprises in the public sector. In further issues, we plan to explain the application of this tool to governmental units.

The articles conclude with a discussion of the Sector-Wide Approach (SWAp) in development assistance. This approach focuses development assistance on a broad sector in a country, stresses donor coordination and ongoing dialogue among stakeholders, and allows the country recipient to take leadership. The International Public Sector Accounting Standards Board is working on an accounting standard in this area that is expected to be released shortly.

Following this Foreword, I have included some references that you might find beneficial in your work. In addition, I have included some pictures from the Annual Meeting in December so that you can put some faces with the names of the ICGFM leadership. I have also included some timelines to help you identify where you might be in your efforts to implement accrual accounting in your country. If you have difficulty understanding the timelines, I would encourage you to go to the www.icgfm.org website and read the Hughes/Minovski article in the Vol. IV, No. 2, 2004 issue of the *Public Fund Digest*.

As always, we invite your comments on these papers and any prior publications of the *Public Fund Digest* as we debate the issues. Contact me at jhughes@odu.edu if you would like to contribute an article or discuss a government financial management issue. Or contact us by telephone, facsimile, and on the Internet at www.icgfm.org.

Jesse W. Hughes
Publications Editor

Linda L. Weeks
President

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Some Reference Material

(e-mail—jhughes@odu.edu)

2003 book on “Reforming Government Accounting and Budgeting in Europe” edited by Klaus Luder and Rowan Jones published by Fachverlag Moderne Wirtschaft, Frankfurt, Germany:

3 countries (Finland, Spain, & Sweden) have completed the move to full accrual.

1 country (UK) has essentially completed the move to full accrual except no whole-of-government financial statements are yet in place.

2 countries (France & Switzerland) have begun the reform process

3 countries (Germany, Italy, & the Netherlands) have not yet begun the reform process

OECD/World Bank 2003 Survey of Current Budgetary Practices for 30 OECD countries and 30 non-OECD countries (ocde.dyn dns.org)

Treasury Reference Model in 2001 by Ali Hashim (World Bank) and Bill Allan (IMF) – www1.worldbank.org/publicsector/peltrmodel.htm

IMF Code of Good Practice on Fiscal Transparency –
(www.imf.org/external/np/fad/trans/index.htm)

GFOA (US) Best Practices in Public Budgeting with 4 principles and 12 elements (www.gfoa.org/services/nacslb/budgetmenu.htm)

UNDP Key Factors in Budget Preparation Process
(magnet.undp.org/Docs/efa/CONTAC~1.htm)

World Bank Country Financial Accountability Assessment
(www1.worldbank.org/publicsector/cfaa.htm)

OECD Best Practices for Budget Transparency (www.oecd.org)

Information Systems for Government Fiscal Management by Ali Hashim & Bill Allan, The World Bank, 1999

The Government Finance Statistics Manual, 2001 (IMF) (www.imf.org/external/pubs/ft/gfs/manual/index.htm)

International Federation of Accountants (www.ifac.org) where International Public Sector Accounting Standards and studies can be downloaded free.

International Consortium of Government Financial Managers (www.icgfm.org) for case studies published in the *Public Fund Digest* and announcement of conferences.

Photos from ICGFM Annual Meeting



Outgoing President Relmond Van Daniker passes responsibility to Incoming President Linda Weeks.



Meeting of the ICGFM Board after the annual meeting to set direction for the new year.

International Education Standards for Professional Accountants (IES), the Association of Chartered Certified Accountants (ACCA) and Continuing Professional Development (CPD)

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This paper describes the contents and reasons for the International Education Standards for Professional Accountants recently issued by IFAC. It also illustrates the efforts ACCA, one of IFAC’s member bodies, has made to meet the Standard on CPD.

Introduction

During 2003/04, for the first time, the International Federation of Accountants (IFAC) issued seven International Education Standards for Professional Accountants (IES). These Standards set minimum standards for the education and training of professional accountants world wide. They apply to all members of IFAC member bodies wherever they may be working, including public practice, industry and commerce and the public sector.

IFAC is the world wide organisation for the accountancy profession. Its mission is to serve the public interest, strengthen the world wide accountancy profession and contribute to the development of strong international economies. IFAC is comprised of more than 159 professional accountancy bodies from every part of the globe, representing more than 2.4 million accountants.

The Standards cover all aspects of education from entry level to continuing professional development (CPD). There are also two introductory documents. The whole set consists of:

- Framework for International Education Statements
- Introduction to International Education Standards
- IES1. Entry Requirements to a Program of Professional Accounting Education
- IES2. Content of Professional Accounting Education Programs
- IES3. Professional Skills
- IES4. Professional Values, Ethics and Attitudes
- IES5. Practical Experience Requirements
- IES6. Assessment of Professional Capabilities and Competence

IES7. Continuing Professional Development: A Program of Lifelong Learning and Continuing Development of Professional Competence

The above documents are all available without charge on the IFAC web site at www.ifac.org. IFAC is also preparing the Exposure Draft of IES8 – Education Requirements for Audit Professionals.

Following various audit failures in many parts of the world, the audit part of the profession in particular has come under pressure from regulators to establish high quality global Standards. The Education Standards are designed to underpin other Standards on Auditing, Ethics and Accounting both in the private as well as the public sector. The aim is to harmonise Standards world wide and education provides the foundation to support the application of the other types of Standards.

IES prescribe the range of professional knowledge, professional skills, professional values, ethics and attitudes required of accountants. They encourage the development a positive attitude towards lifelong learning. Most of them require compliance by member bodies of IFAC by the beginning of 2005, however, the IES also acknowledge there may be different approaches around the world and they are pitched at a high level of generality.

This paper describes the IES and explains how ACCA, which is a member body of IFAC, is implementing the Standards, in particular with mandatory CPD for all its members. ACCA is a global professional accountancy body with its headquarters in the United Kingdom. The CPD Standard has been chosen because it presents the greatest challenge to many bodies.

The Standards

The Framework document describes the objectives and operating procedures of the IFAC Education Committee, which sets Education Standards on behalf of IFAC. The Framework also defines some 30 terms which are then used consistently in the Standards. One such definition defines Professional accountants as Persons who are members of IFAC member bodies. The implication being that all individuals who are members of IFAC member bodies meet IFAC's Education Standards.

The Introduction document sets out the purpose, scope and development of the Standards and discusses the ways in which the Standards may be adopted and applied. The overall goal of the Standards is to encourage accounting education programs which produce competent professional accountants. Competence is tied to performance outcomes at work rather than academia and is defined as Being able to perform a work role to a defined standard with reference to real working environments.

IES1 lays down the entry level requirement to start a program of professional accounting education and practical experience. This is defined as equivalent to that required for admission to a degree program. A degree therefore is not required to start a professional program, however, the final assessment of professional competence is expected to be beyond first degree level. In practice, many professional bodies require accounting degrees while others set syllabuses which are at least equivalent to accounting degrees.

IES2 sets out the content required, at a high degree of generality, of professional accounting education programs. It prescribes the knowledge required under three main headings:

- Accounting, finance and related knowledge
- Organisation and business knowledge
- IT knowledge and competence.

This Standard sets out the main subjects to be covered under each of the above headings without attempting to lay down a detailed syllabus. This leaves a considerable amount of flexibility for professional bodies to devise syllabuses which meet their own local market needs.

IES3 prescribes the mix of professional skills required in order to operate as a competent accountant. These skills are at a high level and are grouped in five main categories:

- Intellectual skills
- Technical and functional skills
- Personal skills
- Interpersonal and communication skills
- Organisational and business management skills.

In some countries a general education is used to inculcate these skills. An academic environment, however, may not be the most effective way of training for some of these skills. Partly for this reason, in some countries these skills are left to practical experience.

IES4 deals with professional values, ethics and attitudes. This whole area has become of much greater concern since the various accounting scandals in the USA and Europe. The Standard lays down quite an extensive list of subjects which have to be covered in regard to values, ethics and attitudes.

This Standard also contains a discussion about teaching values, attitudes and ethics as well as workplace learning about them. IFAC is developing guidance on how values, ethics and attitudes can be taught and trained for. In addition, IFAC has published a Code of Ethics for Professional Accountants which IFAC expects its member bodies to base their own codes upon.

IES5 prescribes the amount of practical experience which a program of accounting education should contain as well as how this experience should be monitored and controlled. It lays down that candidates require a minimum of three years practical experience in addition to their study time. If postgraduate study, however, includes a strong element of practical application then one year of postgraduate study can contribute to the overall experience requirement.

The Standard requires that the experience gained should be under the supervision of a professional accountant and a record of the experience should be maintained.

IES6 requires a final assessment of the professional capabilities and competences of candidates before they are admitted to membership of IFAC member bodies. This final assessment is normally in addition to an academic qualification and is beyond undergraduate degree level. It is required to test both theoretical knowledge and the practical application of that knowledge.

IFAC is about to issue the Exposure Draft of an International Education Paper which considers the advantages and disadvantages of various assessment methods. This includes work based assessment although IES6 also requires a significant amount of the assessment to be in recorded form. Member bodies are expected to take responsibility for the final assessment unless this is the province of statutory authorities.

IES7 makes continuing professional development mandatory for all professional accountants. The Standard allows for two approaches:

- An input approach based on the number of hours of CPD required
- An output approach based on the development of relevant competences.

The number of hours required is 120 in each three-year rolling period. Half these hours should be verifiable. The competence based approach is more innovative but at least in theory should lead to more relevant learning outcomes. Member bodies of IFAC are expected to monitor the CPD activities of their members and enforce compliance with their requirements.

ACCA and CPD

As a founding member of IFAC and instrumental in drafting the Standards, it is not surprising that ACCA met the Standards in most respects. In common with other bodies, however, ACCA restricted mandatory CPD to its public practice members. IES 7 now requires CPD to be a condition of membership for all.

ACCA therefore launched an extensive consultation process with members, employers and other stakeholders to obtain their views on how ACCA could implement a mandatory CPD scheme for all its members world wide. ACCA has some 100,000 members with over half outside the United Kingdom. About 10% of members work in the public sector.

The results of the consultation showed that members were already participating regularly in learning and development activities, indicating that the majority of members are currently undertaking CPD and that the new mandatory requirements can easily be met. It also provided ACCA with clear guidance on the type of scheme which would suit its members.

ACCA's approach to CPD aims to ensure that learning and development are relevant to members at all stages of their careers. The new CPD scheme, ACCA Realise, has been designed to achieve the following objectives:

- Help members identify areas of development which are relevant and will support their careers
- Assure employers that ACCA members are meeting global standards of development and approach their work in a responsible and ethical manner
- Ensure a transparent and measurable approach to CPD which provides guidance and clarity to members and their employers
- Provide a flexible approach, supported by a range of products and services.

ACCA Realise has been specifically designed to meet the needs of members. The new scheme recognises the diversity in the roles of members and will facilitate personal and professional development.

ACCA will provide members with increased support through new products and services designed to help them identify learning opportunities and maintain and develop their skills and knowledge. These include

- An online knowledge library containing a range of resources such as technical updates, relevant articles, briefings and research materials
- Recommended online learning opportunities
- Guidance on identifying appropriate face-to-face learning opportunities
- A professional development matrix to help identify skills and knowledge required and to facilitate planning of relevant learning and development needs.

The range of suitable topics to be covered by CPD will be varied and depend, at least partly, on the specific work a member is undertaking and their fields of expertise. In the public sector, for example, members may need updating on a selection of the following professional issues:

- financial reporting standards, these may include, where relevant, IFACs International Public Sector Accounting Standards, the requirements of local standard setting bodies or legal requirements
- the IMF's reporting standards outlined in its Government Financial Statistics Manual
- the practical implications of the local equivalent of a Public Financial Management Act, Public Audit Act, financial regulations and other statutory and regulatory requirements
- best practices with regard to financial management including internal controls, the budgetary cycle, cash flow management and procurement
- modern approaches to public audit, INTOSAI standards and their local equivalents, audit sampling and systems based auditing
- the Government's public sector reform programme its progress, plans and implications
- modern public financial management and accountability tools, for example, a Medium Term Expenditure Framework, Integrated Financial Management Systems, single treasury accounts, the PEFA Performance Measurement Framework.

A range of activities will be recognised as relevant CPD. They fall into four areas of activity:

- E-learning e.g. online learning as well as learning through multi-media tools such as the internet, CD-ROM, video and audio
- Work-based e.g. participation in mentoring, coaching and activities which expand members' experience, discussion groups and networks
- Research/reading/presenting e.g. reading and writing technical and business articles
- Courses/events e.g. attendance at courses, conferences, seminars, workshops and briefings, distance and open learning study programmes and further qualifications.

ACCA members will be able to meet their CPD obligations in one of two ways, either through an approved employer route or through a unit scheme route.

Under the approved employer route:

- ACCA will recognise members' work-based learning and performance. Members who participate in an approved employer's development scheme will automatically meet ACCA's CPD requirements
- Employers who want to achieve approved CPD employer status will need to demonstrate that their programs contain a performance review process to ascertain if improvement and development has taken place and that individuals have benefited from their learning or training activities
- Employers will need to meet ACCA's stated requirements to become an approved CPD provider.

Members along with their approved CPD employer will evaluate their learning needs to meet agreed objectives. Employers will be required to provide

opportunities for learning and development to ACCA members. These could include:

- Work-based learning, including discussion groups, secondments and coaching
- Access to in-house training provision
- Opportunity to participate in activities external to the organisation or allocated time to read, research or present on topics that they are required to have in-depth knowledge of.

Approved employers will need to have in place a performance review system. Members will need to complete a simple annual return to ACCA each year end (either online or paper-based) to confirm their participation in relevant CPD and their approved employer scheme. There will be no requirement to track and determine allocations of CPD units or hours.

Under the more traditional unit scheme route members can achieve CPD units or hours through a wide variety of learning and development activities. Members will have to:

- Understand and evaluate the skills and knowledge which are important to carry out their job roles effectively
- Identify skill gaps, areas for development or knowledge they require to keep up to date
- Consider how to meet their identified and ongoing development needs.

Members will be required to complete 40 units of CPD annually. 21 of the 40 units will require verifying, i.e. where notes or paper records confirm participation. Non-verifiable CPD is where activity has taken place which is difficult to prove, for example general business reading. One unit of CPD equates to one hour spent on a learning, development or training activity.

At the end of each year, members will have to complete a CPD return (either online or paper-based) which:

- Confirms that the minimum CPD requirements have been met
- Declares their continued compliance with professional ethics
- Indicates the nature of the activities completed and the area of skill or knowledge maintained or enhanced.

Members should maintain a portfolio of evidence as proof of their CPD activities e.g. office records, diary entries, course programs, or minutes of meetings. This must be kept for a three-year period for inspection purposes by ACCA.

Conclusion

The IESs have been presented at conferences in the USA, Europe, Asia and Africa. There has been widespread acceptance of the principles in the Standards by all the stakeholders, academic as well as employers.

IFAC has now commenced a compliance program to see how far its member bodies are complying with the Standards. At the outset the approach has been one of encouragement and support rather than enforcement, although this might come later.

Even developed countries may have some work to do to comply fully with the Standards, although in which respect may vary from country to country. Where custom and practice differ to the Standards it could take a while to alter

programs. In some developing countries the problems lie with weaknesses in national education infrastructures which cannot easily or quickly be upgraded.

The Standards call for high level professional skills combined with strong professional ethics and lifelong learning. This is in addition to the traditional grasp of the technicalities of accounting and their practical application. Implementation of these Standards would go a long way to meeting the demands of regulators that accountants meet the standards of professional conduct expected by the public.

The ACCA CPD scheme demonstrates the efforts IFAC member bodies are making to meet the Standards.

A Training and Qualification Programme for Public Sector Accountants and Auditors for Use in Transition Economy Countries

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1. Preface

1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) has developed an international public sector accounting and audit training and qualification programme for use in transition economy countries. The programme is based upon the experience of developing similar programmes for Slovakia, Slovenia, Croatia and Albania.

1.2 CIPFA has the capacity to set up and deliver this programme during 2004 and in subsequent years subject to agreement about funding and logistical arrangements including agreeing who should be the local partner and training organisation as the scheme requires. At Annex 1 of this paper is a statement describing CIPFA.

1.3 Once established the overall objective would be to transfer the qualification programme to a national professional body (with a new body being created if one did not already exist) whose objectives would be to develop a trained professional cadre of public sector accountants and auditors and to enhance the status and quality of the public sector accounting and auditing profession. CIPFA would be pleased to continue to support both the qualification and the national professional body for as long as was required although whilst it supported the proposed qualification it would wish to exercise a quality control responsibility.

1.4 CIPFA is a well established United Kingdom accountancy body which specialises in training staff in public sector financial management and audit for public sector bodies, mainly in the United Kingdom although it has a wide international experience of providing training programmes in a range of transitional and developing economies. CIPFA was established in 1885, has a Royal Charter and is a UK registered charity. CIPFA is also a member of the International Federation of Accountants (IFAC), the international representative body for the profession, and of the Fédération des Experts Comptables Européens (FEE), the European representative body for the profession. CIPFA is fully involved in the development of public sector international accounting and auditing standards.

2. Introduction

2.1. A fundamental element in the robustness of the public sector budgetary, accounting and governance arrangements is high quality financial reporting

which relies upon a high quality accounting process supported by an expert audit process, both internal and external . A properly trained audit and accounting staff is therefore essential and as countries move towards improving their financial systems, the need for a full understanding of accounting principles becomes of added importance and indeed the demands upon audit correspondingly increase.

2.2. One way of developing a trained accounting and audit staff is for them to undergo a commercial professional accountancy training programme. However, there are a number of difficulties with this solution. They include the following:

- A commercial qualification does not have regard to the particular circumstances of the public sector and some of the material that is taught is irrelevant for public sector purposes and other much needed material is missing altogether;
- Foreign qualifications usually require the student to be proficient in another language and this adds to the training difficulties and terminology may be used that is unfamiliar to the student.
- Where a commercial accountancy qualification is taken, this makes staff more marketable and there can be a significant loss of trained staff to the private sector;
- The commercial approach does not facilitate the establishment and development of a local public sector professional audit and accounting body or the development of a public sector specialization in an existing professional body dedicated to enhancing the audit and accounting skills of public sector staffs.

2.3 Because of these difficulties the Chartered Institute of Public Finance and Accountancy (CIPFA) has developed an international public sector accountancy and audit qualification programme designed to meet the particular public sector training needs. The qualification is a post graduate qualification and an objective of the training arrangements is to bring a high number of staff up to more productive working as quickly as possible. The programme has the following features:

- It is modular in format with students able to major in audit or accounting depending upon their particular needs (good quality audit depends upon good quality accounting);
- Educational attainment has to be linked to workplace based training in order to achieve practical competency;
- The audit elements of the qualification cover the requirements of both public sector internal and external audit; this is because of the need for a full understanding by both internal and external auditors of each others responsibilities and of the desirability for external auditors to be able to rely on the work of internal audit;
- It includes a law and taxation module written locally (but to a CIPFA specification) so that it will meet the particular requirements of the national public sector;
- It is open learning based and therefore is economical in both employer and student time and would allow students to plan and complete their studies around existing work commitments and patterns;
- The materials would be available in the national language and would be reviewed to ensure that they reflected national terminology where appropriate;

- Long run support would be provided to students following qualification to maintain their skills and knowledge (Continuing Professional Development);
- The opportunity exists to supplement the programme of learning with local short courses to meet special needs or new circumstances;

2.4. This international CIPFA qualification is a Certificate and Diploma in Public Sector Accounting and Audit. The standards of this qualification, the learning materials, the initial training support for and the quality control arrangements would be provided by CIPFA. The Certificate would be offered on part completion of the programme of training with the Diploma being awarded on its full completion.

2.5. A local partner is required who would be prepared to manage the scheme locally, including relationships with students, arrange any additional short courses which may be required, organise relationships with a local academic institution who would have an important role in the assessment process, in providing advice to students in the use of the open learning material and who could also prepare the local law and taxation module if necessary. An ideal local partner, where local authorities are involved, would be a national local authority association or an association of professional officers, such as municipal finance officers.

2.6. The qualification is vocational in nature with academic and work based elements. Even though the qualification has been developed by CIPFA, once the programme has become established CIPFA would be willing to make the qualification available to an appropriate local professional body if that was required, with, if necessary, CIPFA exercising a quality control responsibility whilst its name remained associated with the qualification. CIPFA would also be prepared to provide long run support to holders of the Diploma provided suitable arrangements could be made, and long run support is essential to the maintenance of skill capacity over time.

3. The Certificate and Diploma in Public Sector Accounting and Audit –educational requirements:

3.1. The proposed Certificate and Diploma is a post-graduate qualification designed and aimed at University graduates and staff with substantial experience who do not possess a University degree. However, if a country wished to restrict entry to graduates only that would be acceptable to CIPFA. (If diploma holders wished to develop their skills and to pursue their studies further the qualification would give exemption from a number of subjects in the full CIPFA professional accountancy qualification.)

3.2. The students would be both newly appointed staff with a suitable level of educational achievement (who should enter the diploma programme ideally after one year's practical experience although this may not always be possible where there is an urgent need for training or where the diploma programme is to be integrated into existing entry level training programmes) and to existing staff (who would have an appropriate range of experiences but who may not have the required level of formal educational attainment). Before students were awarded the Diploma (but not the Certificate) they would be required to complete the workplace based programme of work experiences (see section 4 below).

3.3. The programme has a public sector ethos. The learning materials will take into account international audit and accounting standards relevant to

public sector organisations. Assessment arrangements are designed to test the student understanding of each module in the way that is most appropriate to that module. Therefore the assessment arrangements will vary between modules. The modules cover the following elements:

- Financial reporting;
- Accounting for decision making;
- Audit I;
- Audit II;
- Financial management;
- Law and taxation;
- Information systems management; and
- Management.

3.4 To obtain the Diploma students would need to complete successfully a minimum of seven of the eight modules. The modular construction of the scheme means that those students who specialise in audit should complete both audit modules and not the module on accounting for decision making, and those students who wished to specialise in accounting would complete the module in accounting for decision making but not the second audit module. (However, CIPFA would not object if the national authorities wished to require all students to take all eight modules.)

3.5 The Certificate would be offered after successful completion of four modules. Examples of some typical syllabus content are amplified in Annex 2. (An aim of this arrangement is to allow the majority of students to gain some level of recognition by achieving success in at least a limited range of subjects.)

3.6 Assessment arrangements would include a combination of practical work-based assignments, case studies and examinations and the standard of assessment would be moderated by CIPFA.

3.7 The programme would not be intended to train staff to follow the instructions and requirements of their particular job. The aim would be to provide the competences and skills that would enable staff to understand both the context and the practical requirements of accounting and auditing associated with an understanding of the theoretical bases of both which underpin international auditing and accounting standards, as well as international ideas on the development of reporting and arrangements for corporate governance in the public sector.

3.8 CIPFA would provide the initial programme design and all the learning materials apart from the materials for the local law and tax module but which once available would be incorporated into the open learning materials portfolio. All the learning materials would be available on CD.

3.9 A local academic institution would need to provide support to students to assist them with the use of the open learning material and to answer technical queries. CIPFA would provide 'train the trainers' courses to enable the staff of this institution to provide advice on the use of the open learning material and CIPFA would provide in turn support and advice to that institution where there were difficulties of understanding. (If the local academic institution did not have the knowledge to provide the level of advice that students might need, CIPFA would be willing and able to either provide the tutors itself or to train the local tutors either in their own country or in the United Kingdom.)

3.10 Assessment would be carried out locally to standards specified by CIPFA, who would exercise a quality assurance and control role. Students would be expected to meet the requirements of the assessment process in their national language for marking by the local academic institution and CIPFA would exercise their quality control responsibility by:

- Agreeing with the local academic institution the details of the assessment requirements;
- Agreeing the marking plan;
- Double marking a sample of the assessments (and this would require that a sample is translated into English).

3.11 For that part of the assessment process requiring the writing of an examination, examinations might need to be arranged for regional centres. For that part of the assessment process where the student prepared the assessment on their own, the employer would be required to certify that the work was that of the student.

3.12 The assessment arrangements proposed for each subject could be as follows, although it would be important to agree these with the country concerned because of the need to reflect local circumstances:

- Financial reporting: 3 hour examination;
- Accounting for decision making: 3 hour examination plus a work based assignment;
- Audit I: a substantial assignment which may be work based;
- Audit II (incorporating European Union regional and other funding requirements: 3 hour examination);
- Financial management: a substantial assignment which may be work based;
- Law and taxation: 2 examinations each of 2 hours duration;
- Information systems management: a substantial assignment which may be work based; and
- Management: a substantial assignment which may be work based.

4. The Certificate and Diploma in Public Sector Audit and Accounting—Workplace experience requirements

4.1 Apart from undergoing the educational programme students would be expected to have a range of appropriate practical experiences. In the early years of the programme it may not be possible to have the full range of practical experiences that would ideally be desirable, but as a minimum, students should have work experiences that involve them in either the management, preparation or audit of the following for the Government or local government or other public body or agency;

- The budget
- Preparation of the chart of accounts;
- Preparation of financial management information;
- The financial control system.

4.2 Newly appointed students would be expected to gain a minimum range of experiences during the period of the programme and this type of practical experience would be essential to help them with the preparation of the

assessment assignments. This process has the additional advantage that the academic knowledge is applied in the workplace.

4.3 The full range of workplace based experiences that students would be expected to have would be the following:

Financial reporting: Recording transactions using double entry techniques; identifying and correcting coding errors; carrying out bank reconciliations; monitoring control accounts; clearing suspense accounts.

