An Appropriate Financial Reporting Framework for the Public Sector in East and Southern Africa

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Abstract

Historically, governments have been reporting in terms of a cash basis of accounting. There is a widely accepted view that accrual based financial reports that are robust and transparent can improve the decision making and accountability of governments. However, there are contrasting views on the accrual based accounting framework that is appropriate for financial reporting in the public sector. As a consequence, governments have either adopted EPSAS, GFS, IFRS, IPSAS, national accounting standards or continued with cash basis accounting for financial reporting.

This paper seeks to identify the perspectives of experts and senior officials that prepare financial reports in the Office of the Accountants-General in the public sector of the ESAAG region on the attributes that define the appropriate financial reporting framework for the public sector. Fourteen (14) experts and senior officials in the region were interviewed. Interviews are the main method used by researchers to collect data on various perspectives and attitudes of those interviewed.

An Interpretative Thematic Analysis was used to analyse the data collected from the interviews in order to identify themes and principles and construct an initial assessment on the perspectives or views of the experts and senior officials in the Office of the Accountants-General in the public sector of the ESAAG region on the attributes that define the appropriate financial reporting framework for the public sector in that region.

Key words: Appropriate financial reporting framework, EPSAS, ESAAG, GFS, IFRS, IPSAS, National Accounting Standards and Thematic Analysis.

Introduction

Most governments have been reporting in terms of a cash basis of accounting. According to the International Federation of Accountants (IFAC), (2014), most governments that adhere to a cash basis of accounting provide minimal disclosures relative to what the banks, credit providers, employees, investors and the public expect of the private sector. This has resulted in a growing demand for public sector entities to achieve the same level of financial transparency and accountability as their private sector counterparts.

The Organisation for Economic Co-operation and Development (OECD) and IFAC (2017), explained that financial reporting is one of the foundations of good fiscal management. An increased demand for a more ‘open’ government, reduced public spending capacity and increased efforts to achieve greater efficiency in delivering public services have prompted governments to produce high quality financial reports that can be used as a mechanism for legislatures, auditors and the public to hold governments to account for their financial performance. (OECD and IFAC 2017),

Cavanagh, Flynn, and Moretti (2016), stressed that accrual accounting assists policymakers and the public to pay more attention to the acquisition, disposal and management of government assets, liabilities and contingent liabilities.

Governments around the world own public assets worth US$75 trillion dollars that are not managed and accounted for appropriately and a positive return of 1% on global public assets would add up to US$750 billion to the public revenues of governments.

(Detter, Folster and Buiter 2015). The inappropriate accounting for public assets and returns could be due to the fact that most governments record their transactions on a cash basis of accounting.

Wynne (2016), explained that most governments could improve the quality of their financial reports if they only focused on ‘best practice’ as opposed to adopting international accounting standards that are more onerous to comply with. The elements of ‘best practice’, are:

- Timeliness - governments producing financial reports within a few months of their respective financial year end;
- Understandability – governments producing financial information that is understood by many of the key users of the financial statements, that are usually not financially literate, such as the general public and political representatives;
- Openness/Transparency – governments ensuring that key financial information of interest to politicians and the public is made available; and
- Consistency – governments ensuring that financial information that is reliable and free from material errors is prepared from one year to the next.

Aggestam-Pontoppidan (2011), is of the opinion that the decision to adopt accrual accounting may involve a desire to either establish local (national) standards to fit the purpose, or adopt standards such as International Financial Reporting Standards (IFRS) or International Public Sector Accounting Standards (IPSAS) that are developed by international standard setters.

Aggestam-Pontoppidan (2011), pointed out that little or no research has been conducted on the accounting framework that is appropriate for the public sector and recommended that research be conducted to create a more in-depth understanding of the overall challenges and costs versus benefits of adopting either IPSAS or IFRS in the public sector.

The public sector is required to move towards an appropriate set of accounting and financial reporting standards because public administrators face a challenge to harmonise accounting systems within countries and across borders.
(Aggestam-Pontoppidan and Andernack 2016).

There is a long running debate on whether business-like standards should be applied to both private and public sectors or whether separate accounting standards should be promulgated for each sector. (Ellwood and Newberry 2016). Aggestam-Pontoppidan (2011), concurred that implementing IFRS in the private sector is often associated with better financial information, enhanced comparability and increased capability to secure cross-border listing and funding for shareholders, regulators and other stakeholders and cautioned whether such benefits could translate to the public sector.

Researchers have produced contradictory results on the framework that is appropriate for the public sector. Laswad and Redmayne (2015) conducted research and sought views from the preparers and users of financial reports on the appropriate financial reporting framework for the public sector in New Zealand. According to Laswad and Redmayne (2015), most respondents preferred IFRS and perceived IPSAS to be an alternative option. Conversely, Ijeoma (2014), conducted research for the government of Nigeria and the findings of the study showed that the implementation of IPSAS could improve the reliability, credibility and integrity of financial reporting and enhance service delivery for the Nigerian government.

From the above, it can be seen that there are contrasting views on the accounting standards or frameworks that are appropriate for the public sector. As a consequence, some entities in the public sector have adopted IPSAS, whilst others have either implemented European Public Sector Accounting Standards (EPSAS), Government Finance Statistics (GFS), IFRS, national accounting standards or continued with cash basis accounting.

The researcher has been working in the public sector in Africa and wanted to assess the perspectives of the experts and senior officials who prepare financial reports in the Office of the Accountants-General in the East and Southern African Association of Accountants-General (ESAAG[1]) region on the attributes that define the appropriate financial reporting framework for the public sector in that region.

This paper reviews relevant literature and considers the appropriateness of the EPSAS, GFS, IFRS, IPSAS or national accounting standards for financial reporting in the public sector to uncover elements or attributes that define the appropriate financial reporting framework for the public sector.

Finally, this paper aims to explore the reactions of the experts and senior officials that prepare financial reports in the Office of the Accountants-General in the public sector of the ESAAG region in order to understand their perspectives or views regarding an appropriate financial reporting framework for the public sector.

A review of relevant literature

Financial Reporting in the Public Sector

Aggestam-Pontoppidan and Andernack (2016), explained that the first issue considered when applying any set of accounting standards is to ensure that the scope is well defined and the preselected set of standards are appropriate to the current situation and entity.

