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 that governments may better serve their citizens”

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International Consortium on Governmental Financial Management

General Information

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

Our mission includes three key elements. First, it highlights that, within the international community, the International Consortium on Governmental Financial Management (ICGFM or 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, and national). Additionally the mission statement emphasizes the organization’s commitment to improving government infrastructure so that needs of the people are better met. Our programs provide activities and products to advance governmental financial management principles and standards and promote their implementation and application.

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

1. **Sustaining Members**: organizations promoting professional development, training, research or technical assistance in financial management; willing to assume responsibility for and to actively participate in the affairs of the Consortium. Each Sustaining Member has a seat on the ICGFM Board of Directors. (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 Board of Directors. (Dues: $250/$150*)

3. **Individual Members**: persons interested in or dedicated to activities directly related to financial management and who wish to be members in their own right. Six members of the ICGFM Board of Directors will be selected from among all individual members. (Dues: $100/$50*)

4. **Student Members**: persons enrolled at a college or university who are interested in financial management are eligible and will enjoy the benefits of Individual Members. (Dues: $25)

* A special discount is offered to Low and middle lower income economies, as classified by the World Bank (Gross National Income GNI). This discount is available to the following countries: Afghanistan, Albania, Algeria, Angola, Armenia Azerbaijan, Bangladesh, Benin, Bhutan, Bolivia, Bosnia and Herzegovina, Burkina Faso, Burundi, Cambodia, Cameroon, Cape Verde, Central African Republic, Chad, China, Colombia, Comoros, Congo (Dem. Rep), Congo (Rep), Cote d’Ivoire, Djibouti, Dominican Republic, Ecuador, Egypt (Arab Rep), El Salvador, Ethiopia, Gambia, Georgia, Ghana, Guatemala, Guinea, Guinea-Bissau, Guyana, Haiti, Honduras, India, Indonesia, Iran (Islamic Rep), Iraq, Jordan, Kenya, Kiribati, Korea (Dem. Rep), Kyrgyz Republic, Lao PDR, Lesotho, Liberia, Macedonia (FYR), Madagascar, Malawi, Maldives, Mali, Marshall Islands, Mauritania, Micronesia (Fed Sts), Moldova, Mongolia, Morocco, Mozambique, Myanmar, Namibia, Nepal, Nicaragua, Nepal, Niger, Nigeria, Pakistan, Papua New Guinea, Paraguay, Peru, Philippines, Rwanda, Sao Tome and Principe, Samoa, Senegal, Sierra Leone, Solomon Islands, Somalia, Sri Lanka, Sudan, Swaziland, Syrian Arab Republic, Tajikistan, Tanzania, Thailand, Timor-Leste, Togo, Tonga, Tunisia, Turkmenistan, Uganda, Ukraine, Uzbekistan, Vanuatu, Vietnam, Yemen, West Bank and Gaza, Zambia, Zimbabwe
Foreword

Public financial reform appears to be entering a new practical-oriented phase especially in the public sector accounting and budgeting field. While accounting and budgeting scholars have exerted great efforts in the last three decades aiming at reforming and developing the public sector accounting and budgeting, these efforts are still of little value to the public sector accounting and budgeting practice. This is due to the fact that there is a lack of effective communication between accounting researchers and accounting practitioners, and as a result the impact of accounting research on accounting practice is not easy to discern. Therefore, the aim of the new phase is to foster communication between the accounting researchers and practitioners, which in turn leads to improving the accounting and budgeting practices and facilitates the work of practitioners.

This issue of the Journal takes the initiative of dealing with articles that enhance and improve the accounting and budgeting practice. In the first article, John Burg suggests a new conceptual public financial management architecture for the administration and management of international assistance that integrates a performance monitoring and evaluation framework with a public expenditure and accountability framework, including one potential transition modality to implement this new architecture.

In the second contribution, Hassan Ouda considers the necessary adjustments that should be available for making governmental accrual accounting more practice-relevant for the practitioners. This contribution aims to build a start-up point for developing a more practice-relevant version of accrual accounting that will improve the public sector accounting practices and hence it helps the practitioners to understand the nature of the governmental entities and how to apply the accrual accounting to the public sector.