Accounting for decision making: Producing cost analysis information; preparing budget information, reporting on variances and interpreting variances; preparing monthly management reports; undertaking statistical analysis including the development of sampling proposals.

Audit I: Contribute to development of an audit programme; plan and manage an audit assignment; undertake and report on an audit assignment; undertake an IT audit and prepare a report on the outcomes of the audit.

Audit II: Contribute to the audit of donor funds to the standards laid down by the relevant agency; Undertaken a performance audit and prepared a report on the findings; reviewed the design of system controls and reported thereon.

Financial management: Analysing and interpreting service performance; preparing reports on the achievement of internally set financial and non-financial performance indicators; assist in defining project goals and outcomes; monitoring progress; contributing to post evaluation review; contribute to the management of working capital.

Law and taxation: Preparation or review of compliance guidance including reports on extent of compliance with the law and regulations; review of standing orders and financial regulations for an organisation; preparation of monthly VAT returns; establishing that VAT has been properly accounted for; assessing compliance with employment taxation laws and regulations.

Information systems management: Design/review of information systems; specification or review of a specification for an IT project; analysis of information requirements of management.

Management: Involvement in personnel management processes including interviewing and the development of training plans; preparation of reports and the presentation of those reports; briefing of technical and non-technical staff; implementation of new systems; designing new procedures; preparation of longer term plans.

5. Who would be trained and how long would it take?

5.1 The qualification is aimed at the public sector as a whole and is not restricted to local government. Therefore the target groups for the training would be staffs in local and regional government, the Ministry of Finance, the Supreme Audit Institution, the Regional Audit Institutions, the line ministries, government agencies and business organisations, as well as those staff who have controller responsibilities.

5.2 Where a person wishing to take the Diploma course has a relevant degree, which for most would be an economics or accounting degree, that person could benefit from some exemptions although this would require an assessment of the relevant degree programme. Such a modification to the full programme should only be available once the programme has become established. Indeed, over time it may be possible to include elements of the Diploma training programme within University courses by accrediting prior learning. This would allow a

system of exemptions to be developed and that would shorten the training period. For students with particularly relevant degrees this may make it possible to reduce the training period to one year. However, the student would still need to complete the range of practical experiences required in order to reinforce the learning in the Diploma course.

5.3 CIPFA envisages that the full Diploma course would take two years with the modules associated with the Certificate element being the subject of the first year's study. On the successful completion of this first year the student would be awarded the Certificate. For those who did not wish to proceed to the second year the award of the Certificate would provide them with a public recognition of the work that they had undertaken.

5.4 For those who wished to continue their accountancy and audit training it would be possible for those students to spend a further two years in training to complete the full professional CIPFA accountancy qualification (a scheme which normally takes a graduate between three and a half years and four years to complete anyway.)

6. Continuing professional development

6.1 The issue of continuing professional development and technical support for the qualification holders is important to maintain the currency of the qualifications and the quality of the practice. It would therefore be desirable that a group was created to act as an alumni focus for the qualification holders, as well as a conduit for the sharing and development of best practice in public sector accounting. This group could well become in time an embryonic professional body if one does not already exist. CIPFA would be prepared to support this group subject to suitable arrangements being made, not least to cover the costs. However whilst the qualification remained one that was directly offered by CIPFA, holders of the Diploma would be accorded a form of associate member status within CIPFA and therefore they would receive the benefits available to such members and be subject to the CIPFA disciplinary codes.

6.2 As the ultimate objective would be for a local professional body concerned with public sector audit and accounting to become established in the country, requirements about continuing professional development and ethical standards should become one of the core policies of that body.

7. Organisational arrangements

7.1 CIPFA would award the qualification (until a local body was able to take over the responsibility), prepare the international training material and have responsibility for the quality assurance and control of the programme in the first instance.

7.2 There would though need to be a local partner who would be responsible for the following activities:

- Monitoring the range of knowledge/competence/skill requirements of employers;
- Promotion of the qualification in the country;
- Liaising with local public sector employers to encourage them to both provide financial support for their students undertaking the qualification and appropriate facilities;
- Arranging for the preparation of training materials concerned with local law

and taxation and providing advice and local input on the international modules developed by CIPFA to ensure that they were relevant to local circumstances and used terminology that was in local use;

- Making arrangements with the local University or other local trainer to deliver 'face to face' courses after agreement with CIPFA on the capacity of that local University or trainer;
- Making arrangements with the local academic institution (University or other local trainer) to provide trainers/assessors who are able to prepare and mark assignments and case studies to a specification laid down by CIPFA; this would also include cooperating with CIPFA to provide 'training the trainer' courses as necessary;
- Making arrangements for the assessment process, including the preparation of assessment materials and the marking of them to a specification laid down by CIPFA;
- Arranging as necessary a programme of training courses to supplement the open learning material;
- All local management arrangements, including the selection of students to ensure that they meet the agreed entry criteria, the maintenance of student records and other local contract arrangements.

7.3 There would also be a need for an annual updating of the course material. This would be a responsibility of CIPFA in conjunction with the local partner (who would be responsible for advising on the changes that needed to be made to the local law and taxation paper and on any other changes needed to reflect local circumstances).

7.4 CIPFA would also provide 'training the trainer' programmes to support the local academic provider and a separate assessment would need to be carried out to establish the strengths and weaknesses of the local educational partner (the local University or other educational institution).

8. Timing and actions to be taken

8.1 The learning materials for the Certificate and Diploma are available. This means that the arrangements for the introduction and delivery of the programme could commence immediately.

8.2 However, in practice before that can occur, a number of decisions about the scheme itself and about the detailed arrangements would need to be made. These are set out in the following paragraphs.

8.3 The first decision will be about the proposed programme itself. Is the CIPFA proposal for a Certificate and Diploma programme acceptable in principle as a means to meet the requirements of the country? Given acceptance in principle of the proposal then the following decisions need to be made:

- a. Which organisation would be the most appropriate local partner?
- b. Which academic institution would be responsible for cooperating on the programme?
- c. Has that local educational institution the capacity to undertake the assessment and other work to the standards specified by CIPFA and if not what is the level of support that is needed and how should it be provided, e.g. by CIPFA lecturers, or through 'training the trainer' arrangements?

- d. How many students would there be requiring training and from which organisations? Also what is likely to be the subsequent flow of new students each year once the backlog has been trained?
- e. What incentives would be available to students who complete the programme such as an increase in status and would the holding of the Diploma rank for financial preferment?
- f. Who would be responsible for preparing the module concerned with 'local law and taxation'?
- g. Who would be responsible for reviewing the CIPFA learning materials to ensure that appropriate local terminology was used?
- h. Who would be responsible (probably the training organisation defined in (b) above) for the assessment arrangements subject to agreement with CIPFA?
- i. How would the Certificate and Diploma programme fit into the existing training programme of the public sector and what other subjects and activities (if any) would need to be included to meet the needs of the national public sector even though those subjects and needs would not be subject necessarily to the same assessment process as the subjects for the Certificate and Diploma?
- j. Can a range of practical experiences be provided which would meet the requirements for practical experience defined in section 4.3 above? If not how can the range of experiences currently available to students be modified?

8.4 A short visit to the country would be needed by representatives of CIPFA to assess the capacity of the local training organisation and to discuss with employers the range of work experiences required and the capacity of employers to provide those experiences.

8.5 The budget for the CIPFA costs would need to be agreed and this would partly depend upon the number of students to be covered by the programme and the period of the training contract. CIPFA, along with the local academic institution, would review the learning material each year to ensure that they were up to date and provide new copies including new CDs as necessary.

8.6 The budget for local costs would also need to be formulated. This budget would include the costs of local academic institution, the costs of preparing the law and taxation module, the local assessment costs and an allowance for liaison with CIPFA.

8.7 A further decision would be about the process after holders had been awarded the qualification. If CIPFA were to be the provider of the Certificate and Diploma directly, then it would offer to the holders of the qualification associate member status within CIPFA. To retain this status, holders of the Diploma would be expected to pay an annual subscription but an arrangement could be made for the payment of a 'block annual subscription' if necessary through the appropriate subscribing public sector employers. In return, holders of the Diploma would receive update information through a quarterly newsletter or other arrangement and they could also if desired receive a copy of CIPFA weekly magazine although this does focus on the UK market and may not contain particularly relevant information.

9. Costs

9.1 Funding will be required for the following:

- a. to meet the scheme preparation and management costs of CIPFA (a CIPFA cost)
- b. to meet the initial costs of the preparation of the training material on local law and taxation (mainly a local cost but with some CIPFA costs);
- c. to adapt the international material to national circumstances (both a local cost and a CIPFA cost);
- d. to translate the learning material into the local language (a local cost);
- e. to meet initial local set up costs (a local cost);
- f. to finance the costs of the 'training the trainer' courses if required (a CIPFA cost);
- g. to finance the assessment processes (partly local and partly a CIPFA cost);
- h. the quality control costs of CIPFA (a CIPFA cost);
- i. the annual review of the open learning materials (partly local and partly a CIPFA cost);
- j. an annual review meeting with CIPFA in the country; and possibly,
- k. the ongoing subscription costs of diploma holders, at least for the initial periods after qualification (although it might be preferable to deal with this separately).

9.2 The programme if it is to have a long run impact will be an ongoing one and therefore the budget should envisage that ongoing costs would include:

- a. Payments to the local academic institution to maintain the currency of the local law and taxation module and to review the international modules (a local cost);
- b. The costs of course work assessment (partly local and partly CIPFA);
- c. The costs of examinations (a local cost);
- d. The local management and administration of the whole process (a local cost);
- e. A fee to CIPFA for providing an on going quality assurance and control role including probably one visit a year to the local partner (a CIPFA cost);
- f. A fee to CIPFA for providing annual revisions to the international training material (a CIPFA cost).

9.3 CIPFA would expect to recover its costs under arrangements to be agreed with the national authorities, which could be through aid funding in the first instance although it would be important that in the longer run the programme became self financing in order to ensure that it had long run sustainability. Self financing means financing through student fees, examination fees, support from the employers and other forms of funding. (This reflects normal practice for professional qualifications in most countries.)

Annex 1: ABOUT THE CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY

1. Introduction

The Chartered Institute of Public Finance and Accountancy (CIPFA) is one of the six professional accountancy bodies in the United Kingdom and the leading professional accountancy body for the public services, whether in the public or private sectors. Its principal objective is to promote ‘best practice’ in public finance and accountancy.

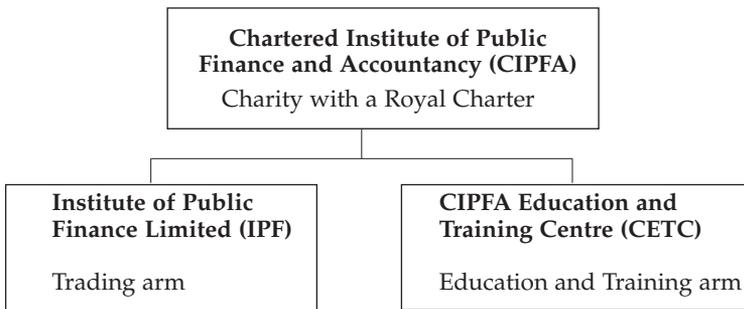
CIPFA provides education and training in accountancy and financial management, and sets and monitors professional standards through its membership of the UK Consultative Committee of Accountancy Bodies (CCAB). CIPFA is a founder member of the International Federation of Accountants (IFAC), the International Accounting Standards Board (IASB) and the Fédération des Experts Comptables Européens (FEE).

CIPFA has for many years been actively involved in the development of public finance and accountancy in an international context and has gained extensive experience in the countries of Central and Eastern Europe, Asia, Africa, and the West Indies. In its international affairs CIPFA plays a leading role in FEE, and CIPFA currently provides the Chairman of the FEE Public Sector Committee.

CIPFA is a registered charity and holder of a royal charter and is able to provide commercial services through a subsidiary company, the Institute of Public Finance Limited (IPF) and the CIPFA Education and Training Centre, a direct provider of qualification based training.

CIPFA has a strategic grant agreement with the UK Department for International Development (DFID) whose aim is to help countries build capacity and improve practice in relation to financial management, accounting, audit and governance of and for the public services. The objective of this support is to lead to more effective management of public finances and increased transparency and accountability in the countries concerned.

Diagram of the CIPFA Group Structure



2. Key activities of CIPFA

CIPFA is concerned with the financing, financial management, accounting and audit of public services in general, whether provided by operational ministries, government departments or agencies, health authorities, local authorities or similar bodies or by business organisations. Its people are working at the leading edge of ideas and actively developing techniques that facilitate improvements in the efficiency and effectiveness of the management of public services. These techniques include:

- assistance in achieving value for money through development of service specifications to aid effective procurement;
- development of performance measurement techniques;
- performance management and performance budgeting;
- value for money audit;
- the development of costing techniques including activity based costing;
- the application of accruals accounting including Public Sector International Accounting Standards;
- the development of corporate governance arrangements for public bodies to enhance accountability; and
- the application of International Audit Standards to public service audit practice.

3. The CIPFA Education and Training Centre

The CIPFA Education and Training Centre (CETC) was established in 1986 with the aim of developing financial and management skills through the provision of high quality education, training and related consultancy services. Since its establishment, CETC has developed a blend of skill and expertise in the design and delivery of education and training solutions that contribute to organisational effectiveness and offer outstanding value for money.

CETC runs accounting, auditing and financial management courses at four levels, certificate, diploma, full professional and post-professional and also provides a wide range of training opportunities to financial managers, accountants and auditors in the UK and in overseas countries through aid sponsored scholarships and projects.

All CETC trainers are fully qualified professionals, with extensive public service and private sector experience and expertise. This blend of skills, with experience in a number of diverse organisations, allows us to provide clients with opportunities to learn from a wide range of organisational practice. Each CETC trainer is fully committed to continuously updating their technical and training skills through membership of relevant professional bodies including the Institute of Personnel and Development.

4. Institute of Public Finance

The specialization of the Institute of Public Finance (IPF) is the provision of financial management consultancy, advice, training and associated services to public service organisations in the UK and internationally.

IPF is working with public sector bodies in the UK and elsewhere on the development and improvement of their services and the establishment of

policies and procedures to increase efficiency and effectiveness and to improve accountability.

The IPF has worked with a wide range of overseas governments multilateral organisations and aid agencies including the World Bank, the OECD, the Department for International Development, the British Know How Fund and the European Union. The majority of these assignments have been aimed at:

- capacity building and institutional strengthening in the public sector as part of preparations for accession to the EU;
- assisting in the modernisation process of financial institutions; and
- helping public service organisations through the difficult period of adjustment following the development of a market economy and privatisation.

5. Annual report of CIPFA

A copy of the latest annual report of CIPFA together with a list of publications and other information is available at web site address <http://www.cipfa.org.uk>. Information about the IPF is available at <http://www.ipf.co.uk>

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Annex 2: SUMMARY SYLLABUS

Financial Reporting

The nature and environment of financial accounting.

Double entry book-keeping.

Preparation of final accounting statements.

Using and interpreting financial statements.

Audit (I)

Audit processes and principles.

Assurance activities.

Governance and stewardship.

Internal and external audit.

Computer/IT Audit issues and techniques.

Audit (II)**

Audit of donor funds and other donor requirements

Fraud

Design and Application of Controls

Auditing Service Delivery including value for money audit

Value for money audit

Developments in Audit

Law and Taxation

Local Law—contract, commercial activities and E.U. Law.

Local taxation of organisations including Value Added Tax.

- * Optional module for auditor students
- **Optional module for non audit students

Management

Organisation theory and structure.

Human Resource Management.

Introduction to strategic management.

Accounting for Decision-Making*

Cost classification and behaviour methods.

Planning and controlling costing costs.

Quantitative analysis.

Budgetary control.

Financial Management

Performance management.

Cash and asset management.

Project management.

Treasury management.

Business planning.

Information Systems Management

Information systems and control.

Financial information management.

I.T. Project development and information development management

The following is a sample budget system law that was adopted by the National Assembly of Armenia on June 24, 1997 and updated for amendments to July 2003. Provided by Stepan Ionnisyan, email address - stepani@usa.am.

BUDGET SYSTEM LAW

Editor's Note: This translation is not a literal translation, but has been constructed in order to provide an English version of the Budget System Law which is readable for those familiar with public sector financial law without changing the underlying meaning.

CHAPTER 1: General Provisions

Article 1 Scope of the Law

This law defines the budgetary system of the Republic of Armenia and regulates the budgetary process.

Article 2 State and Community Budgets

1. State and Community budgets are the financial revenue and expenditure programs covering specific periods which are necessary for State and Local self-governance agencies to carry out the functions prescribed by the Constitution and legislation.

2. Budgets shall be prepared, discussed and approved as prescribed by the Constitution and legislation.

Article 3 Budgetary System of RA

1. The budgetary system of Armenia shall constitute the combination of the following two level budgets which are based on the economic relations and the state structure of Armenia regulated by the Legal Norms of RA:

- a. Level 1 – state budget,
- b. Level 2 – communities' budgets.

2. Budgets shall be based on the State's unified financial, monetary and tax policies.

3. The budgetary system in the Republic of Armenia shall be based on the following general principles:

- a. uniformity of the budget system
- b. segregation of budget receipts and outlays between the various levels of budgets included in the budget system
- c. independence of the budgets,
- d. complete reflection of receipts and outlays in the budgets,
- e. balance within the budgets,
- f. complete (aggregate) coverage of the budget outlays,
- g. openness of the budgets,
- h. targeted and purposeful utilization of budget resources,
- i. reasonableness of the budgets.

(Article 3 was amended by HO-541-N Law of April 11, 2003.)

Article 4 Consolidated Budget

The state and communities budgets (hereinafter 'Budgets') and the mandatory social insurance budget constitute the consolidated budget of the Republic of Armenia. The receipts of the consolidated budget, i.e., the financial resources being originated from the sources attributable to the budgets as prescribed by the legislation and specified in this Article 2 (excluding the receipts related to the inter-budgetary transfers), and the outlays of the consolidated budget, i.e., the financial resources being expended (expended) according to the directions prescribed by the legislation (excluding the outlays related to the inter-budgetary transfers) constitute the respective aggregates.

(Article 4 was amended by HO-541-N Law of April 11, 2003.)

Article 5 Budgetary Institution

1. In the context of this Law budgetary institutions constitute the state and community agencies which are financed from the budgets.

2. The estimates of operating expenditures of a State agency within its general appropriations shall be approved by the Head of such State agency as prescribed by legislation.

3. The estimates of the operating expenditures of a Community agency shall be approved by the head of the Community within the general appropriations of the Community budget, as prescribed by legislation.

4. The estimates of the operating expenditures of a budgetary institution not deemed to be a State or Community agency shall be approved by the head of the supervising State agency within the general appropriations, as prescribed by legislation.

(Article 5 was amended by HO-541-N Law of April 11, 2003.)

Article 6 Budgetary Process

1. The budgetary process includes the preparation, discussion, approval and execution of each year's budget, as well as the actions of State and Community agencies related to the approval of annual budget reports as regulated by law.

2. Draft budgets shall be prepared in conformity with the action plans of the Government and the development programs of Communities.

3. The budgetary year of the Republic of Armenia shall commence on January 1 of each year and end on December 31 of the same year.

By resolution of the Government, the processing of transactions involving the obligations of the previous budgetary year may continue during the first month of the following budget year (hereinafter referred to as "final processing").

4. For the budgetary year in question, the budgetary process shall commence on the date prescribed by this Law and end on the date the budget execution report is approved.

CHAPTER 2 Basis of Regulating Budgetary Relationships

Article 7 Regulation of Budgetary Relationships

1. The regulation of budgetary relationships comprises those activities of authorized agencies which, within powers prescribed by law, are aimed at organizing the budgetary system, defining its structure, allocating revenues among budgets, executing budgets, reporting and controlling, classifying and/or amending budgets.

2. Budgetary relationships shall be regulated pursuant to the underlying principles of this Law which form the foundation of the budget system.

(Article 7 was amended by HO-541-N Law of April 11, 2003.)

Article 8 The Underlying Principles of the Budget System

1. The principle of uniformity of the budget system means the uniformity of legal foundations, financial system, the formats of the budgetary documents, the budgetary classification, the principles of the budgetary process, the means of accountability applied for the violation of the budget legislation, as well as the standard procedure to finance all budgetary outlays of the budgetary system and the budgetary accounting.

2. The principle of segregation of the receipts and outlays between the various levels of the budgets incorporated into the budget system recognizes the powers granted to the state and local self-governing agencies in respect of the receipt of the respective types of budget revenues of the state and communities budgets (in full or in part), as well as the execution of the outlays from such budgets.

3. The principle of independence of the budgets means:

- a. The right of the state and local self-governing agencies to implement the budgetary process independently at each level of the budget system in conformity with the legislation.
- b. the existence of own sources defined in conformity with the legislation for the budget revenues at each level of the budget system,
- c. the right of the state and local self-governance agencies to determine independently the directions of the expenditures from the financial resources of their respective budgets in conformity with the legislation,
- d. the right of the state and local self-governing agencies to determine independently the sources of deficit financing of the respective budgets in conformity with the legislation,
- e. the non-permissibility to refund revenues that have not been received and finance extra expenditures, as defined by the budget laws (resolutions), at the cost of other levels of the budget system.

4. The principle of completeness of the reflection of budget receipts and outlays means that the receipts and outlays of the budgets defined by the legislation shall be reflected in the budgets in full. All outlays of the state and community budgets are subject to financing from the budget resources accumulated in the budget system.

5. The principle of balance in the budgets means that the volume of the outlays provided by the budgets shall not exceed the volume of the receipts.

6. The principle of the complete (aggregate) coverage of the budgetary outlays means that all budget outlays shall be covered by the budget receipts. The receipts shall not be related to certain outlays, other than for targeted budgetary receipts, or, in the event of creating targeted budget funds – the receipts of such funds.

7. The principle of the efficiency of the utilization of the budget resources means that the preparation and the execution of the budgets shall be based on the necessity of achieving the anticipated result through the minimal utilization of the budgetary resources or attaining the best result through the utilization of the funds provided in the budget.

8. The principle of openness of the budgets means:

- a. The mandatory disclosure of the approved budgets and the reports on execution of such budgets in the press (in accordance with the requirements of Articles 26, 36 and 36.7), and the availability of information on the course of the execution of the budgets,
- b. The mandatory transparency of the process of holding discussions and taking decisions on the draft budgets for the public and mass media. As opposed to the budgets of the communities and mandatory social insurance budgets, confidential articles can be approved in the structure of the state budget.

9. The principle of the targeted and purposeful utilization of the budgetary resources means that the budgetary resources shall be allocated to specific beneficiaries along with an indication of a clear purpose of the financing, as prescribed by the legislation. During the allocation of the budgetary resources any action leading to either ineffective utilization of the budgetary resources or the application of such funds for purposes which are not provided by the budget, shall be regarded as a legal violation.

10. The principle of reasonableness of the budgets means the realistic forecast of the development of the respective territory (country, community) and the computation of the budget receipts and outlays based on such forecasts.

(Article 8 was amended by HO-541-N Law of April 11, 2003.)

Article 9 Cash Receipts and Outlays of Budgets

1. The budget revenues constitute the financial resources belonging to the state and local self-governance agencies as per the legislation. The budget expenditures are the financial resources used to finance the tasks and functions of the state and local self-governance agencies. The budget receipts include the revenues (the revenues from the current and capital transactions and the official transfers), the available balance of the budget resources at the beginning of the year, the financial resources generated from the repayment of the budget credits and borrowings, as well as other borrowed or attracted financial resources, as defined for the relevant budget by law. The budget outlays include the budget expenditures (current and capital expenditures, as well as the expenditures related to the provision of budget credits and borrowings) and the repayments of the attracted borrowed funds. The budgetary allocations are the budget resources provided for the beneficiary of the budget resources as per the legal act defining the budget.

2. Capital expenditures shall include expenditures provided for in State and Community programs which acquire, or increase the value of, tangible assets, thereby creating fixed assets or reserves. Current expenditures shall comprise expenditures other than capital and lending expenditures.

(Article 9 was amended by HO-541-N Law of April 11, 2003.)

Article 10 Budgetary Credits and Borrowings

1. Budgetary credits constitute funds provided from the state budget to the communities, the budget of the city of Yerevan, legal and physical entities, as well as foreign states and international organizations on the basis of repayment with interest at a later date. In the context of this Law budgetary credits also include:

- a. outlays executed from the state budget for purchasing securities (other than the repurchase of government bonds) in the secondary market for the purpose of implementing the respective policy by the state and not for the generation of revenues or management of funds (accordingly, the revenues

originated from the purchase, i.e., the transfer of securities held by the state under such circumstances shall be classified as a credit repayment),

- b. the restructuring of the non-tax obligations of any legal entity to the state in the name of another legal entity (transfer of the debt), within the parameters of any program approved by the government, in order to regulate the mutual obligations existing between several legal entities,
- c. any counter-claims deriving from the payment of a budget guarantee,
- d. commodity credits advanced by the state and repaid in cash under the credit agreement by the borrower (to the extent of the amount repaid in cash).

2. Funds advanced from the state budget to the communities, as well as the budget of the city of Yerevan for the purpose of financing particular programs or expenditures on the basis of repayment at a later date without any interests. The budgetary borrowings are provided to the communities with terms up to six-months and shall be repaid by the borrowers within the budget year in question. Financial resources can be advanced to the mandatory social insurance fund from the state budget on the basis of repayment at a later date without any interest, and, in the context of this Law, such financial resources are accounted as budgetary borrowings. Moreover, the conditions for the provision and repayment of such borrowings shall be defined in accordance with particular government resolutions.