The Conceptual Framework for General Purpose Financial Reporting by Public sector entities published by the International Public Sector Accounting Standards Board (IPSASB[2]) in 2014, (Conceptual Framework), does not define a public sector entity but explains that such entities encompass the following characteristics:

- National, central, federal, regional, state, local, provincial governments and international organisations;
- Receive large volumes of non-exchange transactions because they receive value from another party without giving approximate equal value in exchange;

[1] The ESAAG is a regional body for Accountants-General with a mission to develop sound Public Finance Management (PFM) practices in 14 countries in East and Southern Africa. The current members of the ESAAG region are: Botswana, Kenya, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Rwanda, South Africa, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe. (About ESAAG. Available from http://www.esaag.co.za.)

[2] The IPSAS Board (IPSASB), is a member of IFAC and an independent standard setting body that develops the IPSAS and consists of 18 members with an expertise in public sector financial reporting. The IPSASB also publish Recommended Practice Guidelines (RPG) which are pronouncements that provide guidance on good practice in preparing General Purpose Financial Reports.

- Provide large volumes of non-exchange transactions in the form of public goods such as defense, education and social grants without receiving approximate equal value from the recipients in exchange;
- Required by statute to prepare budgets;
- Exist for the long term, irrespective of a change in political control; and
- Hold property, plant and equipment for service delivery rather than profit motive.

Furthermore, IFAC (1991 & 2006), stated that governments differ from business in both their objectives and financing since the primary goal of a business entity is profit, whilst governments provide public services and redistribute wealth for a variety of social and economic purposes. This is supported by Barton (2005), who argued that businesses that operate in the private sector must maintain sound financial positions and remain solvent to survive, whilst the market values of their assets are determined from supply and demand factors as opposed to public sector entities that hold non-financial assets that cannot be sold to provide future economic benefits.

Barton (2005) concluded that the accountability responsibilities of entities in the public sector exceed that of their private sector counterparts who are only accountable to their shareholders and investors, whilst the former is elected by citizens to provide public goods and services on their behalf.

Cash and accrual are the most common bases of accounting used for financial reporting in the public sector and an increasing number of entities in the public sector were migrating from a cash to an accrual basis of accounting for financial reporting. In 2015, 41 governments (21%) had transitioned to accrual, 16 governments accounted for their transactions on modified accrual (8%), 28 governments (17%) reported on a modified cash basis and 114 governments (57%) remained on pure cash accounting. (Cavanagh et al 2016).

The European Commission Staff Working Document (2013), acknowledged that accrual accounting is indispensable at the macro (general government) and micro (government entity) level. A cash basis of accounting is inadequate for the complex operations of government as they own vast stocks of assets needed to provide for cultural services, defense, education and health services, sporting and recreational facilities and public roads. (Barton 2005).

Fergus McCormick, Chief Economist and Co-Head of sovereign ratings at DBRS Agency concurs that accrual accounting in the public sector could boost the credit rating score and improve accuracy of the score since quality, consistent and transparent data is assessed by credit rating agencies (Rumney, 2017a).

Andreas Bergmann, (cited in Rumney 2017b), former IPSASB chair and professor at Switzerland’s Zhaw School of Management and Law contended that the benefits of accrual accounting included downward pressure on government debt, lower interest rates and decreased the likelihood of economic shocks. Voters in Spanish municipalities utilised accrual fiscal information during elections and the Swiss media used accrual information when covering the public finances of its government. (Bergman, cited in Rumney 2017b).

Adopting IFRS for financial reporting in the public sector

Barton (2005), and Aggestam-Pontoppidan (2011), explained that Australia and New Zealand followed a sector-neutral approach and adopted IFRS in both the public and private sector because:

- This promoted comparability and consistency for both sectors;

- Stakeholders argued that assets utilised in government were similar to those used in the private sector and thus distinction on applying IFRS needed not to be based on the sector (public or private) of the entity;
- Practitioners advised the public sector to adopt already existing standards and not to 'waste time and reinvent the wheel';
- Stakeholders believed that introducing robust accounting practices of the private sector to the public sector was the 'righteous thing to do,' as governments needed to reform according to concepts of the market; and
- Accounting standards for the private sector were deemed to be 'best practice'.

Kris Peach, the Chair of the Australian Accounting Standards Board (AASB), acknowledged that IFRS were useful in keeping the public sector in Australia up to date in addressing financial reporting issues and that no alternative approach was acceptable there (Ernst & Young 2016).

Whilst IFRS was seen as a suitable reporting framework for the private sector, it has its limitations from a public sector perspective. In 2009, the Controller and Auditor General of New Zealand, K, B. Brady (2009), presented a discussion paper to the House of Representatives and expressed the following concerns in terms of adopting IFRS in the public sector:

- The standards were complex and could not be understood by the preparers of the financial statements which resulted in the government hiring external consultants to prepare the financial reports;
- The standards provided limited guidance for the public sector since the standards were built on fundamental premises that mainly did not apply to that sector such as exchange transactions whose values were largely arrived at based on future cash flows, whilst many of the transactions for the public sector were non-exchange in nature;
- The standards are applicable mainly to users of the General Purpose Financial Reports (GPFR) which are analysts, investors and regulators whilst the main users of the financial statements of the public sector are the parliament and public;
- The standards are only applicable to large profit oriented entities for the private sector and not the public sector whose mandate is not to earn profits; and
- The standards use language and terminology such as profit and loss which is not applicable for the public sector because the objective of the public sector is not to earn profit.

Barton (2005), added that IFRS had to be amended in areas such as accounting for donations, assets used for defense, cultural, heritage and infrastructure assets, and non-cash generating assets to cater for those public sector entities that had such elements and transactions in their financial reports.

The failure to recognise the uniqueness of the public sector resulted in irrelevant accounting concepts and standards which undermined the faithful representation, relevance and understandability of financial information of the public sector. (Barton 2005).

Oulasvirta (2014) concurred that IFRS relied heavily on concepts such as fair value accounting, which could cause problems in the identification, measurement and valuation of assets and liabilities in the public sector.

The Controller and Auditor General of New Zealand, K, B. Brady (2009), advised the House of Representatives that the financial reporting frameworks of the public sector needed to incorporate the following important attributes:

- Clear description of performance which is understood and in line with the entity's objectives;
- Financial performance that is comparable to the plans of the entity at the start of the reporting period;
- Financial performance that is congruent to non-financial performance;
- Stewardship that is referenced to the entity's balance sheet and supporting notes; and
- Long-term sustainability which can be assessed.