The third contribution examines the practical issues of developing and applying a financial classification in the context of Tajikistan. Michael Parry and George Gridilian consider the specific problems of applying international classification standards to the actual organisational relationships. These include the difficulties of linking the standard Classification of the Functions of Government (COFOG) to existing organisations.

As a further step in improving the practical performance and results of governments, Hassan Ouda, in the fourth contribution, has attempted to explore the path towards Results-Oriented Government (ROG) by proposing a framework that can lead to achieving it into actual practice. The article argues that the Results Oriented-Government cannot work with the traditional government systems and the adoption of Results-Oriented Government needs to be based on a balanced public sector reform.

In the last article, the ICGFM Ad Hoc Committee on Accounting Standards Proposed changes to the Cash Basis Standard.

We hope the articles in this issue will stimulate discussion on contemporary problems of public organizations. If you would like to participate in such discussions, please start thinking about contributions for the next issue of this Journal, participating in the ICGFM blog, and/or attending future ICGFM events. We would also be pleased to receive reviews and suggestions of other resources that we should refer to in future issues. Send them to icgfm@icgfm.org.

We look forward to hearing from you!

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Designing a Data-Centric Universal Architecture for International Assistance

John Burg

"Data is not information, information is not knowledge, knowledge is not understanding, understanding is not wisdom." - Clifford Sall, American Astronomer

Abstract

The world of international assistance is at a crossroads. Willingness among practitioners and policy makers to agree on a set of core principles is emerging. At the same time, we now have a technological ability to process vast amounts of data and use analysis as a powerful tool to bring these core principles to bear on improving the effectiveness of programmatic efforts. This nexus of core principles and data-driven analysis represents an excellent opportunity to improve the effectiveness of assistance efforts by using program implementation data to inform future planning and resource requests. Unfortunately, the international community risks missing this incredible opportunity as the ad hoc collection of inefficient public financial management frameworks at the center of current international assistance administration and management suffers from a two-fold problem. One, they are so disparate that interoperability is impossible, and two, efforts are so anachronistic that integrating financial accountability with program performance data is impossible. This combination of ineffectiveness not only undermines the universal participation required for wide ranging analysis of related data, but it also stunts subsequent learning through the comparison of outcomes. The resulting risk is that the very systems of administration and management used to make international assistance possible end up undermining the potential of this new willingness and ability to improve the effectiveness of international assistance.

This paper lays out an alternative: a new conceptual public financial management architecture for the administration and management of international assistance that integrates a performance monitoring and evaluation framework with a public expenditure and accountability framework, including one potential transition modality to implement this new architecture.

Introduction

A desire to end persistent human suffering motivated creation of the Millennium Development Goals, which were adopted following the Millennium Summit of the United Nations in 2000. Since then there has been a rising tide of efforts to finally eradicate these chronic problems that plague so many vulnerable populations, be they poverty, disease, or a host of other terrible afflictions across less developed countries.
With the passage of time this intensified focus on development has led to improved learning about ways to combat these problems, most notably from the Organization for Economic Cooperation and Development (OECD), with their 2005 Paris Declaration on Aid Effectiveness, which called out the need to improve, “Ownership, Harmonization, Alignment, Results and Mutual Accountability”, as well as their 2008 Accra Agenda for Action\(^2\), which aimed to redouble focus on areas that were lagging, such as, “Country ownership, Building more effective and inclusive partnership, and Achieving development results and openly accounting for them.” However, not until their 2011 Fourth High Level Forum on Aid Effectiveness\(^3\), was an emphasis placed on the practical issues of how to achieve all of the lofty goals being agreed to, most notably related to transparency. Yet even with that recognition that effectiveness must be part of the aid conversation, no actionable directives were forthcoming; thus we have relegated the international community, both donor and recipient governments, to a future of aid efforts and financing that fail to realize the inherent potential of so much money and so many smart and hard-working people.