3. The procedures for the provision of the budgetary credits and borrowings shall be defined by the government in conformity with the requirements of this Law.

(Article 10 was amended by HO-541-N Law of April 11, 2003.)

Article 11 Budgetary Guarantees

1. A budgetary guarantee is an obligation which guarantees, at the expense of the State budget, the proper performance of debt obligations of the community, legal and physical entities, as well as a foreign state or international organization (hereinafter 'Principal') towards the beneficiary.

2. Amounts arising from the failure to perform guaranteed debt obligations shall be funded from the reserve fund of the applicable budget and shall be recorded in a separate line.

3. The budgetary guarantee (pledge) shall be drafted in the form of a separate document and be signed only by the head (or the acting head) of the state authorized body responsible for the management of the state financial resources (hereinafter 'State Authorized Body'). The provisions on pledge (guarantee) specified in other written deals shall not have any legal force, except for the provisions defined in the international agreements of the Republic of Armenia. Procedures for the provision of budgetary guarantees shall be defined by the Government in conformity with this Law. A fee can be charged in favor of the state budget for the provision of the budgetary guarantees (pledges).

4. The total amount of obligations guaranteed in a given budget year (with the exception of guarantees provided for in international agreements concluded on behalf of the State) shall not exceed 10 percent of State budget tax revenues in the previous budget year.

5. Along with the payment of the guarantee the Republic of Armenia obtains the right of counter-claim.

(Article 11 was amended by HO-541-N Law of April 11, 2003.)

Article 12 The Deficit and Surplus of the Budgets

1. The outlays provided in the budgets for the fiscal year in question shall not exceed the expected cash receipts provided for in the budgets of the respective year.

2. The excess of budget revenues over budget expenditures shall constitute the budget surplus.

The excess of budget expenditures, including the expenditures of the mandatory social insurance against the revenues shall constitute the budget deficit. The deficit of the state budget shall be financed from borrowed funds received from domestic and external sources, as well as from the available balance of the budgets at the beginning of the year. Moreover, 70% of the proceeds of the privatization of real estate and unfinished construction sites shall be remitted to the state budget regardless of their location.

Prior to the completion of the process of privatization of state property in conformity with programs approved by the National Assembly, the deficit of the state and communities budgets can be financed as per this Law through the proceeds received from the privatization of the property involved in such programs, including the privatization of unfinished construction sites.

The size of the deficit (gap) or surplus of the state budget and the budget of the mandatory social insurance shall be defined by the State budget law in question, and the size of the deficit (gap) or surplus of the community budget shall be defined under the decision of the community councilors on the community budget for the year in question. The deficit (gap) of the state budget in the state budget draft law for the forthcoming year submitted to the National Assembly as per this Law shall not exceed 5% of the gross domestic product of the forthcoming year specified in the Budget message. The deficit of the community budget specified in the draft decision on the community budget submitted to the community councilors as per this Law (excluding the expenditures financed through resources transferred to the community budget as a result of the privatization of state property) shall not exceed 30 % of the annual average of the actual receipts to the fund component of the community budget in the second and third budget years preceding the year in question (excluding the amounts of the official transfers and the resources transferred to the fund component from the reserve fund, as provided by the administrative budget).

(Article 12 was amended by HO-9 Law of October 12, 1999, and HO-541-N Law of April 11, 2003.)

Article 13 Available Funds at the Beginning of the Year

1. The available balance of the budget resources at the beginning of the year in question is the excess of receipts over the outlays of the preceding budget year. The available balance of the budgetary resources shall be deemed as the receipt of the respective budgets of the year in question.

2. Where the amount of the available balance of the respective budget for the year concerned is not included in the receipts of the duly approved state budgets, as well as the budget of the mandatory social insurance, or if such balance is envisaged to be less than the actually generated amount, the government shall be empowered to direct the amount of the actually generated available balance at the beginning of the year which has not been envisaged in the respective approved budget, for honoring the existing past due obligations which were stipulated in the state budget and the budget of the mandatory social insurance in the preceding (completed) budget year but which remained outstanding, as well as to finance expenses provided in the state budget and mandatory social

insurance budget for the year concerned within the annual amounts of the allocations defined by the respective budgets in respect of such expenses.

3. The use of the available balance of the state budget and the mandatory social insurance budget at the beginning of the year which are not specified in Part 2 of this Article 13 shall be defined in the State Budget Law for each year.

4. By the decision of the community councilors, the available balance of the community budget at the beginning of the year can be used as an additional source of financing of expenses provided in the budget for the year concerned or for funding unforeseen expenses.

5. The amount of the available balance of the administrative component of the community budget at the beginning of the year shall be directed at:

- a. the financing of expenses which were subject to financing but were not financed from the administrative component of the budget in the preceding (completed) budget year, i.e., the honoring of existing commitments,
- b. the balance available after honoring the commitments specified in Clause a) of this Part 5 shall be transferred to the fund component of the budget for financing the expenditures defined under the decision of the councilors.

(Article 13 was amended by HO-541-N Law of April 11, 2003.)

Article 14 Capital Expenditures Financed from Budgets

1. The procedures for executing capital expenditures from budget resources shall be defined by the Government in conformity with this Law, including:

- a. the legal framework for the execution of expenditures, i.e. the Government's Capital Investment Program, targeted programs, and resolutions of the government or Local Self-governance agencies;
- b. the technical and economic criteria for rationalizing the execution of expenditures, and draft documents (estimates);
- c. the phases and timeframes for executing expenditures; the procedures for submitting, reviewing and approving the list of projects;
- d. the format for presenting expenditures in draft budgets and in annual budget execution reports;
- e. other provisions concerning the execution of capital expenditures financed from budget resources

2. Capital expenditures financed by budgets may involve investment in the issued capital of legal entities resulting in ownership rights on the part of the State or Communities in respect of the net worth of the legal entities.

3. Assets obtained as a result of State capital expenditures, and deemed to constitute State property, shall be passed to the management of the applicable State or Local Self-governance agency.

4. Funds generated from the operation of assets deemed to constitute State property, or from the transfer or lease of assets obtained as a result of State capital expenditures, shall be remitted to the applicable budgets.

(Article 14 was amended by HO-541-N Law of April 11, 2003.)

CHAPTER 3 Budget Execution

Article 15 Budget Execution

1. The execution of the budgets and the mandatory social insurance budget comprises the coordinated activities of authorized representatives of State and Local Self-governance agencies with regard to raising the receipts and executing the outlays of the State and Community budgets, as well as the mandatory social insurance budget .

2. Budgets shall be executed on the basis of a centralized cash management principle, which provides for all budget receipts to be deposited in, and for all budget payments to be disbursed from, the treasury single account of the state authorized agency.

3. The state authorized agency shall be responsible for organizing the execution of the budgets.

4. Budget execution procedures shall be defined by the Government on the basis of this Law, including:

- a. the primary principle of budget execution;
- b. the formats of documents required for budget execution, and the bases on which these documents are distributed;
- c. the rights and responsibilities of the budgetary institutions in budget execution;
- d. the procedures for determining the quarterly breakdowns of approved budgets;
- e. the procedures for applying and terminating sequestration and indexation during budget execution pursuant to this Law;
- f. the procedures for amending budgets during their execution within the permissible margins set by Articles 23 and 33 of this Law;
- g. the procedures for using the reserve funds of budgets;
- h. other provisions relating to the budget execution process.

5. In order to ensure the execution of budgets, the state authorized agency and its local treasury branches shall undertake the following:

- a. management of cash flows associated with budgets;
- b. ensuring the execution of budgets according to the budgets' allocations of actual receipts and outlays;
- c. consolidation of State, mandatory social insurance and Community budgets revenues in the treasury single account;
- d. management of financial resources of budgets and budgetary institutions accounted for in treasury accounts;
- e. management of State debt;
- f. methodological guidance on budget accounting and reporting;
- g. other functions aimed at ensuring the execution of budgets as prescribed by legislation.

6. Budget receipts shall be accumulated in the treasury single account of the state authorized agency.

7. Cash receipts and outlays of State and Community agencies, shall be reflected in the treasury accounts opened for each agency at the state authorized agency and its local treasury branches.

8. The disbursement of funds from the treasury accounts of budgetary institutions, as well as the institutions of the mandatory social insurance shall be effected by the state authorized body and its local treasury branches via their servicing banks. The disbursements shall be irrevocably made to the budgetary and mandatory social insurance institutions if the funds are available on their treasury accounts.

9. The State agencies shall have the right to open extra-budgetary accounts in the Treasury or a bank only under the respective Resolution of the Government of the Republic of Armenia. The financial resources provided by physical or legal entities in the form of a grant for the purpose of implementing the programs specific to the communities can be placed in the extra-budgetary accounts of the Treasury or in a bank upon the request of such entities, upon the consent of the state authorized agency and the respective decision of the community councilors.

10. In the event of a shortfall of receipts during the execution of budgets, the expenditure reduction mechanism (i.e. sequestration) shall be applied. Sequestration shall entail a proportional reduction, for a specified part of the budget year, in all items of the economic classification of budgeted expenditures, in the manner and amount defined by law, save for subsidies provided to Community budgets from the State budget in terms of financial equalization (hereinafter 'equalization') and other expenditures protected by law. The protected expenditures of the budgets shall be defined by the budget law for the year concerned.

11. Expenditures on goods and services shall be made pursuant to the procedures defined by the State Procurement Law.

12. The contracts (agreements) which create commitments of the state and the communities shall be registered with the state authorized agency and shall be deemed effective from the moment of registration. The state and local self-governance agencies shall conclude, in the name of the state and communities, contracts (agreements) creating commitments only within the powers exercised by such agencies.

13. Based on court judgments, bills of exchange may be issued with maturities of up to 1 year against the state budget resources subject to seizure within 20 days of the submission of the receiving order issued as per the awards and decisions of the court or arbitration court. The daily interest rates of these bills of exchange shall be set at the refinancing rate determined by the CBA of RA as of the issuance date of the bills. In addition, interest shall be calculated for the period from the issuance date of the bills to their maturity dates. The manner of issuing bills of exchange shall be determined by the government.

(Article 15 was amended by HO-11 of October 12, 1999 and HO-541-N Law of April 11, 2003.)

CHAPTER 4 The State Budget

Article 151 Structure and Content of the Medium-Term Expenditure Framework (MTEF)

1. The Medium-Term Expenditure Framework consists of the following two parts:

- a. the narration of the fiscal policy of the Government,
- b. the narration of the Government's strategy of the expenditure policy.

2. The narration of the fiscal policy shall include information on:

- a. the long-term fiscal principles of the Government, the short-term and medium-term fiscal ratios related to revenues, expenditures, deficit (gap) or surplus, as well as the arrears,
- b. an evaluation of the progress in achieving the fiscal targets and the change in the fiscal ratios that has taken place in the preceding medium-term expenditure framework together with an interpretation of the variations or changes to the fiscal targets and (or) ratios in the preceding medium-term expenditure framework,
- c. the macro-economic projections, as well as the forecasts of revenues and expenditures for a three-year period (the forthcoming budget year and the following two years) of the medium-term expenditure framework,
- d. the significant economic and other assumptions that served as a basis for making the projections,
- e. the strategic priorities of the Government together with their justification,
- f. the main fiscal risks.

3. The fiscal policy strategy shall contain the following information on each sector (and all agencies of state governance):

- a. the results that the Government intends to attain in the particular sector through incurring expenditures,
- b. the expenditure factors, including the anticipated demographic, economic and social trends which will affect the expenditures in the particular sector in the course of the projected period,
- c. the priorities of the Government for the projected period, including those priorities which are provided in the draft state budget for the forthcoming year,
- d. the extent of external financial assistance in the particular sector.

(Article 151 was added by HO-541-N Law of April 11, 2003.)

Article 16 Structure and Content of the Draft State Budget

1. The draft State budget shall include:

- a. the Government's budget message
- b. the draft State budget law
- c. the official statement of the Central Bank submitted to the Government on the draft State budget law.

(Clause 1 was added by HO-178 Law of December 26, 1997.)

2. The Government's budget message shall comprise:

- a. the Government's report on the key directions of socio-economic development and fiscal policy for the budget year and, if appropriate, drafts of the laws aimed at ensuring the execution of the budget
- b. projections of the State's main socio-economic indicators for the following three years
- b1. information on the MTEF ratios put in the basis of the draft State Budget, particularly:
 - long-term objectives and contingent liabilities (guarantees) of the Government with regard to the budgetary receipts, outlays, deficit and gross and net debt

- Updated 3-year projections of the economic performance , revenue, expenditure, deficit and debt indicators
- Key assumptions concerning the economic development and other issues, which served as a basis for updating the projections
- Strategic priorities of the Government defined in the MTEF and the specific priorities to be reflected in the budget for the forthcoming year
- Updated information on the main fiscal risks and the likelihood of their occurrence (high, medium, low)
- description and justification of the material changes that have taken place in the Government policy and fiscal objectives after the disclosure of the medium-term expenditure framework.

If appropriate, the information presented in this Part can be presented not as a separate part of the budget message, but can be included in other components of the Budget Message.

c. Explanatory Note of the draft State Budget Law.

3. The Explanatory Note shall incorporate documents supporting the draft state budget law, in particular:

- a. justification of the deficit (gap) or surplus, provided for in the draft State budget law, including the interest rates and other terms of the credits raised to finance the deficit (gap), as well as a comparative analysis of these items against the corresponding approved and estimated items for the preceding and current budget year
- b. comparative analysis of the revenues, expenditures and deficit (gap) or surplus provided for in the draft State budget law against corresponding actual outturns for the preceding budget year
- c. projections of the consolidated revenues, expenditures, deficit or surplus for the following three-year period, including the current budget year
- d. justification of the revenues provided for in the draft State budget law, broken down by tax, non-tax and other types of revenue stipulated by law
- e. justification of the expenditures provided for in the draft State budget law, broken down according to the functional and economic budget classification, including the volume and allocation of credits and budget guarantees to be issued in the course of the budget year, and the assumptions supporting budget expenditure figures
- f. justification of the amounts requested and expenditures proposed in respect of the execution of targeted programs funded by the State budget, including:
 - their legal basis
 - their content
 - their tasks and objectives
 - the execution phases and term for each targeted program
- g. the structure of external and internal State debt as at the end of the forthcoming year, and its comparative analysis against the actual data of the previous budget year and the estimations of the current budget year
- h. justification of the allocations proposed for the establishment of the Government's reserve fund and State reserves
- i. information of the agencies specified in Part 10 of Article 21 of this Law on the reconciliation between the amounts claimed in respect of funding from the State budget and those proposed by the Government information on

transfers to Community budgets from the State budget, according to procedures prescribed by law

- ja. justification of disbursements of funds arising from financial and commodity aid, donations and other such receipts expected in the coming budget year
- jb. information on the recorded average annual staff numbers and the payroll of budgetary institutions maintained at the expense of the State budget, and comparative analysis of the recorded average annual staff numbers (occupied positions) for the current and previous years
- jb1. an explanatory note on the mandatory social insurance budget (justification of the figures),
- jb2. the capital investments program for the forthcoming budget year approved by the Board of the Central Bank and the cost estimate along with the respective justifications, as well as the conclusion of the Government on such cost estimate.
- jc. other information, which the government deems necessary for justifying the draft State budget law.

4. The draft State budget law shall comprise:

- a. revenues and expenditures of the State budget classified as this Law prescribes (other than the territorial classification of the budgetary expenditures)
- b. the deficit or surplus of the State budget classified as this Law prescribes and the sources of financing for the deficit or the directions of utilization of the surplus of the budget
- b1. the mandatory social insurance budget of the Republic of Armenia in the form of a separate appendix to the draft law,
- b2. The cost estimates of the Central Bank of the Republic of Armenia in the form of a separate appendix to the draft law, as well as the ceiling of the capital investments.
- c. other provisions and figures prescribed by law.

(Article 16 was amended by HO-541-N Law of April 11, 2003.)

Article 17 Sources of State Budget Revenue

1. The sources of the state budget revenues shall be classified as:

- a. tax revenues
 - a1. stamp duties
- b. non-tax revenues
- c. revenues from capital transactions
- d. receipts from official transfers.

2. The following shall constitute tax revenues:

- a. value added tax
- b. excise tax
- c. corporate income tax
- d. personal income tax
- e. property tax applicable to properties outside Community boundaries
- f. land tax applicable to land outside Community boundaries,
- g. presumptive taxes
- h. customs duty

- i. nature protection and nature utilization fees
- i1. simplified tax
- j. penalties and fines imposed for violation of tax legislation, with the exception of penalties and fines imposed for non-payment of taxes required to be remitted to Community budgets.

21. stamp duties constitute the stamp duties prescribed by legislation, other than those state duties, which are defined for the communities' budgets as per Article 281 of this Law.

3. The following shall constitute non-tax revenues:

- a. receipts arising from the Central Bank's surplus of revenues over expenditures
- b. interest received from the short term investment of available funds of the state budget and deposits in banks and financial institutions, the return generated from the transactions of the state agencies in securities in the secondary securities market, dividends from investments made in legal entities
- c. fees charged for the lease and use of assets booked in the balance sheets of state enterprises and the State land located outside community boundaries
- d. interest receipts on lending by the State
- e. revenues generated from the sale of property belonging to the state, as well as ownerless property or property transferred to the state by the right of succession or by any physical or legal entities in the form of a grant which is not a fixed asset or intangible asset
- e1. financial resources transferred to the state in the form of a grant by any physical or legal entity (other than the communities of the Republic of Armenia, international organization and foreign states), as well as ownerless financial resources or those inherited by the state
- f. revenue from State lotteries
- g. receipts from fines imposed by the executive and the judiciary for violations of the law
- h. road tax
- h1. fees received (withheld) by state agencies for services or functions performed without charging any legal stamp duty
- i. other non-tax revenues remitted to the State budget as prescribed by law.

4. The following shall constitute revenues from capital transactions:

- a. receipts from the sale of fixed assets (or financial assets) belonging to the State including receipts proportionate to the participation of the state in the sale of residual assets after the liquidation of legal entities with a state participation
- b. (Clause b) was cancelled by HO-541-N Law of April 11, 2003.)
- c. receipts from the sale of inventory kept in State warehouses
- d. receipts from the sale of the land and intangible assets deemed to be State property
- e. return from the sale of securities purchased by the state in the secondary market for the purpose of generating an income or managing the financial resources of the state budget.

5. The following shall constitute official transfers:

- a. transfers from foreign States and supranational organizations
- b. transfers from other sources.

(Article 17 was amended by HO-178 Law of December 26, 1997, HO-34 Law of February 8, 2000, and HO-541-N Law of April 11, 2003.)

Article 18 Functions of State Budget Expenditure

1. Programs and expenditures of national significance shall be financed through the State budget via the following core functions:

- a. civil services of a general nature
- b. defense
- c. protection of public order, and security
- d. education and science
- e. health
- f. social insurance and social security
- g. residential utility services
- h. culture, sport and religion
- i. fuel and energy facilities
- j. agriculture, forestry, water industry and aquaculture
- ja. mining industry and mineral resources (with the exception of fuel), processing industry, construction and nature protection
- jb. transport and communications, road works
- jc. other expenditures not classified as core functions of State budget expenditures, including:
 - the Government reserve fund
 - equalization subsidies to Community budgets
 - appropriations to Community budgets for the exercise of delegated powers
 - targeted disbursements, i.e., subsidies from the state budget to the communities budgets.

2. A separate line of State budget expenditure may provide specific funding to encourage employees of the Ministry of Finance and Economy, the Tax Inspectorate and the Customs Directorate. The procedures for raising and using such funding shall be defined by the State budget law of the year in question.

3. In order to ensure the maintenance and operation of the general purpose state automobile roads, an amount is provided in the state budget expenditures which is estimated based on at least 10% of the aggregate actual receipts from presumptive fees charged in the preceding year on petrol and diesel fuel imported into the Republic of Armenia, as well as from filling vehicles with liquid gas (gas filling).

(Article 18 was amended by HO-541-N Law of April 11, 2003.)

Article 19 Government Reserve Fund

1. The State budget provides for a Government reserve fund in order to finance expenditures not anticipated in the State budget for the year in question, as well as to support budget guarantees. The Government reserve fund shall be recorded in a separate line of the expenditures section of the State budget.

2. The size of the Government reserve fund shall not exceed 5 percent of the expenditures provided for in the State budget law for the year in question.

3. Disbursements from the Government reserve fund shall be made on the basis of Government resolutions.

(Article 19 was amended by HO-541-N Law of April 11, 2003.)

Article 20 Allocations to the Communities Budgets

1. In order to ensure the harmonious development of the Communities, gratis and uncollectible financial resources, i.e., financial equalization subsidies, are provided for the Communities budgets in the state budget expenditures by the principle of financial equalization for the purpose of covering the current expenditures of the Communities.

2. The Communities shall not be compelled to direct the financial resources allocated by virtue of the financial equalization principle to the execution of specific expenditures. The total amount of the subsidies provided to the communities from the state budget by virtue of the financial equalization principle shall be at least 4% of the actual revenues of the consolidated budget of the Republic of Armenia for the preceding year.

3. The manner of computation and disbursement of the subsidies to the communities' budgets shall be defined by law.

4. In the state budget expenditures the following can also be provided for the communities budgets:

- a. other subsidies, i.e., gratis and uncollectable financial resources which are not related to any specific expenditure (program) and are provided for the purpose of supporting the financing of the current expenditures of the communities budgets,
- b. subventions, i.e., gratis and uncollectable financial resources which are provided for the purpose of executing a specific expenditure (program) by the community. The Government shall have the right to claim back from the communities those amounts of the subventions which have been used for purposes other than the intended target. The subventions are disbursed in the manner prescribed by the Government.

(Article 20 was amended by HO-541-N Law of April 11, 2003.)

Article 21 Drafting the State Budget

1. The activities required for preparing the draft State budget shall be organized by the Government on the basis of a Prime Minister's resolution commencing the budget process for the coming fiscal year, within a timeframe determined by the resolution and this Law.

2. In drafting the State budget, the Government or its authorized State agency shall hold consultations with the Central Bank on issues concerning the draft State budget, pursuant to Article 31 of the law "On the Central Bank of the Republic of Armenia".

21. The process of preparing the draft state budget shall consist of two phases:

- a. Development of the state medium-term expenditure framework of the Republic of Armenia for the forthcoming three years with the intention of providing a sound basis for the preparation of the draft state budget for the forthcoming year,
- b. Preparation of the draft state budget for the forthcoming year.

22. The purpose of the development of the state medium-term expenditure framework of the Republic of Armenia for the forthcoming three years (hereinafter 'medium-term expenditure framework') is to enable the Government to manage the financial resources of the public sector in line with the medium-term fiscal objectives and the priorities of the Government's fiscal policy. The medium-term expenditure framework shall serve as a basis for preparing the draft state budget.

23. The phase of the development of the medium-term expenditure framework starts on the day when the decision on commencing the budget process for the forthcoming year is taken and finish on the day of publication of the medium-term expenditure framework. The development of the medium-term expenditure framework shall be carried out in the manner and within the terms defined in this Law and the decree on commencing the budgetary process for the forthcoming year.

24. The state authorized agency shall develop the medium-term expenditure framework and provide the methodological instructions on the preparation of the draft medium-term expenditure framework to the state agencies in line with the procedures and terms defined in the Prime Minister's Decree on Commencing the Budget Process for the Forthcoming Year. The general requirements for the sectoral draft medium-term expenditure frameworks, the manner of submission of such drafts, as well as information on the fiscal principles of the Government for the forthcoming three years, the short-term and medium-term fiscal and the strategic priorities related to expenditures shall be presented in the instructions on the preparation of the draft medium-term expenditure framework.

25. The state agencies shall prepare and submit to the authorized state agency their sectoral draft medium-term expenditure frameworks within the terms defined in the Prime Minister's Decree on Commencing the Budget Process for the Forthcoming Year.

26. The sectoral medium-term expenditure framework shall be signed by the head of the relevant state agency.

27. If appropriate and possible, the sectoral medium-term frameworks shall be prepared by the state authorized agency where the frameworks have not been submitted within the defined term.

28. In order to discharge its duties, the state authorized agency shall have the right to request and receive from the state agencies all necessary information.

29. The state authorized agency shall develop the draft medium-term expenditure framework and submit it to the Government within the term defined in the Prime Minister's Decree on Commencing the Budget Process for the Forthcoming Year.

210. The Government shall review the medium-term expenditure framework and approve it by June 20 of the current year. By July 1 of each year the Government shall publicize the medium-term expenditure framework, as well as submit it to the National Assembly for information

211. The phase of preparation of the draft of the state budget for the forthcoming year shall start on the day of approval of the medium-term expenditure framework of the Republic of Armenia by the Government.

3. Within the timeframe defined in the Prime Minister Decree on Commencing the Budget Process for the Forthcoming Year the state authorized agency shall disseminate the methodological instructions for the compilation

and submission of budget bids by state agencies. Such instructions shall specify the priorities of the policy for the forthcoming year, the estimated approximate financing to be provided to the state agencies and the list of the relatively prioritized state agencies in terms of financing new programs and initiatives in a particular sector.

Within the timeframe defined in the Prime Minister's Decree on Commencing the Budget Process for the Forthcoming Year the state authorized agency shall provide the local self-governance agencies with the methodological instructions through the regional state governance agencies which shall disclose the norms and ratios for making the calculations necessary for drawing up budgets for the activities delegated to the local self-governance agencies by the state, as well as the expenditures related to the receipt of targeted disbursements from the state budget, the form and procedures for making a budget bid for subventions from the state budget, the details of the budgetary classification, the standard formats of the estimates of the budgetary expenditures and communities budgets (their components), as well as instructions (guidelines) of an advisory nature.