As a consequence, all non-profit oriented entities operating in the public sector in New Zealand, referenced IPSAS and modified the IFRS to suit the public sector, whilst the profit oriented entities in the public sector remained on the IFRS framework.

Adopting IPSAS for financial reporting in the public sector

Aggestam-Pontoppidan (2011) highlighted that, in most cases, IPSAS were applied for accrual accounting within the public sector since the primary objective of most public sector entities is to deliver services to the public, rather than to make profits and generate a return on equity to investors.

IPSAS provides more guidance on accounting for non-cash generating assets, revenue from non-exchange transactions, social benefits and budget reporting, whilst IFRS does not provide such guidance as such transactions are unique to the public sector. (Aggestam-Pontoppidan 2011).

According to the European Commission (2012 & 2013), Ernst & Young (2013), Federation of European Accountants (FEE) (2014), and PWC (2014), the European Union member states chose not to implement IPSAS in its entirety because of the following shortcomings:

- There was concern amongst member states of the governance, independence and oversight of the standard setting process followed by the IPSASB;
- The standards are issued by a private sector entity and public authorities were not involved in the process of drafting and issuing such standards;
- IPSAS principles are translated from IFRS, a private sector accounting framework that did not take sufficient account of the specific needs and interests of public sector financial reporting;
- The standards had limited coverage as these standards did not have a conceptual framework which set the core principles for the design of standards and did not prescribe the accounting practices of important transactions for the public sector such as heritage assets, social benefits and taxation;
- The standards were regarded as incomplete because no counterpart IPSAS was developed for standards that had been adopted for the private sector such as exploration for and evaluation of mineral resources and retirement benefit plans;
- The criteria for control under IPSAS leads to the consolidation of controlled entities such as Government Business Enterprises (GBE) that use IFRS whose accounting policies

differ from those applied by the controlling public sector entities and needed to be reconciled and adjusted to match the IPSAS compliant financial statements of the controlling public sector during consolidation;

- The standards offer too many alternative accounting policy treatments, as non-financial assets are valued at historical cost or fair value; interest/borrowing costs are expensed or capitalised; cash flow from operating activities is determined using the direct or indirect method and expenses are presented using the nature or function method which could impair comparability and discourage harmonisation;
- The standards are applicable to all types and sizes of public sector entities and this may be excessively costly and burdensome for small and less complex entities in the public sector;
- There is limited linkage between IPSAS and GFS statistical data as the consolidation principles of the General Government Sector (GGS) according to the GFS differ from the control concept in IPSAS; and
- There is limited linkage between IPSAS, budgeting and management reporting and the standards needed to be used as a management tool that enables the public sector entity to measure the cost of operations when compared with appropriations.

As a result of the abovementioned shortcomings, the European Commission chose not to adopt IPSAS in its entirety and elected to use the standards as an indisputable reference for developing their own accrual standards known as EPSAS.

Kris Peach concurred that one of the remaining difficulties of IPSAS is that the IPSASB takes a long time to amend IFRS based standards, and therefore transitioning to IPSAS meant reversing some recent IFRS changes for those countries that were up to date with IFRS (Ernst & Young 2016). This is supported by Kimberley Crook, a partner at Ernst & Young in New Zealand who explained that IPSAS tends to lag behind IFRS resulting in unnecessary differences with the potential to create additional cost and complexity during the consolidation process for mixed groups that comprise of private and public sector entities (Ernst & Young 2014).

It should be noted however, the IPSASB has attempted to address some of the concerns that were raised. Since 2014, the IPSASB has published a Conceptual Framework, issued Consultation papers on heritage assets and social benefits and established the Public Interest Committee (PIC) and the Consultative Advisory Group (CAG) to strengthen the governance of the standard setting process. A process has already been put in place by the IPSASB and the International Monetary Fund (IMF) to harmonise IPSAS and GFS statistical reporting systems (European Commission Staff Working Document 2013).

Adopting GFS in the public sector

According to the European Commission Staff Working Document (2013), governments produce two types of financial data to report on their activities. The GFS reports are produced for economic, fiscal and statistical purposes at macro level whilst the financial accounting reports are produced for accountability and decision making purposes at a micro-level for an individual or group of entities.

The GFS are a macroeconomic statistical framework suitable for analysing and evaluating the fiscal policy and performance of the GGS, which are non-profit government entities controlled by the government that receive funding from appropriations, taxes, transfer, and undertake non-market activities to deliver services to the communities (IMF 2014).

Alexandre Makaronidis, Project Leader and Head of GFS Quality Management at Eurostat, the Statistics Directorate of the European Commission, lamented that, whilst the GFS were based on the accrual principle, the data used to produce GFS was extracted from cash data that was converted into accrual data which led to deficiencies in the reported information (Ernst & Young 2013).

The European Commission Staff Working Document (2013), acknowledged that the GFS were similar to international accounting standards in the form of IFRS and IPSAS, because both standards were integrated, consistent datasets with data on both stocks and flows, and used accruals as a guiding principle for reporting. Stock positions refer to assets and liabilities and the resulting net worth, whilst flows are changes in the economic value within a reporting period (IMF 2014).

Ball and Pflugrath (2012) explained that the GFS excludes several assets and liabilities from the balance sheet that would otherwise be recognised if governments adopted IPSAS for financial reporting. Ball and Pflugrath (2012), the European Commission Staff Working Document (2013), and IMF (2014), elaborated that the accrual standards developed for GFS differed from the accrual standards developed from IPSAS or IFRS because they:

- Adopted a general philosophy of using current market prices as the valuation basis for assets and liabilities, whilst IPSAS requires an accounting policy choice to measure classes of assets and liabilities at current market prices or historic cost;
- Excluded entities that are similar to GBE that engage in market activities, whilst the 'reporting entity' in terms of IPSAS is a government or public sector entity that prepares GPFR and consolidates the financial information of any bodies controlled by the reporting entity, despite some of them being entities engaged in market activities;
- Recorded holding gains and losses (revaluations) in a separate account as these are viewed not to be under government control whilst IPSAS recognises holding gains in the bottom line in the statement of financial performance to measure the activities of government;
- Recognised fewer assets as they only account for assets if governments can establish strict legal ownership rights, as opposed to IPSAS that recognises such transactions when control is established. Military assets are usually not reported as assets in terms of the GFS Manual; and
- Recognised fewer liabilities as they apply caution in anticipating future outflows of cash and may only account for provisions, guarantees and contingent liabilities when they are called, as opposed to IPSAS that recognises such transactions when there is a present obligation and the cash outflow can be measured reliably.