But all is not lost. While the international community has been building consensus on what needs to be done and why (even if the “how” remains elusive), the information technology industry and its products have grown apace to an incredibly powerful tool. Today’s technology might only be barely recognizable to the policy makers of 2000. Specifically, there is now something referred to as “Big Data”, which is popular shorthand for computing capacity so powerful that it can be used to process data sets on a massive scale. From meteorology to finance to internet search engines, Big Data is changing how we look at analysis, and even how we derive multi-order analysis from existing analysis. Complementing Big Data is the idea of Open Data, which advocates for the complete accessibility and transparency of all information; an added benefit of this relationship is the updated definitions tailored specifically for the maximization of Big Data. The Open Data Handbook\(^4\) summarizes the most important definitions, which for purposes of this paper are the ideas of Universal Participation and Interoperability:

Universal Participation: everyone must be able to use, reuse and redistribute - there should be no discrimination against fields of endeavor or against persons or groups. … If you’re wondering why it is so important to be clear about what open means and why this definition is used, there’s a simple answer: interoperability. Interoperability denotes the ability of diverse systems and organizations to work together (inter-operate). In this case, it is the ability to interoperate - or intermix - different datasets. Interoperability is important because it allows for different components to work together. This ability to componentize and

to ‘plug together’ components is essential to building large, complex systems. Without interoperability this becomes near impossible …

Universal participation is critical when it comes to the topic of international assistance, and ties directly to the OECD’s 2012 Busan Partnership for Effective Development Cooperation, which established agreement to enable, “A global monitoring framework with indicators and common goals that will enable cross-country comparison and foster international accountability.” This explicit identification of the need for a global monitoring framework (i.e.: interoperability) that can be used for comparisons and accountability (i.e.: open data transparency) sets this agreement apart.

Further development of a system must also take into account the context of open data and interoperability. The Handbook offers further guidance in defining what characteristics might be useful in a global monitoring framework:

We face a similar situation with regard to data. The core of a “commons” of data (or code) is that one piece of “open” material contained therein can be freely intermixed with other “open” material. This interoperability is absolutely key to realizing the main practical benefits of “openness”: the dramatically enhanced ability to combine different datasets together and thereby to develop more and better products and services…

Clearly, systems must speak a common language (across its various nodes) and make related data completely and transparently available to benefit thorough analysis. In an idealistic vacuum, we would create a new global monitoring framework with interoperability that could generate a very high quality and quantity of data (and Big Data would seamlessly consume this information for incredibly powerful analysis and derivative information). But, in an ongoing reality, a new framework is perceived to add more administrative clutter to the field of international assistance – a field that is already littered with ad hoc frameworks from innumerable prior gatherings of the international community, and usually the lack of adequate staff to collect the information means even less bandwidth to do anything useful with what they were able to collect. All too often the result is data proprietary to a particular framework, and the new gap this leaves behind is a proliferation of frameworks that are not interoperable. This is a case where adding framework upon framework only serves to further obscure what goes right and what goes wrong in international assistance programs and projects. So, this call for another framework forces the question, if not one more then what?

Problem Statement:

The need for an interoperable and open framework is clear based on the lack of adequate effectiveness data available to inform increased efficacy. Current frameworks offer neither, and what’s more, their scope and scale comes nowhere near the quality and

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quantity required to make good use of Big Data. Big Data needs a lot of data and no computer can organize data of any quantity without first having a taxonomy programmed into it. So, the necessity for some kind of framework is readily apparent. And, because international organizations are fond of meeting to establish new frameworks, it is also apparent that yet one more is unlikely to make the kind of difference that will leverage the ability of big Data to take advantage of the willingness to support the ideas of Open Data, to begin establishing clarity on what works and what doesn’t in formulating ways to tackle big issues like poverty and hunger. The last unasked question remains, what global systems might currently exist that could obviate the need for a new framework, and that could, with some careful modifications, act as the kind of global monitoring framework identified in the 2012 Busan Partnership for Effective Development Cooperation, and that exists on a scope and scale suitable for feeding Big Data?

**Existing Systems and Frameworks:**

An existing system and framework does exist that, with careful modification, could provide the kind of global monitoring framework needed to support both Open Data and Big Data. This system is called public financial management (PFM). The guiding three principles of good PFM, are that any framework should be transparent, rational, and predictable – all things that are closely aligned to the set of core principles that is emerging among practitioners and policy makers for international assistance. The PFM framework is called the chart of accounts (COA). A 2011 technical manual titled, “Chart of Accounts: A Critical Element of the Public Financial Management Framework”, by Julie Cooper and Sailendra Pattanayak, from the Fiscal Affairs Department of the International Monetary Fund, summarizes:

The chart of accounts (COA) is often considered—in particular, by non-accountants—obscure, if not esoteric, and is often a neglected element of a country’s public financial management (PFM) system. Yet, as argued in this note, it is possibly the most critical element or lynchpin of a well-functioning PFM system. The COA, although appears to be just concerned with classifying and recording financial transactions, is critical for effective budget management, including tracking and reporting on budget execution. The structure of the budget—in particular the budget classification—and the COA have a symbiotic relationship. As such, a mistake in designing the COA could have a long lasting impact on the ability of the PFM system to provide required financial information for key decisions.