4. Within the timeframe defined in the Prime Minister's Decree on Commencing the Budget Process for the Forthcoming Year, the state agency shall submit to the authorized state agency the budget bids on financing in the forthcoming year compiled and presented for such agency and its system in conformity with the methodological instructions on the form and procedures for making budget bids on financing (where the relation to the state medium-term expenditure frameworks for the coming three years shall be reflected and all the significant discrepancies in respect of the state medium-term expenditure frameworks for the coming three years shall be highlighted).

5. The state authorized agency shall, within the timeframe defined by the Prime Minister's Decree on Commencing the budget process for the forthcoming year, calculate and provide to Local self-governance agencies, through regional State agencies, the amounts to be transferred from the State budget to Community budgets.

6. Each budgetary institution's bid shall be signed by its head who shall bear the responsibility for the specific use of budget allocations as prescribed by the Law.

7. In the event that a budget bid is not submitted within the timeframe prescribed by this Law, it shall be prepared by the state authorized agency, if appropriate and possible.

8. Capital expenditures shall be calculated on the basis of specific programs. In the event that the terms of programs go beyond the budget year, their funding shall be broken down into years. The expenditures of these programs shall be prepared by the state authorized agency for each budget year and shall be presented in a separate line of the State budget.

9. Within the timeframe defined by the Prime Minister's Decree on Commencing the budget process for the forthcoming year, the state authorized agency shall consult with bidders on the amount of their bids and shall draft consequent circulars. The circulars shall indicate either the consent of the Ministry of Finance and Economy to partially or completely fund the expenditures indicated in the budget bids, or its complete rejection of the bids. In the event of complete or partial refusals, the rea-

sons shall be provided. The circulars shall be signed by the head of the state authorized agency or the deputy head authorized by him or her. The circulars shall be forwarded to bidders within the timeframe defined by the Prime Minister's Decree on Commencing the budget process for the forthcoming year.

10. The copies of the budget bids of the bodies of judicial authorities, as well as the agencies established by legislation which operate independently from the executive and are involved in regulatory activity in particular areas designated by the Government shall be submitted to the National Assembly along with the draft state budget.

11. The procedures for submitting budget bids and for the resolution of disagreements between bidders and the state authorized agency shall be defined by the Government in conformity with this Law.

12. On the basis of budget bids, foreign and domestic borrowing, and forecast revenues for the upcoming year, the state authorized agency shall draft the State budget and submit it to the Government

13. At least sixty days before the beginning of the budget year, the Government shall submit the draft State budget to the National Assembly for discussion, including the capital investment program and expenditure estimate of the Central Bank endorsed by the Board of the Central Bank.

14. Expenditure articles of the draft State budget which contain State and official secrets shall be submitted separately to the National Assembly in a sealed envelope, following the classification prescribed in this Law.

(Article 21 was amended by HO-178 Law of December 26, 1997, HO-211 of April 14, 1998, HO-99 of October 11, 2000 and HO-541-N Law of April 11, 2003.)

Article 22 Discussion and Approval of Draft State Budget in the National Assembly

1. The procedures for discussing and approving the draft State budget in the National Assembly shall be defined by the law "On the rules of procedure of the National Assembly of the Republic of Armenia".

2. If the draft State budget law provides for the enactment of laws to ensure the execution of the budget, the draft budget law shall be voted upon after their enactment.

3. In the event of failure to approve the budget before the beginning of the budget fiscal year, expenditures shall be in proportion to those of the previous budget year. In such case, the Government shall have the right to use budgetary resources in the course of the year, i.e., for purposes prescribed by legislation, to honor commitments from existing contracts, to provide financial equalization subsidies to local self-governance agencies (in line with the disbursement defined by the law for the preceding year), to continue the financing of investment programs. In addition, the aforementioned expenditures can be incurred if disbursements have been provided in the budget of the preceding year. In such case the size of the executed expenditures shall not exceed 1/4 of the quarterly and 1/12 of the monthly disbursements for the preceding year. The government shall have the right not to finance those expenditures that have not been provided in the draft budget law for the year concerned.

(Article 22 was amended by HO-541-N Law of April 11, 2003.)

Article 23 Execution of the State Budget

1. The procedure for executing the State budget shall be defined by the Government on the basis of this Law.

2. In the course of executing the state budget the head of the respective state agency shall have the right to make reallocations between the economic classification articles defined by the Government which shall not exceed 15% of the total sum of allocations as prescribed by the State budget law in respect of each program implemented by such agency (if otherwise not provided in the State budget law for the year concerned).

3. The State budget approved by the National Assembly may be amended following a legislative proposal made by the National Assembly or the Government. Amendments to the State budget which lead to a decrease in receipts or an increase in outlays shall be discussed by the National Assembly only after the Government has expressed its opinion, and shall be adopted by a majority of the total votes of the deputies. In the course of execution of the state budget the Government of the Republic of Armenia shall have the right to make reallocations between the expenditure programs in the State budget law for the year concerned, within 3% of the total sum of the allocations approved by such law (if not otherwise provided in the State budget law for the year concerned).

4. Within 45 days following the effective date of the State Budget Law, the Government shall define the quarterly proportions of the execution of the state budget.

5. The Government shall be responsible for State budget execution.

6. After the completion of each quarter, the Government shall, within a period of 40 days, submit information on State budget execution to the National Assembly in conformity with both the budget classification defined in this Law and the structure of the State budget law for the year in question.

7. If in the course of executing the state budget, the risk arises of underperforming the annual volume of budgetary receipts in the State budget law for the year concerned of up to 10% of the annual sum of the allocations, the Government shall have the right to take a decision on sequestering up to 10% of the total sum of the allocations in the State budget law of the year concerned.

8. The Government shall have the right to spend the donations remitted to the state budget which have not been provided in the revenues of the approved state budget in the course of the same year in line with the purposes defined by the donator.

9. The state budget shall be amended by law.

(Article 23 was amended by HO-211 Law of April 14, 1998 and HO-541-N Law of April 11, 2003.)

Article 24 Control and Supervision of State Budget Execution

1. The control of State budget execution shall be undertaken by the Government in the manner it prescribes.

2. Supervision of State budget execution shall be undertaken by the National Assembly.

3. The National Assembly shall supervise:

- a. the implementation of the requirements of both this Law and the law on the State budget for the year in question
- b. the use of credits and loans received from foreign states and international organizations
- c. the implementation of budgetary commitments, the legality of budget spending and the maintenance of payroll and budgeting discipline.

Article 25 Annual Report on State Budget Execution

1. The Government shall submit an annual report on the execution of the State Budget to the National Assembly by May 1 of the subsequent year.

2. The annual report on State budget execution shall include the following:

- a. information on fiscal policy and relevant legislative changes in the course of the reporting year which have affected State budget execution
- b. justification of the revenues, expenditures and deficit (or surplus) of the State budget, and a comparative analysis of them against the previous year's outturn and approved allocations, as well as the current year's outturn
- c. information on the allocation and amount of expenditure funded by the Government Reserve Fund, and its justification
- d. information on State foreign and domestic debt and its servicing
- e. other information which the Government considers necessary to submit in order to support the results of State budget execution.

3. Expenditure articles of the annual report on state budget execution which contain state and official secrets shall be submitted to the National Assembly separately in a sealed envelope, following the classification prescribed by this Law.

4. The opinion of the Control Chamber of the National Assembly on the annual report on State budget execution shall contain:

- a. an assessment of the reliability of the figures recorded in it,
- b. an assessment of the implementation of the requirements defined in the State budget law for the year in question.

5. The annual report on State budget execution shall be discussed and approved in a session of the National Assembly pursuant to the law "On the rules of procedure of the National Assembly of the Republic of Armenia" by the second Wednesday of June of the current year.

(Article 25 was amended by HO-211 Law of April 14, 1998.)

Article 26 Transparency of State Budget

In order to ensure transparency in drafting, discussing, approving, executing and controlling the State budget:

- a. the Government shall, within three days of submitting the draft budget to the National Assembly, publish it in the press, with the exception of State secrets,
- b. the discussion of the draft State budget in the National Assembly shall be covered in State media, with the exception of State secrets,
- c. the quarterly breakdown of the state Budget shall be published within a one-month period of its approval by the Government,
- d. the Government shall, within a period of 45 days of the end of each quarter, publish information on the quarterly execution of the State budget.

(Article 26 was amended by HO-541-N Law of April 11, 2003.)

CHAPTER 5

(Editor's Note—Chapter 5 includes Community and Social Insurance Budgets but was omitted due to lack of space. It is available from the source of this law.)

CHAPTER 6 Budget Classification

Article 37 Composition of Budget Classification

1. Budgets shall be prepared and implemented pursuant to the uniform classification of budgetary receipts and outlays.

2. The budgetary classification shall constitute the grouping of the budgetary receipts and outlays by their types and functions used for the preparation and execution of the budgets which ensures the comparability of the budget data of the budgets at all level of the budgetary system.

3. The budgetary classification shall have the following structure:

- a. budget revenues,
- b. budget expenditures and receipts from the repayment of budget credits and borrowings,
- c. sources of financing of the deficit (gap) of the budgets (receipts of resources and repayments of borrowings),
- d. debts of the budgets.

(Article 37 was amended by HO-541-N Law of April 11, 2003.)

Article 38 Budget Revenues

1. Budget revenues shall be classified on the basis of the revenue sources prescribed by law

2. The revenues of the budgets and the budget of the mandatory social insurance shall be classified into:

- a. current revenues (tax revenues, mandatory social insurance contributions, duties, as well as non-tax revenues),
- b. revenues from capital transactions,
- c. official transfers.

(Article 38 was amended by HO-178 Law of December 26, 1997 and HO-541-N Law of April 11, 2003.)

Article 39 Expenditures of Budgets less Repayments of Advanced Budget Credits and Borrowings

1. The expenditures of the budgets less repayments of advanced budget credits and borrowings (hereinafter 'expenditures less repayment') shall be classified into:

- a. the functions of the state and local self-governance agencies,
- b. the administrative distribution,
- c. the economic content of the expenditures,
- d. the geographical distribution.

2. The functional (i.e., operational) classification of the expenditures of the budgets less repayment shall constitute the grouping of the budgetary expenditures which express the directions of financing the main functions of the state and local self-governance agencies, as well as the repayments of advanced budget credits and borrowings.

3. The economic classification of expenditures of the budgets less repayment shall constitute the grouping of the expenditures and repayments of the budget credits and borrowings in line with their economic content.

4. The economic classification of the expenditures of the budgets less repayment shall have the following structure:

- a. current expenditures,
- b. capital expenditures,
- c. lending less repayment.

5. The current expenditures of the budgets shall constitute:

- a. the salaries of the employees of the state and community institutions,
- b. interest payments,
- c. subsidies, subventions, benefits and other current transfers,
- d. expenditures related to the purchase of goods and services.

6. The capital expenditures of the budgets shall constitute:

- a. capital investment expenditures,
- b. capital repair expenditures.

7. Lending less repayment of the budgets shall be classified into:

- a. internal lending less repayment,
- b. external lending less repayment.

8. The administrative classification of the expenditures of the budgets less repayment shall represent the grouping of the expenditures by the direct recipients of the budgetary funds, i.e., the administrative structure of the state and local self-governance agencies.

9. The geographical classification of the expenditures of the budgets less repayment shall constitute the grouping of the budgetary expenditures and the repayments of the budget credits and borrowings by the geographical-administrative units of the Republic of Armenia, i.e., the marzes and communities.

(Article 39 was amended by HO-541-N Law of April 11, 2003.)

Article 40 Sources of Financing the Deficit (Gap) of the Budgets

1. The classification of the sources of financing the deficit (gap) of the budgets shall constitute a grouping of the funds to finance the deficit.

2. The sources of financing the deficit (gap) of the budgets shall be classified into internal and external sources.

(Article 40 was amended by HO-541-N Law of April 11, 2003.)

Article 401 Budget Debts

1. The classification of budget debts shall represent the grouping of debt obligations of the state and local self-governance agencies of the Republic of Armenia by their types.

2. The budget debts shall be classified into internal debt and external debt.

(Article 401 was amended by HO-541-N Law of April 11, 2003.)

Article 41 Itemization of Budget Debt

1. A more detailed itemization of the budget classification provided in this Law, article by article, as well as the procedures for the application of these articles, shall be defined by the Ministry of Finance and Economy.

2. Each expenditure item exceeding fifty million drams shall be reflected by a separate line in the State budget expenditure classification.

CHAPTER 7 Responsibility for Violation of this Law

Article 42 Responsibility for Violation of this Law

The legal entities and civil servants exercising the powers of State and Local Self-governance agencies shall be responsible for violations of this Law as prescribed by law.

(Article 42 was amended by HO-541-N Law of April 11, 2003.)

CHAPTER 8 Concluding Provisions

Article 43 Transitional Provisions

1. The requirements of this Law shall not apply to the preparation and approval of the annual reports on State and Community budget execution for 1996.

2. Articles 11, 28, 29 and 30 shall enter into effect on January 1 1998. Clause 10 of Article 15 shall become effective on the enactment of an appropriate law on the restriction of expenditures (or sequestration).

3. Until the enactment of the law on public procurement, the financing of the purchase of goods, works and services at the expense of budget funds shall be implemented according to a procedure prescribed by the State budget law for the year in question.

4. Until the enactment of the law on financial equalization, the procedure for subsidizing Community budgets shall be prescribed by the State budget law for the year in question.

REPUBLIC OF AZERBAIJAN ACCOUNTING LAW

SECTION I: GENERAL PROVISIONS

Article 1. Purpose of the law

- 1.1. This law regulates the organization and treatment of accounting, including rules on preparation and submission of financial statements by legal entities and natural person who deals with entrepreneurial activity without creation of legal entity regardless of their legal and ownership forms that carry out their activity on the territory of Azerbaijan (hereinafter “subjects of accounting”).
- 1.2. All normative-legal acts and recommendations related to accounting, developed by bodies of executive authority and off-budget state funds within their competence, may be applied on the territory of Azerbaijan Republic only after their adoption with consent of the relevant executive authority, with the exception of the cases stipulated in the law.

Article 2. Definitions

- 2.1. The terms used in this law have the following meanings:
 - 2.1.1. “Rules of Bookkeeping” – are rules, which define the format of source documents and accounting registers for those subjects of accounting required under this law to prepare their financial statements in conformity with National Accounting Standards.
 - 2.1.2. “Group” – a parent and all its subsidiaries.
 - 2.1.3. “International Financial Reporting Standards” – are the accounting standards, financial reporting standards and the interpretations of the Standing Interpretations Committee elaborated, adopted or approved by the International Accounting Standards Board, and each applicable Interpretation of the International Financial Reporting Interpretations Committee.
 - 2.1.4. “International Public Sector Accounting Standards” – are the accounting standards elaborated, adopted or approved by the Public Sector Committee of the International Federation of Accountants.
 - 2.1.5. “National Accounting Standards” – are the accounting standards approved by the relevant executive authority.
 - 2.1.6. “Explanations and Recommendations on the Application of the National Accounting Standards” – are methodological instructions elaborated and approved by the relevant executive authority for the interpretation of provisions of the National Accounting Standards.
 - 2.1.7. “Simplified Accounting Rules for Subjects of Small Entrepreneurship” – are special rules on the treatment of accounting for subjects of small entrepreneurship as defined by the relevant executive authority.

- 2.1.8. "Consolidated Financial Statements" – are the financial statements of a parent and its subsidiaries presented as those of a single subject of accounting.
- 2.1.9. "Public Interest Entity" – are credit organisations, insurance companies, investment funds, non-state (private) social funds, legal entities with securities traded on the stock exchange, and commercial organisations that on the date to which the financial statements are prepared, exceed two of the thresholds (for annual revenue, average number of employees during the financial year and total balance sheet) in an amount determined by the relevant executive authority.
- 2.2. Other definitions used in this law express the meaning defined in the Civil Code of Azerbaijan Republic and other acts of current legislation.

Article 3. Obligation of Accounting

Accounting in compliance with the appropriate accounting standards or simplified accounting rules determined in this law is obligatory for all subjects of accounting.

SECTION II: REGULATION OF ACCOUNTING

Article 4. The State Regulation of Accounting

- 4.1. The main purpose of the state regulation of accounting in the Azerbaijan Republic is to provide for the transparency of the financial statements and development of the accounting in the country on the basis of international standards by developing and implementing the International Financial Reporting Standards and the National Accounting Standards based on them for commercial organizations and the National Accounting Standards based on International Public Sector Accounting Standards for non-commercial organizations.
- 4.2. State regulation of accounting activity is implemented by the relevant executive authority.
- 4.3. The relevant executive authority exercising the state regulation of accounting:
- 4.3.1. Organises the translation of International Financial Reporting Standards and International Public Sector Accounting Standards into the Azeri language and obtaining certification from the International Accounting Standards Board and the International Federation of Accountants respectively, or other related bodies, of the translation as the official text for International Financial Reporting Standards and International Public Sector Accounting Standards in Azeri;
- 4.3.2. Develops and approves the National Accounting Standards, Explanations and Recommendations on the Application of the National Accounting Standards, and Rules of Bookkeeping;
- 4.3.3. Gives its approval for application of normative-legal acts and recommendations in the accounting sphere developed by and within the competence of the relevant bodies of executive authority and off-budget state funds;
- 4.3.4. Cooperates with the International Accounting Standards Board and the Public Sector Committee of the International Federation of Accountants in order to monitor the changes in International Financial Reporting Standards and International Public Sector Accounting Standards and reflect these changes in National Accounting Standards in a timely manner;

- 4.3.5. Develops and approves Simplified Accounting Rules for Subjects of Small Entrepreneurship;
- 4.3.6. Cooperates with professional accounting organizations in order to improve the national accounting system.
- 4.4. Accounting rules and financial statement's format, content and periodicity for credit organisations are determined by the National Bank of Azerbaijan Republic with the consent of the relevant executive authority exercising the state regulation of accounting.

Article 5. Advisory Council for Accounting

- 5.1. The Advisory Council for Accounting is established in order to advise the relevant executive authority exercising the state regulation of accounting on matters related to accounting and financial reporting.
- 5.2. The relevant executive authority exercising the state regulation of accounting is required to consult with the Advisory Council for Accounting in advance of its decisions on introduction of International Financial Reporting Standards and International Public Sector Accounting Standards, development of National Accounting Standards and any major issues related to the development of the accounting in the Azerbaijan Republic.
- 5.3. In order to provide for the participation in the process of the National Accounting Standard development of the individuals and organizations with an interest in the introduction of International Financial Reporting Standards and International Public Sector Accounting Standards, the Advisory Council for Accounting shall consist of representatives of the bodies of state authorities, commercial and non-commercial organizations, accounting profession and faculty.
- 5.4. All members of the Advisory Council for Accounting shall be appointed from among specialists who have essential knowledge of International Financial Reporting Standards and International Public Sector Accounting Standards.
- 5.5. Officers of the relevant executive authority exercising the state regulation of accounting shall not be a member or Chairperson of the Advisory Council for Accounting.
- 5.6. The Charter, Chairperson and members of the Advisory Council for Accounting will be approved by the relevant executive authority.
- 5.7. Funding for the Advisory Council for Accounting shall be made in the form of assignments from the budget of the relevant executive authority exercising the state regulation of accounting and from other sources not prohibited by the legislation.

SECTION III: ACCOUNTING STANDARDS

Article 6. Accounting Standards, applied in the Azerbaijan Republic.

- 6.0. The Accounting Standards, applied in the Azerbaijan Republic according to this law, shall consist of:
 - 6.0.1. "International Financial Reporting Standards" are hereby adopted in their entirety for use by the subjects of accounting mentioned in article 8.1 of this law; Modifications to these standards can only be made by the International Accounting Standards Board and such modifications shall be effective when they are officially adopted by the International Accounting Standards Board.

- 6.0.2. "National Accounting Standards for Commercial Organisations" adopted by the relevant executive authority for use by the subjects of accounting specified in article 10.1 of this law. These standards prepared on the basis of International Financial Reporting Standards shall cover all subjects regulated by the International Financial Reporting Standards. If it is necessary not to incorporate into the "National Accounting Standards for Commercial Organisations" any of the International Financial Reporting Standards as whole or any provision of it or to modify them before incorporation the relevant executive authority shall disclose the reason on which the International Financial Reporting Standard has not been used in its original formulation and any other existing differences between the National Accounting Standards for Commercial organisations and the International Financial Reporting Standards in an appendix to the relevant National Accounting Standard.
- 6.0.3. "National Accounting Standards for Budget Organisations" adopted by the relevant executive authority for use by the subjects of accounting mentioned in article 13.1 of this law; These standards prepared on the basis of International Public Sector Accounting Standards shall cover all subjects regulated by the International Public Sector Accounting Standards. If it is necessary not to incorporate into the "National Accounting Standards for Budget Organisations" any of the International Public Sector Accounting Standards as whole or any provision of it or to modify them before incorporation the relevant executive authority shall disclose the reason on which the International Public Sector Accounting Standard has not been used in its original formulation and any other existing differences between the National Accounting Standards for Budget Organisations and the International Public Sector Accounting Standards in an appendix to the relevant National Accounting Standard.
- 6.0.4. "National Accounting Standards for Non-Government Organisations" adopted by the relevant executive authority for use by the subjects of accounting mentioned in article 13.2 of this law.

Article 7. National Accounting Standards development and adoption.

- 7.1. The relevant executive authority exercising the state regulation of accounting, with the advice of the Advisory Council for Accounting shall organize the publication of the exposure draft of new National Accounting Standards or Amendment to the existing National Accounting Standards, and the collection within a period of 60 days comments to this draft of all interested parties.
- 7.2. The relevant executive authority exercising the state regulation of accounting shall, in result of review of the comments referred to in Article 7.1, makes the decision on the adoption of the proposed exposure draft. The relevant executive authority exercising the state regulation of accounting when approving the proposed new National Accounting Standards or Amendment to the existing National Accounting Standards as published in the form of an exposure draft, shall determine the date from which these Standards or Amendment comes into operation.
- 7.3. When the relevant executive authority, exercising the state regulation of accounting decides to amend the proposed exposure draft, it shall develop and approve the updated draft of the new National Accounting Standards or Amendment to the existing National Accounting Standards and determine the date from which these Standards or Amendment comes into operation.

- 7.4. When approving the proposed exposure draft with or without amendment, the relevant executive authority exercising the state regulation of accounting takes into consideration the compatibility of this exposure draft with the International Financial Reporting Standards or with the International Public Sector Accounting Standards and the recommendations of the Advisory Council for Accounting. If there is a difference between the National Accounting Standards or Amendment to the existing National Accounting Standards adopted and the International Financial Reporting Standards, International Public Sector Accounting Standards or recommendation of the Advisory Council for Accounting, the relevant executive authority exercising the state regulation of accounting shall state the difference and explain the reasons for the difference in the appendix to the Decision on adoption of the proposed National Accounting Standards or Amendment to the National Accounting Standards.
- 7.5. The regulations on National Accounting Standards development and adoption are approved by the relevant executive authority exercising the state regulation of accounting.

SECTION IV: FINANCIAL STATEMENTS OF COMMERCIAL ORGANISATIONS

Article 8. Preparation of the Financial Statements of the Public Interest Entities

- 8.1. Public interest entities shall prepare their financial statements required under this law solely in conformity with International Financial Reporting Standards.
- 8.2. Any public interest entity, which has one or more subsidiaries, must prepare consolidated financial statements in conformity with International Financial Reporting Standards, in addition to its own financial statements as a legal entity.
- 8.3. A public interest entity need not prepare consolidated financial statements if all four below mentioned conditions are realised:
- 8.3.1. it is a subsidiary and all owners (participants, shareholders) including those not otherwise entitled to vote, unanimously agree that entity need not present consolidated financial statements;
- 8.3.2. its securities are not publicly traded;
- 8.3.3. it is not in the process of issuing securities in public securities markets; and
- 8.3.4. the immediate or ultimate parent publishes consolidated financial statements that comply with International Financial Reporting Standards in accordance with requirements of the article 12 of this Law.

Article 9. Preparation of the Financial Statements of Subjects of Small Entrepreneurship

- 9.0. Subjects of small entrepreneurship:
- 9.0.1. must prepare their financial statements in compliance with the "Simplified Accounting Rules for Subjects of Small Entrepreneurship" or
- 9.0.2. at their election, may prepare their financial statements in compliance with the "National Accounting Standards for Commercial Organisations".