Adopting EPSAS in the public sector

Some members of the European Union states led by France and Germany have opposed the adoption of EPSAS in Europe. The German Federation issued a position paper that called for governments to have the freedom to choose between the accrual and cash basis of accounting even after the EPSAS are issued (German Federation/Lander 2017). The position paper highlighted the following concerns for adopting EPSAS in Europe:

- The goal of improving the comparability and quality of data could not be achieved by introducing EPSAS due to structural differences between the administrative and political systems amongst the member states;

- There was no evidence to date that any deficits relating to the comparability, completeness and reliability of fiscal statistics and budgetary surveillance on the EU level, would be remedied through the introduction of common accrual public sector accounting standards;
- There were no investigations carried out to identify whether there are simpler and less expensive alternatives to EPSAS; and
- It continued to be questionable whether the benefits of introducing EPSAS on a mandatory basis could justify the accompanying costs. The benefits were difficult to quantify, long-term in nature and only realisable in combination with other reform measures, whilst the costs to procure hardware and software, consulting and training services were significant.

The position paper (German Federation/Lander 2017) concluded that EPSAS needed to possess the following attributes in their accounting standards for the public sector:

- The standards must be based on a conceptual framework which is a foundation that must be adopted before the statutory introduction of the individual EPSAS;
- The standards should develop simplified rules for smaller and less risk-prone public sector entities; and
- The standards should limit discretionary leeway on accounting policy options to recognise, verify and value assets and liabilities to ensure comparability.

Adopting National standards in the public sector

The approach to adopting IPSAS or IFRS is varied in different jurisdictions. Some jurisdictions adopt the international accounting standards in their pure form, whilst other nations raised the issue of subsidiarity and asserted that it was their sovereign right to develop their own national accounting standards rather than to adopt international standards that are imposed upon them. (European Commission 2012). Therefore, most countries indirectly reference IPSAS or IFRS when developing their own national accounting standards to suit their local accounting environment.

The direct adoption of IPSAS and IFRS by national governments is low, as countries favour national standards to accommodate a number of specific deviations. The majority of countries in the OECD use IPSAS or IFRS as primary references for developing their national standards (OECD & IFAC 2017). National accounting standards undermine comparability as nations develop their own accounting rules that are tailored to suit their systems, thus leading to diverse financial reporting in the public sector (Oulasvirta 2014).

Conclusion of the relevant literature

From the literature review, it can be established that there are numerous frameworks that are available for adoption in the public sector. The GFS are more useful for statistical reporting and exclude entities that engage in market activities. The IFRS are seen as a suitable reporting framework for the private sector because they do not recognise the uniqueness of the public sector. IPSAS is the more appropriate financial reporting framework for the public sector as it provides guidance that suits that sector. However, some nations have been reluctant to adopt IPSAS in its entirety and have referenced the standards to prepare their local accounting standards. National accounting standards undermine comparability. The implementation of EPSAS in Europe has raised controversy with countries such as Germany resisting the adoption of the accounting standards in that region. The costs of adopting EPSAS are perceived to be higher than the benefits thereof.

Interview process adopted to collect data

An interpretative research philosophy was followed to capture the perceptions and feelings of people. Saunders, Lewis and Thornhill (2012), elaborates that the interpretative research framework is selected when:

- The researcher is concerned about capturing feelings, attitudes and not facts;
- The population to be considered during the study is small; and
- When scientific (positivism) research might not work.

Interviews are the primary method of qualitative research used to collect data and interpret the perceptions of those interviewed. (Aronson 1994 and Saunders et al 2012). An interpretative research method was used to interpret the perspectives of the 14 experts and senior officials working in the Office of the Accountants-General in the ESAAG region because the topic area is under-researched, and as such, it was reasoned that scientific research might not have worked as the study was carried out before accrual accounting IPSAS or IFRS frameworks were fully adopted for financial reporting in the ESAAG region. To add on, the researcher wanted to obtain the perceptions and feelings of a small population of 14 experts and senior officials through a series of interviews.

The interviews were focused on the 14 experts and senior officials in the Office of the Accountants-General that prepare financial reports in the public sector of the ESAAG region because they are initially impacted by the reform of implementing international accounting standards. Those interviewed (participants) were informed of the nature and purpose of the interview and guaranteed anonymity. Participants were allowed to deal with the issues raised without interruption. Additional questions were presented as they arose, usually in direct response to a statement from the participant. The interviews lasted between 45 and 60 minutes and were carried out between January and June 2017[3].

Thematic analysis - Analysis of the information collected from the interviews

Thematic analysis is a common method used to analyse the experiences provided by participants during an interview and is useful to investigate an under-researched area in order to identify and report patterns and themes. (Aronson 1994 and Braun and Clarke 2006). A theme is a key idea in relation to the research question that captures something important about the data and represents some level of patterned response or meaning within the data set. (Braun and Clarke 2006).

The following steps were performed by the interviewer to identify themes from the data or perspectives provided by the experts and senior officials that were interviewed[4]:

- Step 1 – Recordings and data collected from the interviews of the experts and senior officials were transcribed verbatim.

[3] The aforementioned steps that were used by the interviewer during the interview process to collect data are adapted from studies by Atkins and Maroun (2015).

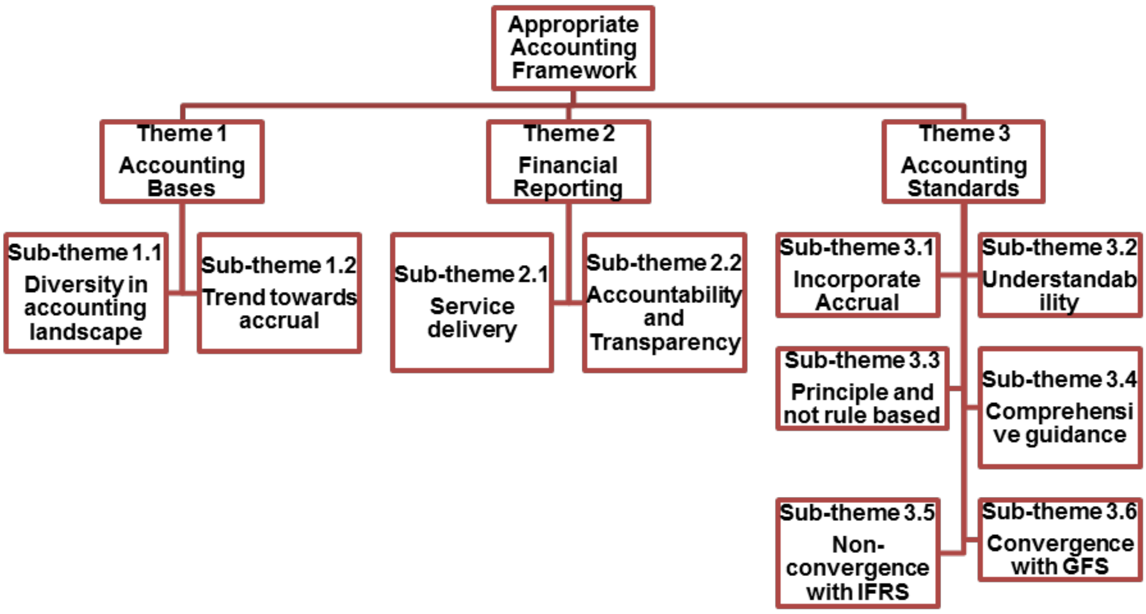
[4] The steps performed for the thematic analysis were adapted from studies by Aronson (1994), Braun and Clarke (2006) and Thomas (2003).

- Step 2 – Listened to transcripts a number of times to understand the answers or raw data that were collected from the interviews.
- Step 3 - Answers that were provided by each expert and senior official during the interview were recorded on an excel spreadsheet in written form and coded in a table to identify the main themes (categories), patterns and sub-patterns in relation to the research objective and the supporting reasoning.
- Step 4 – Within each category, the interviewer searched for new insights and selected appropriate quotes that conveyed the key themes. The interviewer also combined or linked similar patterns into main themes.
- Step 5 – Theme statements were documented by the researcher and valid arguments for selecting themes were also provided.

Results

The entire population of 14 experts and senior officials from the ESAAG region were interviewed either face to face or telephonically. The ideal outcome of the thematic analysis coding process is to create between three to eight major themes and an inductive coding which produces more than eight themes could be seen as incomplete as smaller categories may not have been combined into main themes. (Thomas 2003). The interviewer identified 3 themes and 10 sub-themes that are illustrated in the diagram below and discussed in detail in the subsequent sections.

Figure 1: Diagram illustrating the themes that define the Appropriate Accounting Framework for financial reporting in the public sector



Theme 1: Accounting bases

Sub-theme 1.1: Diversity in the current central government accounting landscape

The interviewer discovered that there is diversity in the bases of accounting adopted for financial reporting within the ESAAG region. Participants from four countries, namely, Lesotho, Mozambique, Namibia, and Zimbabwe, or 29% of the population, explained that financial reports of their respective countries are prepared on the cash basis of accounting to match the framework used to prepare their institutional budgets.

Participants from three countries, namely, Kenya, Malawi and Zambia, or 21% of the population, explained that the financial reports of their respective countries are prepared in terms of Cash Basis IPSAS.

Participants from six countries, namely, Botswana, Mauritius, Rwanda, South Africa, Swaziland and Uganda, or 43% of the population, stated that the financial reports of their respective countries are prepared on the modified cash basis of accounting.

The participant from one country, Tanzania, or 7% of the population, highlighted that "the Public Finance Management Act (PFMA) in that country, had mandated IPSAS to be the reporting framework for government and the country is already preparing consolidated (Whole of government) financial reports in terms of Accrual IPSAS".

Therefore, the norm in the ESAAG region is to prepare financial reports in terms of the modified cash basis of accounting. Participants elaborated that irrespective of the bases of accounting used by their governments, cost of borrowings is usually accounted on an accrual basis to portray a true picture of debt.

Sub-theme 1.2: Similarity in future central government accounting landscape or trend towards accrual accounting

The interviewer discovered a similarity in the accounting landscape and a clear trend towards the adoption of an accrual basis of accounting in the near future. Only two countries, Mozambique and Namibia, or 14%, explained that the financial reports of their countries will remain on the cash basis of accounting.

Participants from ten countries, namely, Botswana, Kenya, Lesotho, Malawi, Mauritius, Rwanda, Swaziland, Uganda, Zambia and Zimbabwe, or 71%, stated that their respective countries intend to follow the IPSAS adoption roadmap developed by the ESAAG and adopt Accrual IPSAS in the future. Some of the countries intend to follow a phased approach, and adopt Cash Basis IPSAS as a stepping stone to adopting Accrual IPSAS.

The participant from one country, South Africa, or 7%, added that "the country intends to utilise Generally Recognised Accounting Practice (GRAP) which is referenced from IPSAS for financial reporting at a central government level.

The participant from one country, Tanzania, or 7%, declared that, "Tanzania will continue to apply Accrual IPSAS in the foreseeable future and added that the country was ahead of its African counterparts as most of the countries in the ESAAG region had only recently announced their intention to adopt IPSAS".

Theme 2: Financial Reporting

Sub-theme 2.1: Service delivery objectives should be referenced to the financial reports

The interviewer discovered that financial reports in the public sector are enhanced when governments reference the reports to service delivery objectives.

The participant from Botswana advised that “accounting standards that are developed for the public sector need to provide guidance on how costs incurred by governments when rendering services should be disclosed in the financial reports”.

Participants from Malawi and South Africa stressed that financial reports should allow governments to disclose how financial resources were utilised to fulfil their service delivery mandate.

The participant from Swaziland maintained that “the costs incurred for service delivery need to be reported and that governments cannot deliver services if there is no basis to account for the costs of service delivery. Information about the costs incurred for service delivery was vital for donors and development partners as they need the information to determine the amount of funding that is required”.

The participant from Mozambique explained that “the purpose of the public sector is to satisfy the public. The public is satisfied when services are delivered regularly, in an economic, efficient, effective and legal manner and such information needs to be disclosed in the financial reports”.

Participants from Uganda and Zimbabwe concurred that governments need to report on the efficiency and state of services as they are entrusted resources by taxpayers.

Sub-theme 2.2: Accountability and transparency should be referenced to the financial reports

The interviewer discovered that financial reports prepared by public sector entities are enhanced when they are used as tools to showcase accountability and transparency.

The participant from Zimbabwe highlighted that “governments are accountable to a wider base of users including civil society and taxpayers. Financial reports prepared for the public sector need to show a fair picture of the financial position of the government’s finances”.