Article 10. Preparation of the Financial Statements of the Commercial Organisations other than Public Interest Entities and Subjects of Small Entrepreneurship

- 10.1. Commercial organisations other than public interest entities and subjects of small entrepreneurship:
 - 10.1.1. must prepare their financial statements in accordance with the “National Accounting Standards for Commercial Organisations”; or
 - 10.1.2. at their election, may prepare their financial statements in conformity with International Financial Reporting Standards.
- 10.2. Any commercial organisation other than a public interest entities and subjects of small entrepreneurship, which has one or more subsidiaries, shall prepare consolidated financial statements in conformity with International Financial Reporting Standards, if on the date to which the financial statements are prepared, group’s indices (of consolidated annual revenue, average number of group employees during the financial year and total consolidated balance sheet) exceed two of the thresholds (for consolidated annual revenue, average number of group employees during the financial year and total consolidated balance sheet) in an amount determined by the relevant executive authority.
- 10.3. Any commercial organisation other than a public interest entities and subjects of small entrepreneurship, which has one or more subsidiaries, shall prepare consolidated financial statements in conformity with National Accounting Standards for Commercial Organizations, if it is not required to present consolidated financial statements in conformity with International Financial Reporting Standards, as required in Article 10.2. of this law.
- 10.4. Commercial organisations other than a public interest entities and subjects of small entrepreneurship, which has one or more subsidiaries, need not prepare consolidated financial statements if all of four below mentioned conditions are realised:
 - 10.4.1. it is a subsidiary and all owners (participants, shareholders), including those not otherwise entitled to vote, unanimously agree that organisation need not present consolidated financial statements;
 - 10.4.2. its securities are not publicly traded;
 - 10.4.3. it is not in the process of issuing securities in public securities markets; and
 - 10.4.4. the immediate or ultimate parent publishes consolidated financial statements that comply with International Financial Reporting Standards or National Accounting Standards for Commercial Organisations in accordance with requirements of the article 12 of this law.

Article 11. Reporting Period for Financial Statements of Commercial Organisations

- 11.0. The following reporting periods are stipulated for annual financial statements:
 - 11.0.1. For subjects of accounting, which were established before October 1 of the current year, first reporting period is considered from the date of their state registration according to the legislation, to December 31.
 - 11.0.2. For subjects of accounting, which were established after October 1 of the current year, first reporting period is considered from the date of their state registration according to the legislation, to December 31 of the next year.

11.0.3. For the other subjects of accounting the reporting period is considered from January 1 to December 31.

Article 12. Rules for the Submission and Publication of Financial Statements of Commercial Organisations

- 12.1. Commercial organizations shall submit their annual financial statements and consolidated financial statements to the state organs in the cases, terms and order as defined by legislation and to other individuals and entities in the cases, terms and order determined by the organization's Charter.
- 12.2. The subjects of natural monopolies and commercial organizations that attract credits with the state (government) guarantee or participate in the projects related with allocation of state borrowings and also commercial organizations that receive from budget subsidies, subventions, grants or budget means related to the implementation of appointed activities shall submit their annual financial statements and annual consolidated financial statements, to relevant executive authority on request. The relevant executive authority, shall submit these financial statements and consolidated financial statements, with an auditor's opinion when required by law, to all interested parties.
- 12.3. Public interest entities and other commercial organisations, which prepare consolidated financial statements, are also required to:
 - 12.3.1. post in the terms of free access their annual financial statements and consolidated financial statements, with an auditor's opinion when required by law, on their website, if they have one;
 - 12.3.2. publish their annual financial statements and consolidated financial statements, with an auditor's opinion when required by law, in the press;
 - 12.3.3. make a copy of their annual financial statements and annual consolidated financial statements, with an auditor's opinion when required by law, available to any person on request, without charge.
- 12.4. The governing body determined by the Charter of the subject of accounting is responsible for the preparation, presentation and publication of the financial statements and the consolidated financial statements of subject of accounting.

SECTION V: FINANCIAL STATEMENTS OF NON-COMMERCIAL ORGANISATIONS

Article 13. Preparation of the Financial Statements of Non-Commercial Organisations

- 13.1. Municipal organs, budget organisations and off-budget state funds shall prepare their financial statements required under this law in accordance with the National Accounting Standards for Budget organisations.
- 13.2. Non-government organisations shall prepare their financial statements required under this law in conformity with National Accounting Standards for Non-government organisations.

Article 14. Reporting Period and the Rules of the Submission and Publication of Financial Statements of Non-Commercial Organisations

- 14.1. The rules concerning the submission, reporting periods and the publication of financial statements by budget organisations and off-budget state funds are determined by the relevant executive authority exercising the state regulation of accounting.

- 14.2. The rules concerning the submission, reporting periods and the publication of financial statements by municipal organs are determined by the municipalities.
- 14.3. Financial statements submitted by budget organisations and off-budget state funds in accordance with this law will not replace but supplement the financial reporting required under the Law of the Republic of Azerbaijan on Budget System, laws of the Republic of Azerbaijan on annual State Budget and other relevant regulations, related to budget system.
- 14.4. The reporting periods for non-government organisations are stipulated in accordance with article 11 of this law.
- 14.5. Non-government organisations shall publish their annual financial statements in accordance with the requirements of article 12 of this law.

SECTION VI: CLOSING PROVISIONS

Article 15. Protection of confidentiality of accounting data

- 15.1. The contents of source documents, accounting registers and other documents are a commercial secret.
- 15.2. State authorities shall have access to all accounting documents in the cases and pursuant to procedures determined by the law.
- 15.3. The appointed auditor of a subject of accounting has the legal right of access to all accounting documentation as defined by legislation.

Article 16. Responsibility for infringement of the legislation on accounting

The guilty persons shall bear responsibility, in accordance with the legislation, for the infringement of the legislation related to the preparation and submission of the subject's of accounting financial statements and consolidated financial statements and the maintenance of its books and records.

Article 17. Implementation dates

- 17.0. Subjects of accounting shall implement requirements mentioned in articles 8, 9, 10 and 13 of this Law for all reporting periods beginning not later from the dates determined below:
- 17.0.1. all subjects of accounting stipulated in articles 8 and 10 of this law – from January 1, 2008,
- 17.0.2. all subjects of accounting stipulated in article 9 of this law – from January 1, 2006,
- 17.0.3. all subjects of accounting stipulated in article 13 of this law – from January 1, 2009.

Article 18. Transitional provisions

- 18.1. Until the effective date of the National Accounting Standards and Rules of Bookkeeping, stated in this law, the existing legal acts related to accounting shall remain in force.
- 18.2. In the case of contradictions between effective normative-legal acts and National Accounting Standards and Rules of Bookkeeping, the National Accounting Standards or Rules of Bookkeeping should be applied.
- 18.3. The terms of phased introduction of National Accounting Standards, that will be developed until the full set of National Accounting Standards come into effect are determined by the relevant executive authority.

18.4. During one year after adoption of this law the relevant executive authority shall determine the list of public interest entities which required to conduct accounting for their activity and to prepare their financial statements under the International Financial Reporting Standards before January 1, 2008 and makes changes and additions to it, if necessary.

Article 19. Validation of the Law

This Law comes into effect from the date of its publication.

Accountability in Bureaucracy: Bangladesh Case

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Abstract:

To establish democracy in true sense in any country, it is essential that the bureaucrats be held accountable for their action. Keeping in view the importance of bureaucratic accountability in democratic polity, authors of this paper have tried to discuss the present state of patterns of accountability of the bureaucracy in Bangladesh. In doing so, instruments for ensuring accountability in theoretical perspective has also been highlighted.

1. Introduction

One of the prime characteristics of democratic system is accountability. In a democratic polity, it is imperative that the government be held accountable for all its action. It is implied that since power is derived from the people and is to be exercised in trust for the people by the government, each level of executive authority should be accountable to the next higher rank, right up to the top, of

the hierarchy (Jain, 1998:1). The executive authority as a whole is supposed to be accountable to the legislature and, thus, to the people.

Nowadays, it is well known that an efficient bureaucracy is the *sin qua non* for good governance. At the same time, it has an inherent tendency to monopolize and misuse power (Gardiner, 1923:587, cited in Bhuyan, 1998:831). In fact, bureaucracy has become an indispensable part of modern political system. In other ways, democracy of modern time is not even practicable without permanently employed state officials generally characterized as the bureaucracy. Monopolistic nature of most of the governmental activities has accentuated the process of amassing of ever increasing array of powers in the administrative operations of the state. Both these, i.e., increase in governmental intervention and monopolistic nature of governmental activities, have inevitably resulted in the strengthening of the public sector in terms of powers and positions. So, the question of bureaucratic accountability arises.

In this paper, attempts have been made to analyze the current state of accountability of the bureaucrats of Bangladesh highlighting the issue of formal instruments of accountability.

2. Research Methodology

The study is exploratory in nature. It is basically based on the review of primary and secondary literature. Relevant information is also collected through internet browsing. It is provided as a case study of the efforts made by one country to improve accountability within their country and provides recommendations for further actions to be taken to achieve that objective.

3. Conceptual Framework

3.1. Definition of Bureaucracy

No consensus among the scholars is found on definition of the term 'bureaucracy' and it means different things to different people. According to H. Finer, bureaucracy is an institution composed of "government officials who are permanent, paid and skilled" (Bhuyan, 1998:833). Bureaucracy has been defined as a government by officials who tend to dominate in policy-making. Bureaucracy is seen as a system of rule. This conceptualization of bureaucracy, as a rule by officials to the virtual exclusion of all others, is found in a variety of authors. German Sociologist, Max Weber called it a rational-legal authority which operates on the basis of formal rules and regulations (Weber, 1948). Since the bureaucratic system of rule is based on the knowledge and the expertise of officials, there is a potential for erosion of the power of the non-specialist, who is placed in command of the bureaucratic administration (Warwick, 1974:2). In this paper, the term bureaucracy is confined to mean those governmental officials who are involved in the process of policy making and implementation in Bangladesh.

3.2. Definition of Accountability

Being accountable means having the obligation to answer questions regarding decisions and/or actions (Schedler, 1999:13-29). Two types of accountability questions can be asked. The first type asks simply to be informed; this can include budget information and/or narrative description of activities or outputs. In democratic governance terms, the informing aspect of answerability relates to transparency. The second type of question moves beyond reporting of facts and figures, and asks for explanations and justifications (reasons); that is, it inquires not just about what was done but why (Brinkerhoff, 2001). Simon,

Smithburg and Thompson said, “by accountability we mean those methods, procedures, and forces that determine what values will be reflected in administrative decisions” (Bhuyan, 1998:833). Jabbra and Dwivedi said that “accountability is not only foundation of any governing process but also a check of power and authority exercised by both politicians and administrators” (Jabbra and Dwivedi, 1989).

Public accountability involves the methods by which a public agency or a public official (both political and administrative officials) fulfills its duties and obligations and the process by which that agency or the public official is required to account for such actions (Dwivedi and Jabbra, 1989:5). But accountability is not confined to more responsibility to provide answers; it can note the possibility of sanctions being invoked in cases where answers are unsatisfactory or problematic (Rahman, 2000:22).

3.3. Bureaucratic Accountability

Nowadays, the issue of bureaucratic accountability is gaining importance in both democratic and non-democratic political systems. For the working of a democratic polity, public bureaucracy must be accountable, open and transparent (Bhuyan, 1998:834). In this paper, by bureaucratic accountability we mean the answerability of the public officials of Bangladesh for their actions.

4. Instruments of Accountability

Several mechanisms have been developed with the passage of time to control the growing power of bureaucracy in order to establish an accountable and responsible government in both the central and local government. Mechanism may differ from society to society, as Simon, Smithburg and Thompson notes “the process of accountability in a democracy will be deferent from the processes in non-democratic forms of government, and there will be differences even between democracies” (Mostafa, 1995:157).

Basically, the procedures of accountability can be divided into three categories, viz., administrative, legislative and judicial. These are the formal means of accountability that are highlighted in the following discussion.

4.1. Administrative Control

Administrative control includes rules-regulations and instructions, supervision, inspection, hierarchy, etc. by which public officials act and are required to account for actions. There is a hierarchy in administration and within this hierarchy authority follows from the top executive to the bottom and responsibility and accountability returns from the bottom to the top. If the top executive is elected by a free and fair election and if he is accountable to the people, then the administration will be responsible and accountable to each higher hierarchical level in turn and to no one else but to the people through the chief executive. In America, once appointed by the chief executive (the president), the departmental heads have a political obligation to the president to satisfy the relevant interest groups in order to maintain/attain and to achieve their political support (cited in Mostafa, 1995:152).

The administrative control depends not only on the existence of a set of institutions and procedures but also on the willingness to employ these procedures.

4.2. Legislative Control

In democratic society, there is a constitutional arrangement that both the political (minister) and permanent executives (civil servant) will be accountable to the parliament for the execution of public policies, programmes and activi-

ties. Parliament has elaborate mechanisms to control bureaucratic actions, such as budget investigation, parliamentary questions and answers, parliamentary committees, debates and discussion, table motions and resolutions on specific administrative issues and actions, post-audit supervision by parliamentary ombudsmen. In the U.K, the system of select committees has been developed “to examine the expenditure, administration and policy of the principal government departments...and associated public bodies” (Mostafa, 1995:150-151).

Parliamentary oversight is dependent on three elements. **Firstly**, the power of parliament to hold the government account. The ultimate power of parliament is to send the government packing (through a vote of no-confidence). **Secondly**, the willingness of parliamentarians to keep the executive to account. Willingness refers to the duty of parliaments to hold government accountable, in spite of partisan/coalition politics. **Thirdly**, the resources of parliament refer to parliamentary staff, budget, library and infrastructure (and the resources available to fulfil its oversight functions). (Born and Urscheler, 2002:10)

Assuming that parliaments are willing to hold government accountable and using Posbly’s classic analysis of the functions of parliaments using the powers/resources dimension, Hans Born and Marlene Urscheler distinguish 4 types of parliaments (Born and Urscheler, 2002:11).

	Resources	Few Resources	Many resources
Powers			
Few Oversight Powers		Rubberstamp Parliament	Arena Parliament
Many Oversight Powers		Emerging Parliament	Transformative Parliament

Adopted by: Hans Born and Marlene Urscheler, 2001.

1. Rubber stamp: in this case the parliament only applauds the policies of the government. These parliaments neither have the power nor the resources to hold the government accountable. This was typically the case in the parliaments of former USSR and former satellite states.
2. Emerging Parliaments: these parliaments have most relevant powers, but lack the capacities, such as staff and library and therefore the information to hold the government accountable. These parliaments are mostly present in transitional states.
3. Arena Parliaments: these parliaments do have the relevant information but they are lacking real power to hold the government accountable effectively. They are nevertheless capable of organizing debates and raise questions. An example is the United Kingdom parliament, where the government dominates the (informed) parliament as a result of the fusion of powers between the executive and legislative branches and the system of strong party discipline.
4. Transformative Parliaments: these parliaments have both extensive powers and the resources for holding the government accountable. These parliaments are capable of scrutinizing and of altering government proposals and laws. An example is the German Bundestag or the United States Congress.

4.3. Judicial Control

Judicial control over administration means the powers of the courts to examine the legality of the official's acts and thereby safeguard the rights of the citizens. Judicial review of administrative action is perhaps the most important development in the field of public law of the 20th century. The underlying object of judicial review is to ensure that the authority does not abuse its power and the individual receives just and fair treatment and not to ensure that the authority reaches a conclusion, which is correct in the eye of law (Takwani, 2001:237). To ensure bureaucratic accountability through judiciary control, a sound and independent judiciary is the sine qua non (Halim, 1998:298).

Simon, Smithburg and Thompson identify three basic levels on which the American system of judicial accountability moves. These are: (1) An action based on the statute or order may be challenged in the law courts because the statute or order is claimed to violate the constitution. (2) Any given action or class of actions can be reviewed by the courts who in fact determine the lawfulness of actions. Authority delegated to administrative agencies is tested by judges of regular court of law to make sure whether it is legal-illegal or valid-invalid. (3) Actions taken by administrations must be within the purview of the law. Otherwise, the courts can penalize them. In the U.K. the meaning of judicial accountability is answerability to the law courts for the lawfulness of action. Judicial review controls the administration by way of direction, limiting and structuring techniques. The role of judges is to generate principles to guide administrative procedures and judge their legality (Mostafa, 1995:153).

Besides these three types of formal means of control, the general public, political parties, interest groups and their representatives, mass media also can play a vital role in ensuring bureaucratic accountability in a democratic polity (Zafarullah, 1992:82). These are the informal means of accountability.

5. Bureaucratic Accountability in Bangladesh

In the early years of Bangladesh as an independent state, the bureaucracy came under pressure to operate under political supervision, but this phase did not last long. Subsequent phases of military rule reinstated the bureaucrats in their entrenched positions and strengthened their grip over the system. The restoration of electoral democracy in 1991 paved the way to transparency and accountability of the executives to the parliament. Establishment of parliamentary form of government institutionalized democracy but the misrule of two military regimes highly politicized the administration that recorded the norms and values of public administration. A number of reform efforts have been initiated to enhance the accountability of the bureaucracy. But Bangladesh achieved little success in assuring accountability in administration.

With a view to holding the bureaucrats accountable, various mechanisms in the forms of administrative, legislative, judicial etc. are in practice in Bangladesh. These are the following:

5.1. Administrative Control to Ensure Bureaucratic Accountability in Bangladesh

In Bangladesh the following administrative mechanisms are practiced to ensure bureaucratic accountability (Bhuyan, 1998:842):

1. **Hierarchy:** This hierarchy is maintained through top to bottom. Every official is accountable to his boss. And the top boss is accountable to his political boss, who is accountable to parliament.

2. Annual Confidential Report: (ACR) – His superior authority, on which his rewards, punishment, promotions, and demotions largely depend, writes every civil servant's ACR. Besides the above mechanisms, there are other mechanisms employed to ensure administrative accountability, such as supervision and inspection, written report, government service conduct rules, audit, etc.

Ahmed (2002) in his study indicated that administrative mechanisms seem to have not been functioning well in Bangladesh. For instance, in the Secretarial Instructions, specific time limit for disposal of cases by civil servants are prescribed but there is no monitoring and evaluation or enforcement of the time to set (Ali, 2004:212). The Rules of Business that governed business and decision-making procedures and processes in the public administration sector in Bangladesh was introduced in 1975 and largely remained unchanged, not only until the formal and substantive end of the Presidential system in 1991, but even after the institution of a Parliamentary - Cabinet type of Government with the Prime Minister as the Chief Executive. Before 1996, the permanent secretaries and civil administrative officials (but not the Ministers though they were elected members of the Parliament) were Executive Heads and Principal Accounting Officers of the Ministries. The Ministers however, were required to supervise the work of the Secretaries serving under them. The Awami League Government (1996-2001) amended the Rules of Business and made the Ministers executive head of their Ministries. The impact of this change is still not very clear as the Secretaries continue to be Principal Accounting Officers of the ministries (Shelley, 2000:172-174). Thus the difficulties and complications of the relationship between politicians and bureaucrats in the government are continuing. Again the ACR and the promotion and transfer systems are viewed by many Bangladesh Civil Service officers as unfair due to the absence of objective criteria.

The effective functioning of the administrative mechanisms is inhibited by a number of reasons. One prime reason might be the bureaucratic dominance over state power. The elected politicians largely depend on the expertise of civil servants and thus civil servants play the crucial role both in policy making and policy implementation over politicians. Moreover the chaotic political environment has made civil servants imperious and indifferent to public sensitivities, highly bureaucratic, and self-serving (Khan, 1998:IX).

5.2. Legislative Control to Ensure Bureaucratic Accountability in Bangladesh

Parliament of Bangladesh exercises control over the executive and public services through the following instruments:

- (a) Parliamentary Questions: Members can put questions to ministers about the working of their departments. If a minister is questioned in the parliament for any of his act, then the minister must question his subordinates.
- (b) Motions for Adjournment on a matter of public importance provide an opportunity to the members to discuss the working of any Department.
- (c) Debates and Discussions on the floor of the House, whether legislative or budgetary, provide an important occasion to the members to review the functioning of administration.
- (d) Parliamentary Committees also exercise control by examining draft bills and other legislative proposals, reviewing the enforcement of laws and proposing measures for such enforcement, investigating or performing inquiry into the activities or administration of a Ministry.

(e) Comptroller and Auditor-General's Audit of expenditure of public money is also used for controlling administration.

Among these instruments discussed above, parliamentary committees hold great importance. In pursuant of Article 76 of the constitution, it is mandatory to form the following three types of committees:

(a) A Public Account Committee (PAC)

(b) A Committee on privileges; and

(c) Such other Committees as the Rules of Procedure of Parliament require.

Thus in addition to the two specific Committees, there can be other committees. The Committee for Examining Draft Bills and Legislative Proposals is established to review each case of legislation that the government has proposed. In other cases, a Standing Committee (SC) is established for each Ministry. The purpose is to ensure review the working of each Ministry (Ali, 2004:272). There are 46 parliamentary Committees of which 38 are for oversight functions – 35 SCs plus the PAC, The Public Undertaking Committee and the Estimates Committee (PARC report).

There is strong evidence that functioning of the standing committees, which enjoy sufficient power under the Rules of Procedure, however, have been far from being fully effective (Ali, 2004:284). The proper functioning of the committee system relies to a large extent on the composition and the operations of the committees (Rahman, 2000:85).

The composition of committees is crucial in the sense that the opposition members are more inclined than the ruling party Members of Parliament (MP) to dig out the irregularities by the bureaucrats. The Awami League (AL) government (1996-2001) in this regard took one noticeable initiative. They introduced the provision for appointing general members as the chairman of the Parliamentary Committees other than the ministers. The present Bangladesh Nationalist Party (BNP) government is carrying out this provision also. This provision allows the committee members to hold the minister accountable for any of his acts, which indirectly hold bureaucrats accountable before the committee. In the 5th and the 7th parliament, the ruling party sustained its domination by allocating 56% and 60% of the membership among the ruling party respectively although the party strength in the house was 51% and 53% respectively.

Table 2: Party distribution of total committee chairs and members on percentage (Proportional and actual)

Jatiya Sangshad	5th Parliament (1991-1996)				7th Parliament (1996-2001)			
Position	Chairs		Members		Chairs		Members	
Party	Proportional	Actual	Proportional	Actual	Proportional	Actual	Proportional	Actual
Treasury Bench	51%	100%	51%	56%	53%	98%	53%	60%
Opposition	49%	Nil	49%	42%	47%	02%	47%	40%

Source: Sangsad Bulletin, 1991 on 1st, 2nd, 3rd and 17th session; Sangsad Bulletin, 1996 on 1st, 2nd, and 8th session, Bangladesh Parliament Secretariat.

The number of committee formations and committee reports submitted to the parliament stipulates the formal ramification of committee operations. The following table shows number of SCs, other Special Parliament Committees, number of Meetings held and reports submitted by these committees during the 5th and 7th parliament.

Table 3: Number of SCs, other Special Parliament Committees, number of Meetings held and reports submitted by these committees during the 5th and 7th parliament.

Period	Number of Committees	Number of Reports Placed before the Parliament	Number of Committees, which did not Submit any report
5th Parliament (April 5, 1991 through November 18, 1995)			
•Standing Committees	35	32	17
•Other Special Committees	11	17	7
Total	46	49	24
7th Parliament (July 24, 1996 through July 13, 2001)			
•Standing Committees	35	12	23
•Other Special Committees	12	41	6
Total	47	53	29

Source: Bangladesh Parliament Secretariat, June 2002.

Note: Some Committees submitted more than one report.

The table above clearly shows that in case of 5th Parliament, 52% of the Committees did not care to submit any report to the Parliament. If the SCs only are taken into account 49% of the SCs did not submit any report to the Parliament. Under the Rules of Procedure, each SC is supposed to meet at least once in a month. Based on this criterion during 55 months, 35 SCs were expected to hold at least 1,925 meetings and the actual number fell short of 828 meetings.

Besides Committees, other Parliamentary instruments like Parliamentary questions, debates and discussions, the Prime Minister's question hour are not effective due to the incompetence of the MPs. On the other hand, the boycott of opposition party from Parliament, tardiness of cabinet members including Prime Minister in attending the Parliamentary session, failure of speaker to uphold impartiality to run Parliament, etc. contributes to further inefficiencies.

In final analysis it can be said that before 1990s the parliament was a show piece for everybody to see but very little practical use and acted as Rubber Stamp Parliament. After the 1990s, it has appeared as Emerging Parliament.

5.3. Judicial Control to Ensure Bureaucratic Accountability in Bangladesh

The judicial system in Bangladesh provides a strong guarantee that individuals' rights and interests must not be encroached upon. The constitutional guarantees and executive decrees allowed the judicial branch of the government to freely exercise its authority not only to protect the fundamental rights of the citizens but to contain and penalize wrongful acts of the bureaucrats through issuance of directions or orders or writs like 'habeas corpus', 'mandamus prohibition', 'certiorari' and 'quo warranto' (Huda, 1997:828-875). The obvious limitation of the existing system is that judges cannot initiate an action on their own and have to wait for someone to bring an issue or a case to them. This acts as a significant damper as most people in Bangladesh tend to avoid the court for fear of being drawn into a long-drawn-out, costly legal battle, even when they feel aggrieved by the actions of the executive and civil servants (Ahmed and Khan 1990:37). However, in recent years, the Supreme Court in Bangladesh seems to have been applying its own judgement in extending the scope of its writ jurisdiction. The resultant position is that anyone or a civil society group, other than the affected ones, can nowadays seek judicial remedy against an action of the executive affecting public interest, and can look for social justice by way of 'public interest litigation'. Moreover, in a number of cases that have come up recently, the Supreme Court has taken the initiative to issue the writ of suo motu – to mitigate the sufferings of both the helpless and the poor – applying its discretion, even on the basis of a letter, or an information printed in a newspaper (Ahmed, 2002:345).

5.4. Accountability by the Office of the Comptroller and Auditor General (CAG)

CAG holds a constitutional position and enjoys the same protection in terms of security of tenure as is applicable to a judge of the Supreme Court except that the CAG holds office up to the age of 60 years. According to Article 128 (1) of the Constitution, the CAG is not subject to the direction or control of any other person or authority. In Bangladesh the chief responsibility for financial monitoring of the government lies with office of the CAG. This office is responsible for verifying ex-post that all public expenditure conforms to administrative, legal and legislative requirements. Despite having independent power and authority the CAG in Bangladesh cannot play its role properly due to the following limitations:

- (a) The office of the CAG is to perform its huge functions with a group of weak staff-skill. For example the office does not have a single professional Chartered Accountant.
- (b) Dual responsibility of accounting and auditing compromises the integrity of audit function.