The participant from Swaziland stated that “financial reports should show a true picture of debt, investments and other assets. In addition, the participant from South Africa explained that “financial reports prepared for the public sector should show the assets in place, consumed, impaired, and the condition thereof”.

Participants from Botswana and Mauritius stressed that governments should prepare financial reports that show how public resources and taxes are utilised, as they are stewards of the public office.

Participants from Rwanda and Zambia, advised that governments should use financial reports as instruments to provide feedback on how resources are utilised, thus showing accountability. The Rwandan participant, added that “financial reports are important as they give information for more prioritising and decision making in the future because failure to have a post-mortem for what governments were entrusted for, results in limited planning”.

“Financial reports give citizens insight on the true and fair view of resources entrusted to the public sector entity. IPSAS has an advantage over IFRS because it provides guidance on financial reporting of the General Government Sector through the standard IPSAS 22 and compares actual financial transactions versus amounts budgeted for through the use of the Budgeting standards (IPSAS 24)”, declared the representative from Tanzania.

Theme 3: Accounting standards

Sub-theme 3.1: Accounting standards should incorporate accrual basis of accounting

The interviewer identified that accounting standards that are developed for the public sector should incorporate the principles of accrual basis of accounting.

Participants from eleven countries, namely, Botswana, Kenya, Lesotho, Mauritius, Namibia, Rwanda, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe, or 79%, prefer the accrual basis of accounting for financial reporting in the public sector. The participant from Botswana elaborated that "the accrual basis of accounting provides a complete picture of the financial performance and position of the government as opposed to the cash basis of accounting that produces incomplete information on assets, liabilities, equity and performance of governments, which does not allow for better decision making".

Two participants from South Africa and Malawi, or 14%, prefer both accrual and cash basis of accounting for financial reporting in the public sector. The participant from South Africa explained that "it is more appropriate for financial reports of public sector entities to follow the cash basis of accounting to match the budgets that are prepared in terms of the cash basis. The cash basis of accounting is more appropriate for government departments that are merely 'cost centres' and do not generate substantial revenue but rely solely on cash transfers from governments to fund their activities and remit surplus or unused funds to central government at the end of each financial year and see no benefit to account for non-cash transactions such as depreciation. The accrual basis of accounting is more appropriate for municipalities that should in theory be 'self-sustaining' as they generate revenue to cover costs".

One respondent from Mozambique, or 7%, did not comment on the accounting basis that was preferred for financial reporting in the public sector.

Sub-theme 3.2: Accounting standards should be understandable

The interviewer identified that accounting standards that are developed for the public sector should be more understandable.

The participant from South Africa asserted that "the accounting standards that are developed for the public sector are too technical and do not consider the needs of the users. The preparers who are usually not up to date with the latest developments in accounting are forced to apply their judgment to decide on the recognition, measurement and presentation of complex transactions. Preparers need to understand why a standard is set in a certain way. Standard setting bodies employ accountants who are inherently not good at explaining concepts in a simpler way. Narrative information would assist preparers to understand the accounting of certain transactions. For example, Post implementation reviews are conducted in GRAP to assess whether information produced by applying the Standards is relevant to users, and to identify application and implementation issues that may require a resolution. Standard setting bodies need to consider the maturity of environments and implement transitional provisions and reliefs in their accounting standards to make them more understandable".

Participants from Lesotho, Malawi, Mauritius, Namibia, Rwanda, Swaziland, Zambia and Zimbabwe concurred that accounting standards should not be complex, to cater for different stakeholders such as the public and members of parliament that are usually not financially literate. Accounting standards should not be complex, as the primary users do not understand the accounting jargon.

“Accounting standards should be developed in local languages to make them more understandable”, suggested the Malawian representative.

Participants from Mauritius and Swaziland stated that accounting standards should be more understandable, as the public sector has not professionalised the accountancy cadre and finance departments.

The participant from Mauritius added that “users of financial information are diverse with different levels of skill and require other statements, reports and explanatory notes to make them easier to read and understand. Most public sector entities across the world are unable to adhere to international accounting standards such as IPSAS in spite of their willingness to do so. Accounting standards should be designed in a flexible manner to cater for the different levels of preparedness to apply such standards. One way in which this could be done would be to have different levels of accounting standards. For example, level 1 of accounting standards would be simpler to apply; level 2 accounting standards would be of moderate complexity and level 3 accounting standards would be the final required standard. Public sector entities would be required to disclose the level of each standard that they selected when preparing their financial reports. The overarching objective is to get everybody on board in their quest to improve accountability and transparency in their financial reports. It should not be an ‘all or nothing game’, as is presently the case”.

The participant from Rwanda added that “understandability is one of the qualitative characteristics of accounting standards that are developed for the public sector. Accounting standards should be presented in a language that is simple”.

“Accounting standards should be concise, objective and understandable so that the more relaxed reader can have a proper understanding of their content”, declared the participant from Mozambique.

The participant from Tanzania cautioned that, “users of financial reports will not make decisions to invest or lend if the financial information is not understandable. Preparers should not only focus on numbers but also on the qualitative information such as accounting policies, commentary, disclosures and notes to ensure that the layman understands the key messages”.

Participants from Botswana and Uganda, explained that accounting standards need to be understandable to allow specific countries to tailor such standards to suit the requirements of their respective countries, and that the relevance of the accounting standards should not be lost and quality compromised in an attempt to make them more understandable.

“The public does not even understand the current financial reporting frameworks that are adopted by their governments that are perceived to be less complex and it is the responsibility of the media to simplify the financial reports and use different forums to educate the public”, cautioned the participant from Botswana.

“Governments need to focus on training and building the capacity of the finance departments instead of focusing on simplifying accounting standards. Governments need to implement the simpler accounting standards and subsequently adopt the more onerous accounting standards as they mature”, declared the participant from Kenya.

Sub-theme 3.3: Accounting standards should be principle based

The interviewer identified that accounting standards that are developed for the public sector should be principle based. The use of accounting policy options is encouraged despite comparability being compromised.

Participants from Botswana, Kenya, Lesotho, Malawi, Mauritius, Namibia, Rwanda, South Africa, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe support the use of accounting policy options in the accounting standards.

The participant from Botswana explained that "integrity and transparency of accounting standards should matter more than comparability. Accounting policy options are allowed as long as they are compliant to the accounting standards".