- (c) The CAG's reports deal with only conventional audits rather than the effectiveness of spending programmes in achieving policy objectives. That means audits tend to focus on the 'compliance aspect' rather than on the pursuit of 'cost-effectiveness'.
- (d) Due to shortage of efficient staff there is always delay in issuing reports.
- (e) The office of the CAG pays little attention to the follow-up actions.

5.5. Office of the Ombudsman

The concept of ombudsmen originated from Sweden. In most of the countries, the office of Ombudsmen has been instituted keeping it outside regular official hierarchy. The responsibilities of Ombudsmen in various countries remain almost the same. The office of the Ombudsmen receives complaint from aggrieved citizens, justifies the validity and undertakes a thorough investigation to resolve the problem.

In Bangladesh, the office of the ombudsman, so neatly enshrined in the constitution of 1972, is yet to become a reality. In April 1980 the parliament passed the 'Ombudsman Act' in pursuance of article 77 of the constitution. Interestingly, while the import of this institution has been widely and strongly emphasized, no effort has ever been made to establish the office (Obidullah, 1999:163-170).

6. Conclusion and Recommendations

Ensuring bureaucratic accountability in a country like Bangladesh is not an easy task. Most of the people of Bangladesh do not believe that bureaucrats would serve their interest and be held accountable for their action. In 2004, the Corruption Perception Index (CPI) published by Transparency International indicated that Bangladesh was one of most corrupt countries in the world (ranking last among the 146 countries surveyed). The CPI is a poll of polls reflecting the perception of business people, academics and risk analysts, both residents and non-residents. But, at the same time, it is not always true that all bureaucrats in Bangladesh are corrupt, inefficient or irresponsible. In the past, some of them have shown their creativity and innovativeness, but were seldom appreciated or recognized by the political leadership. For making bureaucrats accountable, there are several instruments in practice. Each of the instruments has some functional difficulties. Therefore, the issue of bureaucratic accountability always remains questionable. Along with several instruments or control mechanisms, a public servant needs to develop an inner sense of professional responsibility, refined by the consideration of 'humanism', 'responsiveness', and 'public goods'. Otherwise real development would not be possible. Keeping this view in mind, Dwivedi (Cited in Jain, 1998:16) has emphatically put "public accountability" multi-dimensional in nature; it flows upward and downward as well as outward and inward. Such a complex notion is bound to create dilemmas; consequently a responsible administrator would be advised to be on guard against forces, which might attempt to influence him to act otherwise.

Considering the above circumstances, a number of measures could be taken into consideration in order to avoid problems associated with the process of ensuring bureaucratic accountability in Bangladesh.

1. Monitoring procedures need to be tightened so that the concerned senior civil servant knows the extent of compliance by subordinates to relevant orders and directives as well as services provided to the citizens.

2. Laying down of performance standard and volume of work for all officers and the members of the staff of an organization/office individually and jointly and the organization as a whole.
3. A systematic review of central government rules and regulations to update government manuals.
4. The development of a set of systematic databases of government decision-making.
5. Chairman of the SCs of the Parliament should come from the opposition party and the membership will be distributed proportionally.
6. The establishment of a bi-partisan parliamentary task force to strengthening the standing committees, instituting the practice of questioning ministers.
7. Providing members of parliament with adequate office and research facilities.
8. The post of Ombudsman may be created immediately by giving effect to Ombudsman Act. Appointment of Ombudsman should be done on the basis of consensus from the Parliamentary representing all parties.
9. To ensure financial accountability, the office of CAG must be reorganized and strengthened by enhancing the capacity of the CAG, allowing CAG direct contacting of auditing firms, initiating programmes to undertake comprehensive audits and separating the audit from accounting function.
10. Serious concern should be given to amend the Official Secrecy Act of 1923 and the Government Servant Conduct rules of 1979.
11. Complaint procedures should be in place in government agencies for wider use of citizens. A register should be maintained containing information about the timing and nature of complaint.
12. Establish an independent Anti-Corruption Commission.
13. Separation of the judiciary from the executive.

THE ADOPTION OF ACCRUAL ACCOUNTING AND BUDGETING BY GOVERNMENTS (CENTRAL, FEDERAL, REGIONAL AND LOCAL)

1. Introduction

1.1. There is an increasing tendency by governments at all levels to move to an accrual basis of accounting for financial reporting purposes with a parallel move to accrual budgeting, although in some countries the focus has been on accrual accounting only. To facilitate this governments have generally adopted accounting standards, either in the form specified by the IFAC Public Sector Committee (IPSAS) or by adapting private sector accounting standards.

1.2. The IFAC Public Sector Committee has substantially completed its first phase objective of producing a core set of standards based on International Accounting Standards (IAS). There are, however, a number of public sector specific issues, which are not covered by IAS, for which standards have not been developed. These include the treatment of tax revenues and social policy obligations. The IFAC PSC is now considering such issues and developing standards in the second phase of its project. However, until such standards are issued jurisdictions will need to determine approaches for these and other areas which are not covered by the IFAC standards. Governments will also need to develop accounting policies to apply those standards that have already been developed where there are both benchmark and allowed alternative treatments.

1.3. Whilst the profession welcomes the adoption of accrual accounting by governments as a positive reform, the reform is also accompanied by a number of risks. Involving the profession in the process of governmental accounting reform in the ways that are set out in this statement would serve to lessen those risks.

1.4. Financial accounts can only provide one picture of the performance of a government or other public sector organisation. Increasingly other non financial performance information is being developed to supplement financial information. The adoption of accrual accounting will serve to strengthen the relationship between financial and non financial information.

1.5. For those countries that do not intend to move to an accruals basis of accounting, the IFAC Public sector Committee has recently published a 'cash standard'. This standard will result in improvements to the quality of cash based reporting and the profession should encourage the adoption of this standard to facilitate this.

Background

2.1. The underlying accountancy systems in the public sectors of most European countries are currently cash based. Therefore, where accrual based reporting is adopted using the standards developed by the IFAC Public Sector Committee, substantial changes will be needed to the cash based systems requiring detailed interpretation and application of the accounting standards

(IPSASs). Without that detailed interpretation and application there is a serious risk that accrual based financial reports will not properly reflect the real impact of the underlying transactions.

2.2. Cash-based accounting has the virtues of simplicity and objectivity. These virtues should not be underestimated, particularly where as in many government organizations there are few, if any, skilled accountants (whether or not members of professional bodies) employed and where financial management is seen as of lesser importance than legal compliance. (The IFAC Public Sector Committee has also developed an International Public Sector Accounting Standard for the cash basis of accounting. Where governments have not decided to move to accrual accounting as a minimum, they should be encouraged to make the changes to their accounting arrangements to ensure that their cash based reporting is consistent with this Standard.)

2.3. However, the cash basis has significant weaknesses, not least because there is no matching requirement, information about assets and liabilities is frequently very limited and there is the lack of an effective balance sheet. Accrual-based accounting has the potential to produce more transparent and meaningful financial information. Whether or not this is of value, depends upon the capacity of the government to make use of it. This depends on the development of an understanding of the role of financial management and consequently of the infrastructure that can sustain financial management skills, not least, accounting training. In parallel with this there is a need to ensure that the public sector auditor is equally aware of the impact that accrual accounting can have, the risks that can ensue from its adoption and an understanding of the audit implications of accrual based accounting.

2.4. The accrual basis is a much more complex system than the traditional cash system. It requires a higher degree of judgment than the straightforward cash basis, particularly over valuations of physical assets and provisions. This can be both a weakness and a strength. This means that it is inappropriate for governments which do not have the expert resources capable of understanding the complexities of the system and also able to manage and maintain the more sophisticated accounting infrastructure. An external audit which is trained to audit accrual based financial reports is also an essential requirement. The adoption of accrual accounting would also be inappropriate in those countries which did not have a strong Ministry of Finance (or equivalent) with accepted authority over financial management systems and control and a neutral (non political) independent civil service.

2.5. The IPSAS have been developed by the accountancy profession (although there has been an involvement of others in the process) and in the application of those standards a number of important technical accounting decisions do need to be made. Yet in some European countries the following circumstances exist:

The government sector contains few or no members of the accountancy profession;

- There is no systematic development of accountancy skills within the government sector;
- The public sector auditor is not trained in the use or interpretation of accounting standards;
- The laws governing the profession may actually make it impossible for a member of the profession to retain his/her professional membership and be employed in government service;

- There is no substantive role for the accountant (whether or not a member of a professional body) in the administration or management of public services and the role that the accountant can play in improving the financial management of such services leading to greater value for money, is not well understood. Financial management except in the sense of compliance with the budget is not seen as important.

2.5 What is more the International Financial Reporting Standards (on which the IFAC public sector and in turn country standards are based) are not designed to be prescriptive rules specifying in detail how transactions should be accounted for. The philosophy underlying international accounting standards is that they set a series of principles against which the decisions about the recording of particular transactions should be judged. The application and audit of such standards is based on the assumption that they will be applied by persons who have a thorough knowledge of accounting theory and practice and be audited by persons who have a similar background.

3. The benefits of accrual accounting for public services

3.1. There can be substantial benefits from the introduction of accrual accounting using the IPSAS, but these benefits are only likely to accrue where the appropriate conditions exist. The benefits include:

- Accrual based IPSAS accounts are more complete than cash based accounts and by definition they also remove the scope for the manipulation of payments and receipts in order to suit reporting and control objectives (although leaving scope for other forms of manipulation);
- The information available from accrual based accounts facilitates a better quality of management and decision making including over the allocation of resources;
- The opportunity to change organisational behaviour through the use of incentives and penalties including comparisons with the costs of the provision of services by the private and voluntary sectors;
- The opportunity to establish effective performance measures that are not impacted by the vagaries of the timing of cash payments and receipts and which include information about fixed and current assets and liabilities;
- The costs of capital assets are spread over the useful life of these assets;
- A more effective and reliable assessment of the financial health of the organisation.

3.2. However, these benefits can only be achieved where other conditions exist, not least the ability and willingness of the management to take advantage of the information available from accrual based accounts to improve the quality of the management process. Accrual accounting is not an end in itself.

4. Examples of particular accounting issues that need to be considered by governments adopting IPSAS based accrual accounting

4.1. Accounting standards developed for the private sector do not cover a number of items that are specific to the public sector. Examples of these are set out below and governments adopting accrual accounting will need to decide how to deal with the issues that they raise. There is no standard solution and different countries have adopted different solutions and even within a country there can be different solutions depending upon the level of government.

4.2 Clearly international benchmarking would be facilitated if there were standard solutions and such solutions may emerge over time. That, however, is

not the current situation. Governments need to make decisions, which best suit their circumstances but those decisions should be intellectually coherent and stable over time. Some of the issues that need to be addressed include:

The Departmental or Agency Boundary: There may be differing views of the criteria that should apply to determine the departmental or agency boundary for consolidation purposes. Some may take the view that the boundary should reflect the head of the department's/agency's legal responsibilities; others would argue that it should be drawn more widely to reflect say de facto control. Or again other factors could be budgetary control and/or economic dependency.

Approaches to the recognition and measurement of property, plant and equipment: There can be disagreement about which assets to value, the valuation methodology, which valuation to adopt (e.g. current, historic or replacement cost) and how often to revalue.

Military Assets: Should military assets be capitalised and depreciated, or should they be treated as consumables? If they are to be treated as assets what life should they be given bearing in mind the rate of obsolescence of high technology assets.

Infrastructure Assets: Should infrastructure assets be capitalised and if so how should they be valued? Again, should there be a different treatment for the land (e.g. under roads), from the structures on that land? How often should infrastructure assets be re-valued and on what basis, for example the basis of current replacement cost depreciated to reflect the condition of the network.

Heritage Assets: Should heritage assets be valued and if in principle not, should a distinction be drawn for those that are used for operational purposes. What about newly purchased non-operational heritage assets such as works of art? Should they be capitalised in future (since the purchase cost is a reasonable proxy for valuation), even though say, the main heritage arts collections have not been capitalised.

Natural resources such as mineral reserves and forests: Are these to be included in the accounts and if so on what basis are they to be valued?

Depreciation: How should decisions be made about asset lives; should these be a matter for the asset user or should the Ministry of Finance specify what those lives should be? Should adjustments be made to depreciation schedules to reflect lack of maintenance or investment to prolong the asset life?

Environmental protection: Many activities cause damage to the environment and have the effect of incurring potentially large and long term liabilities. How far should an attempt be made to quantify such costs and when quantified how should such costs be accounted for?

Pension Liabilities: How should civil service pension liabilities be treated and should there be a difference depending upon how the pension scheme is financed? For example should they be treated as a deferred liability or charged to a department's expenses in the year in which they arise based on accrual cost or actuarial cost?

Capital Charging: Should departments be charged for the cost of capital employed, to include both fixed assets and working capital and if so at what rate?

Stocks: Which basis of valuation should be used? Should it be FIFO or average cost or some other basis?

Social policy obligations such as state pensions and social insurance: How

should liabilities arising under these arrangements be treated? Should they be brought into the accounts or ignored on the grounds that the legislation affecting them can be changed and therefore that potential liabilities are not capable of measurement?

Revenues arising from non-exchange transactions such as taxes: When should tax revenues be recognised and what basis of measurement should apply? How should tax concessions be treated i.e. as a reduction of income or as an expense? What should be the treatment of estimated cost of tax evasion?

Provisions: What should be the circumstances under which provisions should be recognised? The recent tightening of the requirements about provisions contained in international accounting standards would make it more difficult for public bodies to 'hide' money for unexpected events or to 'smooth out' tax levels for electoral purposes. (This may also be a particular issue with guarantees.)

Public/private partnerships: How are the assets, liabilities, income and expenditure arising under these arrangements to be treated? How critical to the decision is the shift of the risk from the public to the private sector and who retains the ultimate control? (It is important to ensure that devices are not used to allow commitments to be moved 'off balance sheet' when the ultimate risk and control remains with the public sector.)

5. Risks with adopting accrual accounting standards based on IPSAS

5.1 Given these circumstances, the way in which accounting standards might be applied can lead to a number of potential risks which could seriously undermine the validity of the financial reports that are produced. These risks are reduced where certain preconditions are met before the accrual basis of accounting is adopted (these preconditions are detailed in the Annex to this paper).

5.2 What is more, because the IPSAS are principles based, a rigorous and independent approach is needed to the application and interpretation of those standards by the government sector. Yet national governments argue that they are sovereign and regional and local governments often argue (with sometimes constitutional protection) that nothing should be done to fetter their discretion in administrative matters, including within that, the way in which their financial activities are managed and reported. The result is that there is a potential for substantial conflict between the principles underlying the application of accounting standards and the self interests of governments.

5.3 Therefore the move to accrual accounting carries with it a number of risks which could bring into disrepute the whole basis of accounting and through that lead to damage to the accountancy profession itself, the champion of accrual accounting. These risks are first, that:

- IPSAS are being, or could be, applied with no real understanding of the issues that are raised;
- the 'gaps' in IPSAS are not being, or might not be, properly addressed;
- IPSAS are seen as static, whereas in practice they are continuously evolving and a process is required to facilitate a disciplined approach to their evolution;

Therefore, governments adopting IPSAS need to recognise that the body of accounting standards will require constant development to address new and emerging issues and also that within the existing body of standards modifications will be required to reflect improvements that are being made to the IPSAS over time.

Secondly, there are other risks including:

- political pressure may cause decisions to be made about the accounting treatment of transactions in order to remove or minimise political criticism and this problem is accentuated as the dividing line between public sector and private sector transactions becomes increasingly blurred;
- the principles based approach leaves too much unfettered discretion to governments which the external auditor may be unable to prevent occurring and for which the Parliamentary process provides an inadequate check;

5.4 Thirdly, the cost and timescale that should be allowed to achieve the necessary changes to the underlying accounting systems should not be underestimated. The public sector has unique IT requirements caused by both size and the specialist responsibilities and activities of government.

5.5 There is the further point arising from the fact that in the public sector the budget is often seen as the key document. (The budget determines the allocation of resources between the public and private sectors, determines fiscal policy and the distribution of the taxation burden, allocates public resources between the different expenditure programmes and may also provide the legal authority for expenditure.) This point is that where the budget remains framed on a cash basis and the accounts are maintained on an accrual basis this could make the process of financial management and expenditure control that much more difficult, because of the systematic adjustments that have to be made. Clearly where both the budget and the financial reporting are prepared and maintained on the same basis there is a lesser risk of a loss of financial control. Therefore where countries have taken the decision not to switch to accruals based budgeting, particular attention should be paid to the problems that might arise from the different bases of the budget and the accounts.

6. Setting accounting standards for government based on the IPSAS

6.1. Where governments decide to adopt accrual accounting a crucial decision has to be made about how the accounting standards should be developed and their application monitored. There ought to be a significant role for the accounting profession as the 'guardians' of accounting standards.

6.2. Therefore an essential element where IPSAS based standards are to be applied, is co-operation by the accountancy profession in the development of those accounting standards for the public sector. The profession ought to become involved in the application of those standards and the monitoring of their implementation. Without that independent involvement the effect would be that the government could be seen as setting its own accounting standards and applying them in a manner that suited the political circumstances of the moment. That would damage not only the credibility of the process but in the end would mean that the disciplines that accrual accounting and budgeting are meant to achieve could not be established.

6.3. Therefore independence of the standards adopted with a critical appraisal process is essential, even though such an approach might be potentially uncomfortable for the government. Given the need for transparency and independence governments should not be able to argue that they are sovereign and/or that nothing should be done that fetters their discretion to decide how accounting standards are to be applied.

6.4. However that also means that the accountancy profession must have a capacity to both understand the nature of the public sector, to recognise that circumstances are different from those of the private sector and that comment,

when made, has to be made and clearly made from a politically disinterested perspective.

6.5. There is no one model for professional involvement in the standard setting process. However what are crucial are the following:

- That there is an independent Committee or Board established to agree the application of the standards to government;
- The Chairman of the Committee or Board is independent;
- The Committee or Board includes representatives from all the affected groups, including the Ministry of Finance, the government auditor and the accountancy profession;
- That the Ministry of Finance is required to submit to the Committee or Board any decisions affecting the application of accounting standards or the modification of any previous decision;
- That individual standards are published as are any departures from international standards;
- That an annual report is published and submitted to Parliament.

7. The conditions that ought to exist before accrual accounting is introduced into the government sector

7.1 The decision by governments to switch to accrual accounting should not of itself be regarded as either desirable or appropriate unless a number of key conditions exist. These key conditions are set out in the annex to this statement.

7.2 These key conditions need to exist to ensure that the reform is not only technically successful, but that it facilitates an improvement in the quality of public sector financial management and increases the independence and transparency of the financial reporting process. The conditions cover the following:

- Consultation and Acceptance.
- Participation of the Accountancy and other Professions.
- Joint Development of Accounting Standards.
- Support of the Government Auditor.
- Comprehensive Management Training.
- An appropriate cultural approach.
- A robust audit process.
- No corruption.
- A recognition of the elapsed time needed.
- An IT capacity.
- A willingness to use incentives and penalties.
- That the accrual approach is part of a process of reform.

8. The accountancy profession and other factors affecting the public sector

8.1. The involvement of the profession in the setting of accounting standards on its own is insufficient to achieve success in the application of accounting standards to the public sector. As has been shown above, other conditions are of importance, not least the technical accounting capacity of the government sector itself. Where the profession is not involved, then the only source of training is the universities and whilst that may be adequate it is unusual for university courses to focus on the accounting needs of the public sector and in many countries it is also unusual for the public service to regard an accountancy

degree as a route to preferment with priority being given to law and economics graduates. The introduction of accrual accounting changes this because it requires the availability of a cadre of accounting skills.

8.2. Therefore, where governments decide to introduce accrual accounting the profession should be prepared to open a dialogue with governments about the total process and particularly about the availability of professional accountancy skills. The profession should encourage governments to give at least equal weight to accountancy degrees and/or to professional accountancy qualifications as a preferred discipline and it should point to the need for a skilled cadre of accountants within the government sector able to interpret and apply accounting standards and exercise appropriate financial control.

9. Conclusion

9.1. The change to accrual accounting does have the potential to produce significant benefits not only in the quality of financial reporting but also in a greater ability to bring together both financial and non financial performance information. This should lead to a better quality of financial management, improved efficiency in the use of public sector resources and a more informed user of the accounts, all of which in turn add value to the democratic process.

9.2. However, the introduction of accrual accounting by governments based upon the IPSAS whilst generally a development to be welcomed by the profession carries with it risks to the integrity of the financial management process within governments that the profession should recognise. It also carries with it responsibilities for the profession which the profession ought to be prepared to take on and which if taken on will serve to lessen the risks to financial integrity that could exist.

9.3. The profession is the guardian of international accounting standards and it is for the profession to ensure as far as it can that the integrity of those standards is protected.

Annex

The conditions that need to exist before accrual accounting based upon the IPSAS is introduced by governments

The following paragraphs set out the essential conditions for success in the introduction of accrual accounting.

1. *Consultation and Acceptance.* To be successful, the organisation needs to be prepared culturally for its introduction and be willing to recognise and accept the benefits that the changes will bring about and the costs of implementation in their widest sense. The pre-consultation exercise within government departments and the public consultation exercise are important preconditions for success. Another prerequisite is a willingness by the civil service to accept that the reforms would change the role of those responsible for financial management in government, significantly changing their influence and responsibilities. Acceptance has to go beyond a relatively narrow group of technocrats.

2. *Participation of the Accountancy and other Professions.* A complementary precondition is that the accountancy profession is prepared to be interested in and involved with the public sector because not only is the accountancy profession the expert in accounting standards but it has traditionally trained financial managers for the private sector. To be successfully implemented and operated, the reform requires not only an increase in the number of financial managers (who may or may not be qualified members of a professional body) employed by

government but an acceptance of their contribution to the efficient and effective management of the public services. There also needs to be a willingness to meet the financial management education and training requirements of the public sector either directly by the accountancy profession or through other institutions. In addition as application of accounting standards may require the use of valuation and actuarial skills those professions also need to be involved in the process.

3. *Joint Development of Accounting Standards.* Another essential element is co-operation by the accountancy profession in the development of accounting standards for the public sector and to become involved in the application of those standards and the monitoring of their implementation. Without that independent involvement the effect would be that the government could be seen as setting its own accounting standards and applying them in a manner that suited the political circumstances of the moment. That would damage not only the credibility of the process but in the end would mean that the disciplines that accrual accounting and budgeting are meant to achieve could not be established. Independence of the standards adopted with a critical appraisal process, whilst uncomfortable potentially for government, is essential. However that also means that the accountancy profession must have a capacity to both understand the nature of the public sector, to recognise that circumstances are different from those of the private sector and that comment, when made, has to be made and clearly made from a politically disinterested perspective. (The work of the International Federation of Accountants Public Sector Committee can make a particular contribution to this process.)

4. *Support of the Government Auditor.* Successful implementation of accrual accounting does depend heavily upon the understanding of and willingness to support the system by the government external auditor. As accrual accounting requires not only more complex systems but also a range of new judgments (e.g. about asset values and lives, matching issues, prudence, materiality and going concern), the responsibilities and expectations of the auditor will increase and change considerably. Therefore, the external auditor should be involved in the process from the outset. That may require that the organisation, career structure and training of auditor staff should be significantly enhanced. Auditors will need a thorough understanding of accounting principles and how those principles can be maintained under the pressure of day-to-day administrative decisions. That may require the appointment to the government audit staff of qualified accountants (ideally members of a professional body), rather than relying upon the more traditional training of auditors.

5. *Comprehensive Management Training.* There exists a need for training of departmental managers to use an accrual accounting system and to achieve the benefits from its operation. There are considerable differences between the information available to managers under cash accounting system and the information available under an accrual accounting system. To make proper use of an accrual accounting system, managers need not only to understand the differences, but they also need to appreciate how they can use the accrual based information to manage activity more efficiently and effectively. Therefore, an essential component of the introduction of an accrual based system is a comprehensive management training programme for line managers. Such a training programme would need to cover the following:

(a) An appreciation of the basic financial concepts underlying accrual accounting: Managers will need to understand how and why an accrual accounting

system is different from a cash accounting system. They will therefore need to know about the basic financial concepts that underlie accrual accounting.

(b) How accrual accounting allows for the introduction of improved (i.e. accrual based) budgeting and financial control systems: Managers will need also to appreciate how control will change. The focus of control with a cash based system is to ensure that cash expended in the period (or income collected) is neither greater nor less than forecast in the budget. The emphasis is therefore about 'inputs' into the activity rather than what the activity achieved, i.e. outputs. With a cash based system the main forms of management control will be on 'time', e.g. when an invoice is to be paid, and it will frequently be possible for the manager to manipulate timing in order to ensure that budgets are met. With an accrual based system this is considerably less possible and managers will not have any ability to influence time. They will therefore need to focus on resources used and the price paid for those resources. The management emphasis should therefore shift to efficiency and effectiveness and line managers will need training to not only appreciate this, but also to understand how they can make full use of accrual information.

(c) An understanding of the accounting information systems that are needed: Including the general ledger system, other systems needed are: a purchase order system, an accounts payable system, and an asset register.