The participant from South Africa acknowledged that "the use of accounting policy options undermine comparability but it is beneficial to have policy options as this allows accounting standards to be flexible. Policy options cater for the different characteristics of public sector entities. For example, it is beneficial to value assets of municipalities at fair value as they need to generate revenue to replace those assets and the policies on assets need to take into account the increase in the value of such assets. Conversely, departments receive grants to replace assets and therefore, such assets may be measured at cost".

The participant from Zimbabwe elaborated that "accounting policy options should be adopted to accommodate the legislations of different countries".

Accounting standards should not be prescriptive to enable acceptance for the use of the accounting standards. Governments can select the policy options that suit their requirements, advised the participants from Kenya and Mauritius.

The participant from Kenya elaborated that "accounting standards should have policy options to allow countries the privilege to decide on the best option. Comparability is not an issue as the alternative policy option can be disclosed in the notes of the financial reports. Countries will not adopt the standards that are rigid and strict".

The participant from Malawi maintained that "accounting policy options are important as governments may present the first option on the face of the financial reports and disclose the second option in the notes to the financial reports".

The participant from Mauritius added that "accounting standards should make it clear that any change in accounting policy must be disclosed and the impact adjusted and disclosed in the statement of financial position".

The participant from Tanzania explained that "the fair presentation of financial reports is still achieved irrespective of the accounting policy option that is selected. Options are important as the standard setters allow governments to apply their minds and develop their own accounting policies by considering the benefits of each method. For example, information is tied up when presenting cash flows using the indirect method, whilst the direct method allows for more information to be opened up and makes it easier for users to make economic decisions. Comparability can never be compromised by selecting policy options. Accounting policy options allow countries to select the option that best suits that country".

The participants from Uganda mentioned that "accounting standards should have policy options as stakeholders may have differing views on the accounting options to be adopted and not allowing options increases rigidity".

Participants from Rwanda, South Africa, Swaziland and Uganda cautioned that accounting policy options should not be too broad as this could add to the complexity of the accounting standards.

Participants from Rwanda and Uganda, added that too many policy options were not good and accounting standards should limit the options to a maximum of two.

The participant from Swaziland argued that "accounting standards that are developed for the public sector should initially allow for one accounting policy option and be flexible for more policy options to be adopted once the finance departments of governments mature".

The participant from Mauritius mentioned that "ESAAG should firstly apply policy options and adopt uniform options once the finance departments are robust".

The participant from Kenya warned that "there are instances when the use of accounting policy options is not appropriate. For example, an entity cannot select between using Cash Basis IPSAS or Accrual IPSAS Cash Flows as the two formats are distinctively different".

Sub-theme 3.4: Accounting standards should be complete

The interviewer identified that accounting standards that are developed for the public sector should be complete and provide a comprehensive guidance on accounting for transactions.

Participants from Botswana, Malawi, Namibia, South Africa, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe advised that accounting standards that are developed for the public sector should be complete.

The participant from Botswana advised that, "accounting standards that are complete enable comparability. Accounting standards that are developed for the public sector should also provide guidance on the Budgeting cycle process and Accrual budgeting. Currently, the standard on Budgeting in IPSAS only provides guidance for comparing Actual versus Budgeted amounts and the variances thereof. The standard on Budgeting should provide more guidance on the Budgeting process. This may encourage Budgeting departments to lobby for the adoption of IPSAS".

The participant from South Africa recalled that, "a similar problem occurred in South Africa when municipalities that needed to adopt Standards for Generally Accepted Municipal Accounting Practice (GAMAP) were forced to reference IFRS to 'fill the gaps' as the GAMAP were not complete. Currently, there are gaps between IFRS and IPSAS because the IPSASB is not a full time Board and has to 'play catch-up' to fill the gaps. Standard setting bodies need to complete the core standards and focus on developing Recommended Practice Guideline (RPG) in the long term. Accounting standards that are developed for the public sector also lack guidance on measurement".

The participant from Zimbabwe lamented that "accounting standards that are developed for the public sector do not provide guidance on accounting for exploration of mineral assets".

The participant from Mauritius argued that, "it is essential for accounting standards to cover all economic events that impact the public sector to ensure consistency and remove any element of subjectivity".

"Accounting standards need to be complete for areas covered by IFRS and provide guidance on recognition, measurement (initial and subsequent measurement) and presentation of transactions. Accounting standards need to be adaptable to the evolving environment and should not limit guidance to financial reporting only but also provide guidance on reporting Policy, Program Based Performance, Output and Outcomes", declared the participant from Rwanda.

The participant from Tanzania reasoned that "it takes time to develop accounting standards for the public sector as transactions are evolving and the standards are derived from IFRS".

The participant from Kenya maintained that "in a nutshell, accounting standards should cover most areas but need to take into consideration the complexity of the areas not covered. Topics on Heritage Assets and Natural Resources are complex and guidance on accounting for such transactions takes time to develop. A ‘big bang approach’ might not be appropriate. Accounting standards also need to expand their guidance to assessing the uniformity of Chart of Accounts (COA) as ministries, SOE and Counties/Municipalities have different COA. Experienced implementers need to be consulted by standard setting bodies to provide guidance for developing COA”.

The participant from Malawi warned that “accounting standards should not be complete for the sake thereof and not provide guidance on transactions that are not relevant to the public sector”.

Accounting standards that are developed for the public sector should comprise of the Conceptual Framework, confirmed the participants from Botswana, Lesotho, Malawi, Mauritius, Rwanda, South Africa, Zambia and Zimbabwe.

The participant from Botswana recalled that “there was a low take up on the adoption of the IPSAS because the accounting standards did not have a Conceptual Framework”.

The participant from Zimbabwe added that the “Conceptual Framework could be used to develop future standards”.

The participant from Mauritius elaborated that “the Conceptual Framework sets the basis within which reporting should be undertaken. Ideally, the Conceptual Framework should be produced before the standards are produced”.

The participant from Rwanda stated that “the Conceptual Framework should be the starting point as it is the ‘mother’ of all standards”.

The participant from Malawi commented that “the Conceptual Framework defines the principles of accounting standards. The Conceptual Framework was developed way after most IPSAS were developed and is only applicable to the Accrual Basis IPSAS and not the Cash Basis IPSAS”.

The participant from Tanzania indicated that “the Conceptual Framework should be developed first because it defines and elaborates issues that are not covered in the accounting standards. There is no need to develop accounting standards if Standard setting bodies develop a complete and comprehensive Conceptual Framework as it reduces gaps in accounting standards”.