6. *An appropriate cultural approach.* A public sector cultural ethic that has internalised the requirements for a neutral (i.e. non-political) civil service with a strong, well-regarded central agency, (the Ministry of Finance), responsible for the management of the government finances. There need to be well understood and accepted systems of control over departments.

7. *A robust audit process.* A comprehensive annual independent audit of the accounts of each department at the end of each financial year, with reports to Parliament and detailed scrutiny where appropriate.

8. *No corruption.* No systemic corruption and certainly no problem at all with corruption of whatever sort. Therefore, no informal parallel processes have evolved or are allowed to complement the formal processes and, consequently, rules specified about the introduction of accrual accounting and budgeting will be obeyed.

9. *A recognition of the elapsed time needed.* From the outset a willingness to recognise that the introduction of accrual accounting and budgeting will take time usually stretching beyond the lifetime of one Parliament and could therefore stretch beyond the period of control by one political party. The reform therefore needs widespread political support across the political spectrum.

10. *An IT capacity.* An IT capacity that is able to respond to the new and additional requirements that the introduction of accrual accounting, budgeting and performance measurement will introduce. The process of transition from a cash based system to an accruals based system can impose significant additional resource costs not only in terms of money but also in a demand for specialist IT skills. The scale of the change could raise questions about the overall capacity of suppliers as well as government experts, to be able to manage the change process.

11. *A willingness to use incentives and penalties.* The development and application of financial incentives and penalties to encourage a practical day to day management approach that looks for more efficient ways of using resources and delivering services. An example of this is a charge for the use of capital resources.

12. *That the accrual approach is part of a process of reform.* Another essential ingredient is that the introduction of accrual accounting and budgeting is seen as part of a process of reform and it has not been 'parachuted' into a stable, unchanging management process.

The significance of these preconditions will vary from country to country. For example some of the countries about to join the European Union may be in a wholly different position from, for example, most of the existing member states. Issues that will need to be considered include the strength and interests of the national accountancy profession, the state of progress on other public sector reforms whether resources exist to implement accrual accounting reform, and the degree of political consensus about the need for reform.

Additional Transition Problems of Accrual Accounting in the Public Sector of Developing Countries

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Introduction

The international experience has proved that the difficulties in getting accrual accounting adopted universally in government are implementation problems, not matters of principle. In an earlier empirical study (Ouda 2003), it is confirmed that there are common transition problems of accrual accounting for both developed and developing countries. Some of these problems emerge during the process of introducing the accrual accounting system from the point of view of its practical implementation. In other words, some of these problems are basically practical problems. Other problems are conceptual problems that are concerned with the principles that underlie the system of accrual accounting. Furthermore, It has also been confirmed that there are other problems which emanate as corollary of the prevalence of a certain political, bureaucratic and socioeconomic environment of the developing countries (these problems we might call additional problems).

The additional transition problems are not less important than the common transition problems. In fact, the identification process of the transition problems whether practical, conceptual or additional is essential to bring the government attention to a certain problems and barriers which can preclude the full transition to accrual accounting in the public sector of both developed and developing countries. Furthermore, the recognition of the transition problems in an earlier step is crucial as the transition problems can have a huge impact on the requirements of the transition process. Therefore, the potential transition problems need to be identified and tackled before any attempt to adopt the accrual accounting system. This in turn can assist in reducing the transition risks and avoiding the transition failure. Yet, the identification of the transition problems gives a clear and comprehensive picture about both volumes of work and financial means required to successfully managing the transition process. In addition, the well-identified and articulated transition problems will profoundly affect the nature and speed of the transition process to the accrual accounting system.

However, we do not intend to tackle the practical and conceptual problems. In fact, the main aim of this article is to identify the additional transition problems that are commonly encountered in moving to accrual accounting system in the public sector of the developing countries. However, we shall indicate to the situation of Egypt as an example of the developed countries.

Additional transition problems of accrual accounting

As previously noted that the empirical study (Ouda 2003) has confirmed that there are some transition problems, which are common for both developed and developing countries. These problems have been segregated into:

A- Practical transition problems:

- Legal problems
- Cost of designing and installing of a new accounting system;
- Lack of accounting standards and practices that are consistent with the public sector context;
- The use of traditional budget system;
- Lack of qualified accounting personnel;
- Resistance to change and the absence of the right incentive system;
- Bureaucratic management culture;
- Lack of internal consistency;
- Lack of external pressure;
- Lack of political commitment;
- Lack of education about the reform process;
- Lack of information technology capacity;
- Shortage of financial resources.

B- Conceptual transition problems:

- Lack of profit motive;
- Identification and valuation of the existed physical assets;
- Identification of governmental reporting entity and its boundaries;
- Increasing of inflation rates can create difficulties regarding valuation of governmental assets and liabilities;
- Ambiguity around some of the accrual accounting principles and postulation which have given rise to a heavy debate about how can they be applied in the public sector, such as:
 - matching principle;
 - realization principle;
 - going concern.

In addition to the aforementioned common transition problems in both the developed and developing countries, the empirical study has also proved that the developing countries have additional transition problems (implementation barriers). These problems are more related to the prevailing of bureaucratic, political and socioeconomic environment in these countries. These problems are as follows:

- The fear of transparency and accountability

Generally speaking, transparency and accountability are interrelated concepts and mutually reinforcing. Without transparency there could not be any accountability. Unless there is accountability, transparency would be of no value. In fact, transparency is built on a free flow of information and it requires

from the governments to be explicit about their fiscal objectives and to report on a wide range of economic and fiscal information. On the other hand, transparency is a key element of bureaucratic accountability that entails making available for public scrutiny all public accounts and audit reports. Transparency protects against government error, the misallocation of resources and corruption. Furthermore, accountability requires a system to monitor and control the performance of government officers and organizations, particularly with respect to quality, inefficiency and the abuse of resources. Hence, open and rigorous systems of financial management, accounting and auditing, and revenue collection are also necessary.

Accordingly, the main aim of revamping the government accounting system is to furnish improved financial information that can assist in achieving the objectives intended from the transparency and accountability concepts. On the other hand, the prevalence of the traditional government accounting and budgeting systems in the developing countries have played an essential role in creating and increasing corruption and fraud practices. The traditional government accounting system does not indicate what was accomplished with money spent in the year past. The budget system does not indicate accurately what the cost of each activity will be over the coming year. Thus, the prevalence of those systems is consistent with corrupters desire. In the context of using the traditional systems, there is a lack of accountability or the accountability is diluted, accordingly, neither the bureaucracy nor politicians are accountable. In addition, the desire of not showing the real political and administrative expenditure makes them more conservative regarding the traditional systems. On the contrary, the adoption of an improved accounting system, that can reveal about their performance and their abuses regarding the public resources and will make them accountable for these resources, will clash with the desire of both bureaucracy and politicians. Therefore, the fear from transparency and accountability represents an additional implementation barrier of the adoption of accrual accounting in the developing countries.

- The fear of reform failure and its consequences

Public sector organizations operate in settings very different from the private sector, and those differences are important for understanding why governments fail and what challenges public sector managers face. Furthermore, special standards of accountability and transparency apply to the public sector. This means that failure is often widely publicized and the top-level civil servants and politicians are held accountable for this failure. Usually, in the developing countries more than anywhere else, the reform decisions are loosely taken instead of connectedly. These decisions are confronted with many difficulties in practice as a result of neglecting the related changes and underpinning factors. Consequently, most of the reform decisions have failed or at least did not achieve the target benefits of these decisions.

One of the common mistakes in the developing countries, instead of studying and researching the underlying reasons of the failure, is to dismiss the Minister or chief executive who have suggested these reforms. Therefore, each Minister or chief executive who has been appointed in the government likes to stay in his position at least for the four years and also with the intention to be re-appointed for another four years. Therefore, he attempts to focus on the ordinary decisions that do not give rise to the creation of problems, and hence, he makes himself not accountable for the likely failure and its consequences. In addition, negative unintended consequences and poor results of earlier reforms hamper new reform initiatives.

This can explain why the ministers and chief executives, in most of the developing countries, are reluctant to take radical reform decisions. Traditionally, the rewards for reform initiatives taken by civil servants themselves are very uncertain, while failure may have a disastrous impact on someone's career. Accordingly, the common and funny bureaucratic rules in the developing countries are: the more reform initiatives, the more problems created, the bigger the chance to be dismissed. The less reform initiatives, the fewer problems created, the less chance to be dismissed. No reform initiatives, no problems created, the bigger the chance to keep your place and to be promoted. While this seems to be a joke, it is reflecting the real attitude and behavior of bureaucratic administration towards any reform process in the developing countries. So it can be concluded that the fear of failure and its consequences, which is the dismissing of decision takers, can be regarded as a barrier to implementation for the adoption of a new accounting system in the most of the developing countries.

- Increasing the local and external debt and budget deficit

Most of the developing countries, if not all, are suffering from accumulated internal and external debts, which may make a country's economy very ill. For example, in Egypt, gross general domestic debt has reached in 2000/01 92% of GDP, in addition to the net general government debt which has reached 73% of GDP (Al Ahram 2002). The government's internal debt is \$ 35,44 billion (LE147.1 billion - (\$1 = LE 4.15); borrowing was made by successive governments to finance development. As a consequence of the increase of the internal debt, in addition to the external debt which is \$ 28.2 billion (LE 117.03), the country was unable to settle its accounts with local companies. For instance, the government's arrears for the contractors' companies are around \$16,86 billion (LE 70 billion) (Al Ahram 2002). The contractors' companies, as a consequence, found themselves unable to pay their own sub-contractors, thus creating a series of liquidity bottlenecks. Furthermore, most of the developing countries are also suffering from budget deficits. In Egypt, total estimated expenditures for the budgetary year 2003/2004 are \$ 38.07 billion (LE 158 billion) and total estimated revenues are \$ 27,95 billion (LE 116 billion). Budget deficit is \$ 10,12 billion (LE 42 billion). Then, the budget deficit is more than 26% of the total estimated expenditures.

Bear in mind that the Egyptian economy is considered to be one of the good economies in the developing countries. You can imagine what the situation in other developing economies is. So, as a result of the increase of the internal and external debt, in addition to the budget deficit, most of the governments in the developing countries are not inclined to be open for their public. Consequently, they are opposing any attempt of the adoption of a new accounting system that can reveal its performance and debts.

- Unreal estimation of budget revenues

Most of the developing countries, if not all, are often confronted with high budget deficit. In an attempt to mitigate the budget deficit, these countries attempt to exaggerate the estimation of their budget revenues. In other words, through an unreal estimation of budget revenues, the budget deficit can to some extent be mitigated. In the context of using a cash-based system, the excess of revenues (which of course is uncollectable revenues) is easy to be treated, for instance as an estimation difference. On the other hand, in the context of adoption of accrual accounting, the governmental entity has to form a provision for receivables that are, in the future, likely to become uncollectable. But in case of unreal estimation of revenues, the forming of provisions should also take into consideration the matching of unreal revenues.

Then, the problems that are associated with the forming of provision to match unreal revenues (e.g. unreal estimation of tax revenues) will create great confusion within the governmental entities, which are not accustomed to have those problems under cash-based accounting system. For example, when are the tax revenues considered to be recognized and measured? The answer of this question under traditional government accounting is easy, where the tax revenues are considered to be recognized and measured when cash is received. Then there is one point at which the tax revenue can be recognized and measured. But under accrual accounting, whilst it may be probable that a government is entitled to revenue at the time a taxpayer earns income subject to taxation, it may not be possible to measure the amount of the tax revenue until some later point – for example, at the end of the income year, when tax returns are filed or when tax is assessed (IFAC 1996).

Basically, governments have to record tax revenues as having accrued once an economic transaction that give rise to a tax liability take place. But, in general, there are many types of tax. Accordingly, it is very difficult to know when all these types of tax take place. Therefore, tax revenues can be recognized as a tax liability when this tax liability has been booked against a taxpayer by the taxation office. This can only take place once a taxpayer makes a self-assessment to the taxation office or when the taxation office issues an assessment to a taxpayer. However, based on unreal estimation of revenues, final results of operations may reflect inappropriate surpluses or deficits if accrued revenues contain significant amounts that cannot be collected.

- Inconsistency between the reform efforts and wages paid to civil servants

Unlike the developed countries, the state in the developing countries often guarantee civil service jobs for graduates of institutions of higher education. This in turn results in an overstaffing in the civil service. As a result of the expansion of employment in the civil service, the real wages have continued to decline. Consequently, overstaffing and low salaries had adverse consequences, including poor staff morale and a decline in work effort and opposing any change attempt that can require additional work. In reality, this is a common problem for all developing countries. Where real wages had fallen in real terms to the point that they no longer represented a living wage. In addition, where pay is below a living wage, people are bound to seek other ways of maintaining their families and the spirit of reform is likely to be resisted. Furthermore, the problem of lower wages has also resulted in departure of the skilled personnel to the private sector. In other words, increasing imbalance in wages between the public and private sector leads to brain drain from the public sector.

This in turn makes it difficult for the governments in the developing countries to implement a radical change in the governmental accounting system. Consequently, the inconsistency between the reform efforts and wages paid to civil servants has to be taken into consideration in any public sector accounting reform as this can support civil servants to act in the interest of the reform process.

In context of the aforementioned empirical study, the inconsistency problem has repeatedly been raised during different interviews with civil servants in Egyptian's Ministry of Finance and the Central Auditing Organization. Most of the civil servants have literally said that in the end of the month they get the same salary whether they work or not. Accordingly, there is no any reason to bear unpaid additional work.

- No appreciation for the new accounting system from the governing and legislative bodies

Perhaps the reasons behind the non-appreciation of accrual accounting in the governmental sector of the developing countries are on the one hand, that the new accounting system is seen as a black box for part of the members of parliament and the executive body. It is not clear for that part what the benefits are that can be obtained from the accrual accounting system in comparison with the cash-based system. The cash-based system is considered to be one of their traditions. They did not recognize that the quality of financial information (based on the cash-based system) at most governmental levels is very poor. An important consequence of using the cash-based system and lack of qualified accounting personnel in the developing countries, is that (Gujarathi and Dean 1993):

Questionable, uneconomic or improper management decisions have been made without proper accounting data and interpretation thereof.

In contrast, Ball (2000) argued that accrual accounting allows better financial information to be provided to decision-makers which contributes to more efficient resources allocation within government. If public sector managers, politicians, and the public understand accrual accounting, there is greater and more meaningful debate about where government resources are applied. Accrual accounting also provides greater information that assists in achieving improved accountability for decisions made by government. Furthermore, accrual accounting requires government to depreciate its assets. It required government, therefore, to better manage its assets over the life of the assets. Having all the government's assets on the balance sheet provides a stronger incentive for public sector managers to maintain them.

On the other hand, the rest of the executives and legislative bodies (who are aware of the role that accrual accounting can play in ensuring greater transparency and accountability, revealing about their performance and their abuses regarding the public resources and will make them accountable for these resources) are reluctant to adopt such accounting system. And their preferability is directed towards the cash-based accounting system. The preference of cash-based system is due to the fact that cash accounting assists the governments to cook the books. This is because they do not like to report bad financial news since the bad financial news can restrict policy and spending initiatives that a government wants to introduce (Hillier, 1997).

- Internal climate of the public sector

The prevailing internal climate of the public sector in the developing countries is negatively affecting the change process in general, whether this change is accounting change or other changes. Over-staffing, poor motivation, risk aversion, unwillingness to take independent action, close supervision of subordinates with little delegation, operation often inefficient and high cost with low productivity, under-utilization, poor pay and poor morale indicated by high absenteeism, are all features that kill the spirit of reform. In addition, this climate results in what we might call self imposed barriers, where the people do not like to understand the reasons underlying the change, the benefits of change, etc. In fact, this internal climate of the public sector is due to the domination of the bureaucratic management culture in the public sector of the developing countries. Theoretically, the change of culture, attitudes and rituals is in itself intricate. In the course of time, these doctrines and principles are becom-

ing an important part of forming the mentality of the people. Similarly, the change of bureaucratic culture, which has centered on the fact that it concerned itself more with proper procedures than with objectives, puts respect for rules above efficiency; and having little freedom and less accountability, is very intricate. Frankly speaking, the bureaucratic management culture in the developing countries is based on a strict loyalty and allegiance to the bureaucratic principles. This kind of bureaucracy is always against any change. The only way to revamp the government accounting, budgeting and management systems in the public sector where this kind dominates is to transfer the key director and director, and appointing new ones. Accordingly, in the context of the internal climate of the public sector of the developing countries, it is not expected that radical accounting changes can be brought about.

Conclusion

Unlike the developed countries, it seems that the implementation of accrual accounting system in the public sector of the developing countries encounters more constraints. These constraints increase its implementation costs since higher implementation barriers impose higher implementation costs. While the extent of political commitment and the resources available can usually determine the period over which accounting reform occur, it seems that, as a corollary of increasing the transition problems, the time frame for transition to accrual accounting system in the public sector of the developing countries will be much longer than that of the developed countries. Furthermore, it has been demonstrated that the additional transition problems, in addition to both the practical and conceptual problems, are for considerable part accounted for the government's lack of enthusiasm to pursue the development of accrual accounting in the governmental sector of the developing countries. Accordingly, the additional transition problems deserve to be profoundly studied and researched before the actual implementation of accrual accounting in the public sector can be started.

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Development of XBRL Taxonomy For International Financial Reporting Standards (IFRS)

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XBRL Conference in Brussels

One of the main events in 2004 for the XBRL (eXtensible Business Reporting Language) community was the 10th XBRL International Conference held in mid-November in Brussels, the capital of the European Union. This Conference was officially supported by the European Commission and the International Accounting Standards Board. (<http://www.iasb.org>)

Financial Reporting Goes Global: XBRL and IFRS Working Together was the theme of the Conference, which was attended by over 450 delegates from 30 countries, ranking it as the most attended conference in XBRL's five-year history. Delegates came from 200 corporations, businesses, and associations, representing both the private and public sectors of all XBRL International jurisdictions. (<http://www.xbrl.org>)

The theme of the Brussels Conference refers to how the two standards, XBRL and IFRS (International Financial Reporting Standards), are working together successfully, and proving that it is now possible to combine a software standard (XBRL) with a set of accounting standards (IFRS) for the purpose of producing digital financial statements and related disclosures which can be read by both people and computers over the Internet.

XBRL International is a worldwide consortium of participants engaging in the supply chain of business and financial information. Over the past five years, the consortium has overseen the creation, development, and maintenance of the XBRL specification and related taxonomies for business and financial reporting data. Over the next 5 to 10 years, all worldwide electronic business reporting and exchange of business reporting between machines, applications, and people will be available using the XBRL language. The primary goal of XBRL is to reduce the cost of information, increase its usefulness, and globalize its form and content.

XBRL allows for a platform-independent exchange and electronic dissemination of financial reporting information, and has become a key enabler for consolidated companies that are required to report according to IFRS in 2005. Increasingly, XBRL will be used for a wide range of reports and disclosures, ranging from the aforementioned financial statements to internal management information, regulatory returns, statistical reports and credit filings.

XBRL - From Theory to Reality

The 10th XBRL International Conference was considered a landmark conference because it focused on how to use XBRL as an enabling technology for better, faster and cheaper business reporting. In effect, it moved XBRL from theory to reality, showing that it can now be used to integrate business reporting processes. Software vendors were on hand to offer new tools with the end-user in mind, and participants enjoyed seeing demos of useful XBRL add-ins for Microsoft Word and Excel. Securities exchanges, including the Toronto Stock Exchange, Tokyo Stock Exchange, Shenzhen Stock Exchange, Korean Stock Exchange, German Stock Exchange, and the London Stock Exchange have all confirmed plans to offer a variety of new and improved listing services based on XBRL.

At the heart of all this activity is the organization XBRL International, which has recently launched the XBRL Showcase on its website. Interested parties can now find project information relating to real use cases of electronic business reporting. (<http://www.xbrl.org/showcase>)

Public Sector Adopting XBRL

The European Commission is fully sponsoring the adoption of XBRL within the European Union. The Commission has granted one million euros to XBRL in Europe, an affiliate of XBRL International, to foster the development and adoption of XBRL throughout the European community. The grant will fund a two-year project that will help countries establish XBRL jurisdictions in their respective countries, increase awareness, and develop tools for collaboration. The Director of the Statistical Office of the European Commission (EUROSTAT) gave an example of a feasibility study, and the Director General of the Tax & Customs Administration of The Netherlands spoke on how XBRL can change the way that government and enterprises exchange information.

Regulators, supervisors and government bodies are adopting the XBRL standard around the world, as it is one of the best ways to provide more comparability and transparency in financial reporting. This was demonstrated in presentations by the following organizations: Committee of European Banking Supervisors (CEBS); U.S. Securities and Exchange Commission (SEC); National Bank of Belgium; Danish Chamber of Commerce (DCCA); National Bank of Spain; the Dutch Government; U.K. Financial Services Authority, among others. Japan's Financial Services Agency announced the formation of an XBRL committee to accelerate the use of XBRL in financial disclosures.

Role of an XBRL Taxonomy

An XBRL taxonomy is a system to describe and classify the contents of financial statements and other reports. Technically, it can be regarded as an extension of the standard XML Schema, with additional documentation and a number of XML Linking (XLink) files. Taxonomies may represent hundreds of business reporting concepts, along with their text labels in multiple languages, in addition to the mathematical relationships of these concepts. References to authoritative literature are also included for each concept.

Role of the IASC Foundation

The main objective of the International Accounting Standards Board (IASB), under the International Accounting Standards Committee Foundation (IASCF), is to develop a single set of high quality, understandable and enforceable global accounting standards that require transparent and comparable information in financial statements and other disclosures, and thus help participants in the world's capital markets and other stakeholders to make economic decisions. These standards are called the International Financial Reporting Standards (IFRS).

The development of the IFRS taxonomy is complementary to this objective, as it assists in the transfer via the Internet of financial reporting information that has been created in accordance with international accounting standards. The taxonomies created by the IASCF are intended to be used in the electronic transfer of financial reporting data, but in no way do they define the IFRS or add to them. They do not define how financial statements are presented, viewed, or formatted, nor what must be disclosed in the financial statements. They are not prescriptive; rather, they are meant to reflect the concepts defined in the printed, bound volume of the IFRS.

IFRS-GP Taxonomy Working Group

The IFRS-GP (General Purpose) Taxonomy Working Group is chaired by Josef Macdonald of the IASC Foundation. Charles Hoffman, the creator of the XBRL digital standard, is the Principal Taxonomy Editor, who has used a taxonomy builder provided by UBmatrix. Taxonomy validation and conformance testing software was provided by DecisionSoft, Fujitsu, and UBmatrix. Thomas Egan and Alan Teixeira join the Group as the IFRS Technical Experts, and there are about a dozen IFRS banking experts and other technical advisors who have made valuable contributions. (http://www.iasb.org/resources/working_group.asp)

The IFRS-GP taxonomy currently enjoys an Approved status. It is scheduled to be released as an Exposure Draft in January 2005, and will have a minimum of a 30-day feedback period. It is a royalty-free taxonomy that the IFRS Taxonomy Working Group has listed at official IASB website, and it confirms only that the taxonomy is compliant with the XBRL technical specification. Eventually, this taxonomy will become Recommended and reach the Final stage of development, at which time it will be assigned a version number and be permanently available on the IASB website.

The development work of a taxonomy includes a series of consistency checks: examples are the consistency of language (singular, plural) and the order of presentation of concepts ("Description of...xxx"; Disposals, xxx). Other checks are for consistency of formatting, such as connector words ("and", "or"), and spelling (U.K. vs. U.S.). It is very important to eliminate any duplicate concepts, which are sometimes hard to find because of similar terminology.

Another essential check is to compare the presentation view against the calculation view of the taxonomy, to ensure that the math behind the presentation includes the correct line items. Below is a list of the different sections of the IFRS-GP taxonomy; included are the required financial statements, the accounting policies, and the explanatory disclosures.

ing standards applicable to the public sector throughout the world. They point out that Government Business Enterprises (GBEs) are required to comply with IFRSs issued by the International Accounting Standards Board, and that International Public Sector Accounting Standard No. 1 requires that GBEs shall present financial statements that conform, in all material respects, to IFRSs. Therefore, both private sector entities and government business enterprises will be required to issue conforming financial statements, as well as a summary of significant accounting policies and related disclosure notes.

It may be feasible to take advantage of the XBRL taxonomy already in place for the IFRS, and develop an extension to this taxonomy, and possibly accommodate the entire set of International Public Sector Accounting Standards.

Towards Development Effectiveness: A Focus on SWAp

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Abstract

This paper provides an overview on a Sector Wide Approach (SWAp), the key issues for its development and its role for more development effectiveness. It provides information on the needs and challenges for donors, governments and civil society organizations. It also serves as a resource for policy makers and donor organization staffs when considering the implementation of new SWAps.

I. Introduction

Background

In the early 1990s, donors and recipients of development aid gave disappointing reviews on the **impact** of development assistance. At the time, development aid was donor-driven, with donors individually allocating funds for a set of activities¹ in a specific sector in a country, setting their own priorities and agendas without much involvement from governments.

In response to what was seen as a lack of development-assistance effectiveness, new modalities emerged in the mid-nineties, among them, the Sector-Wide Approach (SWAp). This approach—considered more a process than a blueprint—focused development assistance on a broad sector in a country; stressed donor coordination and ongoing dialogue among stakeholders, and allowed the country recipient to take leadership. Under SWAp, donors began to tackle issues **holistically**, providing support sector wide rather than to isolated sectoral segments.

Since its inception, SWAp has been promoted as a **process** for coordinating development initiatives. Its supporters argue that project-based approaches carry with them negative effects like: inadequate local ownership of development programs; overloading of local capacity to coordinate a proliferation of donor relationships; lack of sustainability and institutional development; waste of development resources; weak public sector management, and patchwork management of development assistance (Schacter, 2001). Nevertheless, Cassels (1997), one of the first contributors to the subject of SWAps, points out the importance of still specifying when and for what purposes projects are most appropriate.

Since the Monterrey Consensus², donors have stressed such issues as harmonization, alignment and results, and have increasingly affirmed that the sine qua non is development effectiveness. As World Bank President James D. Wolfensohn³ points out, “Feeling good about individual projects is not enough. The challenges that we face are just too big. It’s not ten schools. It’s 10,000 schools. It’s not five bridges. It’s 5,000 bridges. It’s not 100 people. It’s millions and billions of people. We have to understand how we can move from our successes in these feel-good projects and scale them up so that we can really have an impact which is great and which will help us achieve the Millennium Development Goals⁴.”

SWApS incorporate concepts that donors, governments and other key stakeholders are demanding in order to reach development effectiveness. Development effectiveness can be defined as the extent to which a country has been transformed, and the performance of both donor and country in contributing to the achievement of that transformation.

SWAp is an ongoing process that yields sustainable results in the **long term**. With the adoption of SWAp, international development has gradually moved towards donor harmonization, a more inclusive policy dialogue, partnerships and collaboration among governments, donors and other stakeholders (including the private sector and civil society), and stronger government ownership and political commitment.

Because sector-wide approaches involve shaping a **single sector**⁵ with the objective of enhancing long-term development, attention to harmonization, accountability, transparency, dialogue and participation is critical.

Purpose

This paper provides an overview on SWApS and its increasing importance for donors, governments and the society in general for development effectiveness. It will also serve as a resource for policy makers and donor organization staffs when considering the implementation of new SWApS.

Scope and methodology

This paper was produced through **desk research**⁶, utilizing current literature documenting the SWAp experience to date, including available printed and electronic studies and reports on education and health SWApS and other documents related, generally, to the execution of SWApS.

Definition of a SWAp

There is **no single definition** of a SWAp. Some definitions relate SWApS to donor coordination or a comprehensive understanding between the donor community and governments, others to capacity-building or government ownership. Nor are there strict rules or procedures for implementing SWApS.

There seems to be general agreement that SWAp is a new way of doing business, based on **long-term partnerships** that clearly define the intended direction of change (EU, 2000). Cassels (1997) states that a sector-wide approach to health development is constituted by:

“...a sustained partnership, led by national authorities, involving different arms of government, groups in civil society, and one or more donor agencies with the goal of achieving improvements in people’s health and contributing to national human development objectives in the context of a coherent sector, defined by an appropriate institutional structure and national financing programme through a collaborative programme of work ...with established structures and processes for negotiating strategic and management issues, and reviewing sectoral performance against jointly agreed milestones and targets.”

Foster, Brown and Conway (2000) provide another definition of a SWAp.

“All significant funding for the sector supports a single sector policy and expenditure programme, under government leadership, adopting common approaches across the sector, and progressing towards and relying on government procedures to disburse and account for all funds.”

In essence, SWAp is an **evolving and dynamic concept** that requires **stakeholders’ commitment** to move towards a coherent strategy and framework. Leadership is undertaken by the recipient country government, which works

with donors and other stakeholders to agree on a framework, priorities, strategy, performance, reporting and accounting measures, among other elements. Ultimately, what will define any given SWAp are: country context; criteria used among partners for coordination; actions taken once policies have been formulated and the roles and responsibilities of different stakeholders. SWAps need to be flexible and adaptable to changing situations.

Principles

A SWAp is built upon the following principles:

- a. *Equitable partnership and collaboration* among stakeholders that include: government, private sector and civil society representatives, and the donor community.
- b. *Coherent strategy and policy framework* for sustainable improvements in a sector: common implementation approaches are applied across the sector by all partners.
- c. *Local ownership*: government leads the SWAp process and donors support the approach⁷.
- d. Emphasis on *local capacity* rather than long-term technical assistance.
- e. *Funding* for the sector supports a single policy and expenditure program.
- f. *Ongoing dialogue*: permanent dialogue so donors can act together and follow one strategy and framework, always led by the government.

The core principles that define SWAps are not applied uniformly in all cases. As SWAps involve a process, with time the approach will move towards relying on government procedures to disburse and account for all funds. Ideally, a SWAp process should emphasize national ownership and broad-based participation from stakeholders in policy dialogue. In practice, many SWAps also form part of *wider national developments* linking reform programs in local government, finance management and the civil service in particular (Baldwin and Brown, 2001).

Factors influencing the success of a SWAp

SWAps so far have been most frequently used in development of health and education sectors, which are central to a country's development. Governments and donors recognize that with the provision of good quality education and health services, they are helping to reduce poverty. Citizens are better prepared and can develop more skills and participate more fully in society.

Many SWAps have been implemented in low income and highly aid dependent countries, including recently Bangladesh (See Annex 1) in the Education sector; others in the health sector include Ghana, Zambia, Uganda, Tanzania, and Senegal, among others. In the Latin American region, countries like Nicaragua and Bolivia have taken steps towards the development of a SWAp.

According to Baldwin et al (2001), a SWAp is most likely to succeed:

- Where public expenditure is a major feature of the sector.
- Where the donor contribution is large enough for coordination to be a problem, and for government to be willing to let donors influence policy.
- Where there is basic agreement on strategy between Government and donors.
- Where there is a supportive macro budget environment, and confidence that agreed resources will be available.
- Where institutional relationships are manageable: ie. Single sector budget responsibility, relatively small group of significant donors to the sector.

Interlinking reform programs (eg. decentralization) will add complexity, but is better managed through a SWAp framework.

- Where performance incentives are compatible with SWAp objectives: lack of incentives for staff, or cuts in budget as part of the strategy, likely to lead to opposition and low motivation.

II. SWApS and Development Effectiveness

For purposes of this paper, development effectiveness reflects the extent to which a country has been transformed, and the performance of both donor and country in contributing to achievement of that transformation.

SWAp, by nature, refers to the achievement of sustainable results in a broad sector within a country. It is not about a project or short-term results. SWAp involves a broad consensus among donors and governments and other stakeholders in delivering development assistance. It demands consistency and coherence from stakeholders and most of all local ownership.

Harmonization

The lack of effective development results generated a critical review of development assistance, leading to an emerging dialogue on how to enhance effective cooperation and results. In the last two years, the Monterrey Consensus, the Rome Declaration on Harmonization⁸ and the Joint Marrakech Memorandum⁹ have added momentum to the process of enhancing harmonization, cooperation and results in country recipients.

During 2004, regional preparatory workshops¹⁰ have been held in preparation for the Second High-Level Forum on Harmonization and Alignment for Aid Effectiveness (HLF-2) where the international development community will meet in Paris in early 2005 to assess progress in implementing harmonization and alignment on the ground, identify methods to accelerate and scale-up implementation, and sustain the momentum for and political commitment to deep changes that boost aid delivery. The advances on the subject and the completion of these meetings illustrate the willingness of donors and governments to move forward on the agenda.

There is no distinct definition of harmonization. According to the DAC/OECD¹¹, harmonization occurs at three levels:

- Alignment of priorities, practices, and procedures, along with their simplification, between partners and donors.
- Coordination and agreement with respect to priorities, practices, and procedures, along with their simplification among the various donor agencies (donor-donor).
- Coordination and agreement with respect to priorities, practices, and procedures, along with their simplification among the various actors within individual donor countries.

Harmonization should not be confused with standardization of aid modalities that include different instruments: technical assistance, development projects, budget support, sector wide approach, etc.

In the project-based approach, every donor has its own procedures and requires country recipients to submit different reports according to their regulations. SWApS avoid this difficulty and, in contrast, place donor contributions into one "basket". Under SWApS, development partners recognize that harmonization is an essential ingredient for obtaining results in the long term. When

developing SWApS it is significant to look at the underlying process and not focus only on the final outcomes.

Harmonization in SWApS does more than reduce costs. It builds country recipient's capacity to develop better standards, procedures and practices so they can enhance transparency and sustainability in the management of scarce resources.

Accountability and Transparency

Accountability and transparency are essential components in SWAp implementation, as they are interrelated and together contribute to make the SWAp more effective. SWApS will not win public support if there are no accountability and transparency mechanisms in place. Transparency is achieved when there is broad stakeholder participation in the process and information about financing and activities planned and implemented are made public. A commitment to transparency among all development partners can be demonstrated by a policy establishing dissemination of information on as broad a basis as possible and producing regular periodic updates.

Highly indebted countries and low-income countries are not characterized by having strong accountability systems. Donors do not usually rely on developing country accountability mechanisms and demand measurable results in the sector. Both donors and government need to ensure accountability, by agreeing on a strategy and process for implementation and monitoring (Schacter 2001). A country recipient should be accountable to its citizens and to donors for performance in the sector.

SWApS require comprehensive monitoring and reporting systems linked to sector objectives. Diagnostic work¹² that reviews a partner country's public financial management system and practices are important. Diagnostic reviews are important for donors and governments because they facilitate information flow on the strengths and weaknesses of public financial management systems, associated risks and challenges, and any improvements to those systems by the government. It is important for donors and countries to agree on diagnostic tools before development of a SWAp.

SWApS stress local ownership. Accountability requires freedom of information and a system to monitor performance of stakeholders. Open and comprehensive systems of financial management and procurement, accounting and auditing, and revenue collection are also necessary.

Dialogue and Participation

SWApS develop better when there is a sincere dialogue among donors, governments and civil society organizations. Good intentions are not enough. Because SWApS are complex by nature, they require development of an initial policy document and plan as well as **dialogue** among government, donors and other stakeholders at the national and sector level. All partners should take a longer-term view of development of the sector.

SWApS embrace local ownership, which in the end means stakeholder participation, including civil society organizations and the private sector. Frequently this does not happen in reality. Success depends on a wider range of stakeholders participating in the process, including ministers, congress, NGOs and professional organizations, etc.

SWApS must be owned and managed by the local stakeholders. The government takes the lead but it must be able to let other stakeholders participate in

the process. It takes more than sharing and disseminating information through new technological tools; dialogue creates and sustains trust.

III. Challenges for Development Partners

Donors

Developing and implementing SWAPs is a challenge for all stakeholders. The idea that this is a long-term commitment should always be present. A fundamental challenge for donors is their **willingness** to give up their right to select which projects to finance, to **submit** themselves to local priorities and to use **national** systems for disbursing funds. This most likely requires donors to review their policies and procedures in different areas as well as their accountability requirements. Donors also need to consider specific country contexts, timing and conditions.

Box 1. Issues affecting donor participation in SWAPs

- A *clear vision* is essential on the part of the *recipient government* and its respective *Ministries*, as well as consideration of the degree to which the government sector strategies are embedded and accountable, with political support in government's expenditure plans.
- Links and *synergy* with other *reform processes* are essential, particularly the Poverty Reduction Strategy Papers (PRSPs), among others.
- Donors have *different priorities, mandates and policies* that SWAPs need to accommodate. Flexibility and adaptability between donors is crucial, when funding is dominated by certain donors over others.
- Donors' concern for clear *accountability* often leads them to structure policy dialogue at a national level with small bureaucratic elite. But political ownership of a government's poverty reduction strategy or particular sector strategies requires deeply rooted accountability to parliamentarians, local governments and civil society actors.
- Developing countries might still have strong rationales for donor support of *projects* for poverty reduction strategies.
- SWAPs bring focused donor attention to important government strategies in key social and economic sectors that can affect the livelihoods of the poor. At the same time, a narrow sector-focus may miss cross-cutting concerns for *improved livelihood, social and gender issues* that affect the multiple dimensions of the lived experience of poverty.

Source: Foster et.al. (2000)

SWAPs require staff experts adept in policy dialogue and negotiation. Donors, very early in the process, should conduct diagnostic work, which can include assessments of the country's institutional capacity and performance monitoring systems, macroeconomic constraints, public finances, the number of donors working in the country, identifying any coordination systems being utilized.

Donors have the challenge of implementing performance-monitoring systems. Basic indicators include accessibility (rates of access to the services), effectiveness (rates of success), efficiency (cost rates versus success), quality (improvements in the service), and viability (durability).

Government recipient

Development assistance is considered to be more effective if it is locally owned. **Local ownership** involves country recipients deciding their own priorities and coordinating all players in all stages of the SWAp. In practice, any change will take time and this slowness might reduce government officials' expectations on the potential of the SWAp.

SWAp usually inherit past projects and efforts in the sector. Shifting from different projects to a single project demands adequate capacity from the government, which often is either minimal or non-existent. **Building commitment and trust** is the task for governments to overcome this lack of capacity.

SWAp demands that governments redefine their systems by defining new job roles and new authorities. Dealing with people might be the toughest task and might bring destabilization and dissatisfaction if there is no clear message about the process. The implementation of SWAp also requires the formation of steering committees and working groups that oversee the process.

Foster, Browne et. al refer to the capacity problems of partner governments in implementing sector wide approaches, including among others: corruption, low salaries, reluctance to prioritize, unproductive bureaucracies, inappropriate legislation, difficulties working with the private sector, inadequate ministry staff training, lack of accountability and transparency.

Civil Society and the Private Sector

The inclusion of key civil society stakeholders in the process will open SWAp programs to wider acceptance and support. Countries with effective implementation of laws on access to information and citizen participation will be more open to including viewpoints from communities in the SWAp policy debate. Involvement of civil society at the national and local level ensures transparent and open debate. Engaging CSOs in early stages of the consultation process is critically important for giving credibility to the program. If there is limited participation by these partners, concerns will arise about favoritism of particular interests.

The private sector has the potential to provide more contributions in countries where the government still lacks the capacity to deliver quality services. Its views should be considered in the development agenda.

Box 2. Roles for Civil Society Organizations

- (a) **Contributors to Policy Discussion and Formulation:** This can be the response to the formula “governments invite organizations to participate” to discuss social development issues. Frequently, only those well-known organizations and those that will not be disadvantaged by the policies proposed are invited.
- (b) **Advocates and Lobbyists:** CSOs can contribute to the formulation of policies and push for their adoption, but this role will depend ultimately on the current political context in the country.
- (c) **Service Deliverers:** National and local authorities can sub-contract with CSOs to engage them in SWAp programs.
- (d) **Monitors or Watchdogs of Rights:** CSOs can monitor various aspects of SWAp implementation, related to specific interests or public concerns. For instance, they can monitor the effects of SWAPs on the poor, environment, etc.
- (e) **Innovators:** CSOs can bring new ideas to policy formulation and program implementation.
- (f) **Mobilisers:** CSOs mobilize people to influence policy and take part in its implementation.
- (g) **Financier:** International CSOs can provide complimentary support through funding and in-kind contributions.

Source: Kruse (2002)

By including CSOs, governments are opening a new channel for a more democratic and accountable process. CSO representatives may be selected based on knowledge, technical, skills, values, historic areas of interest and other criteria clearly defined by governments and donors. CSOs often require training on specific sectoral issues so that they can contribute substantively to policy discussions. Donors can provide technical assistance to such CSOs to enhance their capacity and technical skills and increase their competences with the ultimate goal of having these stakeholders participate as equal partners in national policy dialogue.

Table 1. Advantages and Disadvantages

Advantages

Donors

- Ensures supportive policy environment for assistance to produce sustained benefits
- Ability to monitor achievement of performance targets.
- Donors increase dialogue between themselves as they are obliged to agree over one strategy
- Have an influence on policy across the whole sector
- Fungibility reduced
- Aid benefits are broader, more sustainable and help build systems that last

Governments

- All resources support government strategy
- Transaction costs between donors and government reduced, as government leads the process and subsequently, donors can organized themselves in order to communicate better, nominating a lead organization.
- Builds capacity; does not duplicate
- Possibly increased donor commitments on longer term in a less earmarked form

Other Stakeholders

- Ownership in terms of education and health services is not only of concern to governments and donors, but particularly to direct beneficiaries.
- Increased participation of civil society organizations demanding accountability and transparency mechanisms in the process.
- Develop public-private partnerships.

Disadvantages

Donors

- Reduced visibility, ability to attribute their funds to the attainment of specific objectives can be lost
- Risk of association with decisions with which they disagree
- Less scope to manage and control projects
- Need to compromise on ideas about best practices
- Need to change procedures, relax tight control on use of donor funds.

Governments

- Obligation to consult
- High negotiation costs and uncertain returns
- Donors slow to adapt e.g. adopt common procedures
- Danger of lost momentum if preparation prolonged with slump in project commitments

Other Stakeholders

- Civil society organizations risk being marginalized from the strategy formulation and policy process.
- The pressure for immediate results (service delivery meet needs of the poor) must be tempered by realism.
- CSOs might display individual interest and not provide a single voice. Governments might not provide CSOs with an opportunity and role to participate in the policy dialogue. CSOs might tend to continue working within traditional project lines.

Source: Adapted from *Experience of Sector Wide Approaches in Health*

As in any development process, we can see that there are advantages and disadvantages for all (See Table 1). There are no recipes on how to implement SWAps effectively. Stakeholders need to learn from past lessons, constantly reflecting on how they can improve the process.

Conclusions

- SWAps are a lending modality that contributes towards development effectiveness.
- SWAps emerged in the development scenario due to discontent with traditional aid-project approaches.
- Developing a SWAp is a long-term process in which the approach is designed, owned and led by the developing country government.
- Under SWAps, all development partners commit themselves to sustained support for a specific sector.
- Donor coordination and harmonization are essential so resources are not wasted and efforts are not duplicated.
- SWAps need continuing collaboration between governments and donors regarding policy issues, expenditure objectives, and monitoring and reporting systems.
- A public-private development partnership is essential.

Recommendations

- Donors need to establish due processes to review constraints and opportunities for advancing the SWAp process.
- Donors need to participate in lessons learned workshops regarding lessons learned with SWAps.
- Donors need to develop specific guidelines to get involved in SWAps.
- There is a need for a better understanding of civil society organizations, their strengths, needs and potential for participating in policy processes. Development partners should nurture policy dialogue and include civil society representatives.

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End Notes

1. For instance, building hospitals, schools, roads, etc.
2. The Monterrey Consensus was agreed during the International Conference on Financing for Development held in Monterrey, Mexico, in 2002.
3. In his opening address at the Scaling Up Poverty Reduction conference, Shanghai, China, May 25, 2004.
4. At the United Nations Millennium Summit in 2000, 189 Member States adopted the Millennium Declaration and pledged to reach the eight Millennium Development Goals by 2015: Eradicate extreme poverty and hunger; achieve universal primary education; promote gender equality and empower women; reduce child mortality; improve maternal health; combat HIV/AIDS, malaria, and other diseases; ensure environmental sustainability; develop a global partnership for development.
5. Many countries implementing SWAp consider a sub-sector rather than the whole sector.
6. The Reference Section provides a bibliography, useful to those interested in reading further on this subject.
7. In practice, country recipients do not usually refer to SWApS, which is considered a donor term, they provide their own name to the approach (Brown et al, 2001).
8. The Rome Declaration on Harmonization was finalized in Rome, Italy, on February 25, 2003.
9. The Second International Roundtable on Managing for Development Results was held in Marrakech in 2004.
10. The workshops aimed at gathering best-practice examples, identifying remaining challenges, and developing momentum toward a concrete outcome in Paris. These events include: the South and South East Asia Regional Forum, organized by the Asian Development Bank, supported by the Japanese government and hosted by the Government of Thailand; the African Regional Forum, organized by the African Development Bank in coordination with the World Bank, and hosted by the Government of Tanzania; the Latin American Workshop, organized by the Inter-American Development Bank and hosted by the Government of Honduras and the Central Asian Workshop, organized by the ADB, in coordination with the European Bank for Reconstruction and Development, and hosted by the Government of Kyrgyz.
11. The Task Force on Donor Practices established within OECD/DAC is an example of coordination between multilateral and bilateral institutions.
12. There are diverse examples including: the Country Financial Accountability Assessment (designed by the World Bank and undertook in collaboration with IDB and others), the Public Expenditure Review and the Country Procurement Assessment Review (WB), the HIPC Expenditure Tracking Assessment (WB and IMF), the Reports on Observance of Standards and Codes (IMF), the Diagnostic Study of Accounting and Auditing (IMF), Country Assessment in Accountability and Transparency (UNDP), Ex-ante assessment of country financial management (European Commission).

Annex 1. Bangladesh – Sector Wide Approach on Education

A. Key Issues

SWAp

- Primary Education Development Program (PEDP II)

Executive Agency:

- Directorate of Primary Education (under the Ministry of Primary and Mass Education).

Timeframe/Size:

- PEDP II will be a six-year program covering years 2004-2009. US\$1.815 billion.

Objective:

- To bring quality primary education to children in Bangladesh by bringing government and development partners together under one coherent program.

Background:

- Bangladesh is a country strongly committed to improve education, having one of the largest primary education systems in the world.
- Although the PEDP II focuses on primary education, it is expected that the sector wide approach will have a catalytic role for the entire education sector in the long term.

• Substantial achievements have been attained in primary education: gross enrollment ratio is currently at 98%, and gender parity has been reached.

• Drawbacks in primary education: Quality has stagnated and dropout rates are high. A double shift system reduces the contact hours between pupils and teachers to 30% below the international average. The overall pupil teacher ratio is about 55:1, reaching 67:1 in government schools.

Expectations:

• The enrollment of poor children is expected to increase by 3.2 million, bringing a total of 11.7 million poor children into primary education.

• While support to poor and disadvantaged has been prioritized, the PEDP II seeks to improve primary education on a nationwide basis.

• Over 17 million pupils in 78,000 primary schools will benefit from the in-service training of more than 320,000 teachers.

• Fundamental to the quality improvement in primary education is the principle of decentralizing and devolving authority and responsibility to middle and local levels of the education system.

Components: The PEDP II has four main components:

• Organizational development and capacity building: High priority will be placed on capacity-building and systemic reform to increase authority and accountability at all levels in support of improvement of quality of primary education, including good governance and the need to address fiscal and supervisory irregularities.

• School and classroom quality improvement: PEDP II will ensure that schools meet quality criteria, so they are not overcrowded, have qualified teachers and suitable staff-pupil ratios, regular attendance by teachers, and sufficient contact hours between teachers and pupils, and adequate education materials.

- Infrastructure development: additional classrooms will be built and equipment provided to existing schools. Infrastructure, furnishings, and equipment will be provided to Government education offices at various levels, as well as related facilities.

- Supporting equitable access to schools: Policy reforms will help at central and other levels to meet the needs of children with special requirements to access and complete quality primary school education.

Lessons Learned:

- Prepared in consultation with stakeholders through a Government-led participatory process, the program incorporates lessons learned from the various donor-funded projects implemented under the umbrella of the First Primary Education Development Program.

- The lessons underline the importance of a holistic program approach and strategies for improvement of quality. Instead of individual projects, quality improvement can be coordinated and implemented more efficiently through a sector-wide program jointly funded by the Government and development partners.

- Lessons from sector-wide programs in Bangladesh and elsewhere have been incorporated in the PEDP II design.

- Advanced harmonization of donor procedures in financial management, audits, reporting, procurement, monitoring and evaluation.

Source: Asia Development Bank

B. Development Coordination Matrix

Partners	Strategy/Activities
ADB (Leading Donor)	<ul style="list-style-type: none"> • Increase equitable access to basic education, particularly for girls and disadvantaged children; • Improve education quality and system efficiency, particularly in teacher training; • Strengthen the institutional and management capacity to deliver basic and secondary education;
Australia	<ul style="list-style-type: none"> • Primary Education Development Program (PEDP) II.
CIDA/Canada	<ul style="list-style-type: none"> • Government counterpart funds and support for PEDP II; nonformal education through NGO.
DFID/UK	<ul style="list-style-type: none"> • BRAC nonformal primary education phase II and III, effective schools, basic education for hard to reach urban children, underprivileged children education phases II-IV, active learning education, Post-Literacy and Continuing Education Project, PEDP II.
European Commission	<ul style="list-style-type: none"> • Secondary education female teacher promotion; PEDP II.
France	<ul style="list-style-type: none"> • Modernization of Textile Technology College; PEDP II.
Germany	<ul style="list-style-type: none"> • Primary education support.
Japan (JICA)	<ul style="list-style-type: none"> • Support overall education development with special focus on primary education, strengthening primary education teachers training on science and math and HRD, PEDP II.
The Netherlands	<ul style="list-style-type: none"> • PEDP II, BRAC non-formal primary education phase III, Campaign for Popular Education (CAMPE)- a focal point for NGOs working mainly in non-formal education sector, educational strengthening in water resources (BUET).
Norway	<ul style="list-style-type: none"> • Nonformal education, female secondary stipend, primary education development; PEDP II.
SDC/Switzerland	<ul style="list-style-type: none"> • Post Literacy and Continuing Education. • Ensuring equitable access to quality education for all; supporting quality improvement in education; promoting reforms in education policy; exploring innovations in skills development, through Government of Bangladesh, nongovernment organizations, and other institutions. Project portfolio: PLCE1, ROSC, CAMPE, UCEP, CMES, and ASHRAI).
SIDA/Sweden	<ul style="list-style-type: none"> • Support for primary and nonformal education; PEDP II.

UNICEF

- PEDP II; non-formal education.

USAID

- Improving early childhood and primary education through innovative learning models to include a mass media approach.

World Bank

- PEDP II, nonformal education, secondary education; Reaching Out of School Children.

Source: Asian Development Bank. Country Strategy and Program Update 2005-2006, Bangladesh.

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