The participant from Uganda stressed that “the Conceptual Framework is the ‘backbone’ and should be developed before the accounting standards are issued”.

The participant from South Africa cautioned that “the Conceptual Framework is important but can be challenging to use in areas where there is no clear direction. The interpretation of the Conceptual Framework may be subjective in areas where guidance is lacking on specific transactions that are unique to the public sector such as Heritage assets”.

The participant from Lesotho argued that “it is not appropriate to have a Conceptual Framework before developing accounting standards”.

Sub-theme 3.5: Accounting standards should not be copied from IFRS.

The interviewer discovered that accounting standards that are developed for the public sector should not be copied from IFRS.

Participants from Botswana, Kenya, Lesotho, Malawi, Mauritius, Mozambique, Rwanda, South Africa, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe concurred that it is important for public sector officials to be involved in the development of accounting standards for the public sector as they have more insight on public sector specific issues. The standards should be developed by an independent body. It is also important for standard setting bodies to have independent oversight.

The participant from Botswana added that "public sector officials do not need to prepare accounting standards, but need to be involved in the process of setting the standards. Botswana is currently implementing IPSAS and the Financial Reporting Act (FRA) states that the Botswana Accounting Oversight Authority (BAOA) should oversee the implementation of IPSAS".

The participant from South Africa recalled that "the IPSASB was criticised by stakeholders such as the European Commission because the process that they followed to develop standards was perceived not to be transparent and fair. As a result, the IPSASB put in place independent oversight in the form of the CAG and PIC. From a credibility perspective, the governance of the standard setting body should be put in place. In South Africa, the National Treasury under the Minister of Finance monitors the activities and due process followed by the ASB when developing accounting standards for the public sector of the country".

The participant from Swaziland elaborated that "accounting standards on biological assets and financial instruments that are based on IFRS need to be modified to suit the public sector". The participant from Lesotho noted that "accounting standards should reflect the unique features of the public sector".

The participant from Mauritius added that "the development and application of any standard requires a thorough knowledge of the environment. Participation of public sector officials will provide a deeper insight of the socio-economic environment, the legal framework as well as other critical aspects of the public sector. The governance of the standard setting process can be improved through enlarged discussions and publications of Exposure drafts and Discussion papers to all stakeholders such as IASB, IMF, external auditors, Investment (Banking and lending) institutions, government and public at large".

The participant from Malawi noted that "the IPSAS on investment property and impairment of cash generating assets are derived from the private sector standards (IFRS) but do not specifically address public sector specific characteristics. Investment property that is held for the private sector is usually not the same as Investment property held for the public sector".

The participant from Rwanda added that "accounting standards that are developed for the public sector should not be copied from the private sector accounting standards (IFRS) but cover the reality of the public sector when developing accounting standards for that sector".

Sub-theme 3.6: Accounting standards should be converged with statistical bases

The interviewer discovered that accounting standards that are developed for the public sector should be converged with statistical reports such as GFS.

Participants from Botswana, Kenya, Malawi, Mauritius, Rwanda, South Africa, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe advised that accounting standards that are developed for the public sector should be used to produce statistical reports such as GFS.

The participant from Botswana explained that "it is better for government to use the same information that it has produced for financial reporting as a base to preparing GFS reports in order to reduce gaps and getting information from the same pot could be better. The government of Botswana is currently developing COA that accommodate both GFS and IPSAS".

The participant from South Africa advised that "there is common agreement to use one set of information. I was appointed on the Task force team to harmonise and align IPSAS and GFS.

IPSAS and GFS cannot be aligned fully (100%) as the reports have different objectives that drive certain policy decisions. It is important for preparers to understand the differences and account for the reconcilable differences. COA should be flexible to cater for both IPSAS and GFS. For example, military assets are expensed according to the GFS and not capitalised as assets in terms of IPSAS".

Participants from Zambia and Zimbabwe, added that accounting standards can be used to compile GFS as they provide more reliable data.

The participant from Swaziland noted that "accounting standards can also be used to measure debt, GDP, investments and the overall liquidity of the government".

The participant from Mauritius added that "GFS requirements have been aligned as far as possible to the IFRS or IPSAS requirements. The use of a commonly agreed standard is favourable as this will not allow different figures to be used".

The participant from Malawi cautioned that "the majority of the transactions may be recognised with the two frameworks but additional data may still need to be provided for GFS information".

The participant from Rwanda acknowledged that "accounting standards that are developed for the public sector should not only be harmonised to GFS but to additional reports such as The Public Expenditure Framework Accountability (PEFA) and Public Investment Management Assessment (PIMA). PEFA is a methodology for assessing public financial management performance. PIMA is a framework that assesses and measures public investments".

The participant from Tanzania, mentioned that "Tanzania adopted the GFS for statistical reporting and the GFS information is derived from IPSAS reports. IPSAS reports are comprehensive and cover large amounts of information as the public sector covers the General Government Sector (GGS) and public corporations. In Tanzania financial reports that are prepared in terms of IPSAS are used as inputs to compile GFS. However, GFS information prepared in Tanzania is on a cash basis".

The participant from Kenya commented that "IPSAS reports are a good basis to prepare GFS information with some minor adjustments. The Institute of Statistics in Kenya uses IPSAS reports to produce quality statistics for that country. Some of the information that has not been produced for many years by the Institute is now made available due to IPSAS".

Concluding comments

Little or no research has been conducted on the appropriate financial reporting framework in the public sector. As a result, there are contrasting views on the accounting standards that are appropriate for the public sector. Therefore, entities in the public sector have either adopted GFS, IFRS, IPSAS, nationalised their standards, or continued with cash basis accounting for financial reporting purposes. This has undermined the comparability of governments.

The IPSAS have become the recommended choice for financial reporting in the public sector because the standards provide enhanced information for accountability and decision making purposes, and guidance on transactions that are unique to the public sector. However, the IPSAS framework also has its limitations and some nations have been reluctant to adopt IPSAS in its entirety.

The aim of the article was to identify the elements or attributes that define the appropriate financial reporting framework for the public sector in the ESAAG region. According to the 14 experts and senior officials working in the Office of the Accountants-General in the public sector of the ESAAG region, accounting standards that are developed for the public sector should: not be subjective, and should meet high levels of accountability and transparency; be prepared in terms of the accrual basis of accounting; be prepared by officials working in the public sector and not derived from IFRS; be less complex and understandable; allow accounting policy options; be complete and cover all transactions; have a conceptual framework; and be compatible to GFS statistical information.

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