COAs are typically organized around the Classifications of the Functions of Government (COFOG). The United Nations Statistics Division has prepared a detailed

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sample COFOG available for any governments interested in adopting or adapting it for their use. The United Nations Statistics Division recognizes that one COA may not suit the individual needs of every country, and so, “Alternate structures are useful for analytical purposes, if the standard aggregation structure of the classification is not sufficient.” Many countries do use COAs, but because a COA is designed to be a public accounting and expenditure framework, and nothing else, modifications are required before it can serve as a global monitoring framework for purposes mentioned above.

Transforming the COA into a New Global Framework:

Many countries using a COA for their public accounting and expenditure framework are also using other systems and frameworks to capture program performance and monitoring data. In PFM the two frameworks are usually parallel but not integrated. They are, in a sense, bi-axial insofar as that they are parallel but never structurally intersect. The fact of structural separation by no means prevents the analysis of outcomes where analysis of adequate data can provide useful information. But, to do so requires data collected, analyzed, and understood outside of the COA – the bi-axial structure prevents the natural integrated progression over time of financial inputs that lead to programmatic outputs that are designed to receive outcome metrics. In a world where over a billion people all have individual mobile phone numbers, there is clearly no technical barrier to coding aspects of great granularity related to even the minutest activities that support specific development objectives and global humanitarian goals. But, before there can be a global framework wherein which a single integrated line of code captures all information, from planning and resource request in a country’s budget cycle, to execution expenditure into the distant but still time-bound realm of monitoring and evaluation, can be realized, several modifications are required to a typical COA.

Conceptually this transition requires a COA to transform from a bi-axial structure to a co-axial architecture. The newly modified co-axial architecture then needs to be adopted by all countries involved in international assistance. The end result will be called the Universal Chart of Accounts (UCOA), and in the context of this paper, the UCOA for International Assistance (UCOA-IA). There is no strictly technical barrier to employing a full UCOA to all governments of the world. Indeed it would allow for an even more fulsome landscape of data to be available that would be especially useful in tracking the transition of enduring cooperation (i.e., the handover of donor country funded social services to host country funded social services) because the transition over time of financial flows, and the corresponding outcomes metrics of that same period of time could finally be correlated. However, keeping within the context of this paper, it is only the co-axial UCOA-IA that will explored a little further. It is worth noting that a UCOA is scalable but the smaller the size the lesser the economy of scale and the lesser the impact. For the purpose of this paper, and the transition modality it offers, the functional

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parameters will hold firm at being implemented for the purpose of administering and managing public funds used for international assistance.

For the purpose of interoperability the UCOA-IA will rely on the COFOG as a well-designed COA structure that can easily serve as a proxy taxonomy for international assistance flows generally, although the addition of special object classifications will likely be necessary that are specific to international assistance activities and contexts, such as with cases of direct budgetary support, humanitarian disasters, faltering fragile states, and the like.

The UCOA-IA integrates a public expenditure and accounting framework with a monitoring and evaluation framework. The two frameworks are interlaced at the coding level so that the code itself binds the two together at the account level. Also it is necessary to take the existing COA and add a mirror version of contra-accounts for each account in the chart. In between the account and the contra-account is a portal, a stint of sorts, which itself is managed like a social impact bond. This is where the money flows out to pay for implementing project A. Already planned is the desired outcome that project A is designed to achieve. This is where all manner of brilliant new methods are used to track progress towards achieving pre-established outcomes. As data is tracked and is analyzed to produce evidence of results obtained, that information is plugged back into the stint where the data eventually fills in the contra-account. And, when the pre-determined period of outcome recording comes to an end it should be apparent what outcome was obtained for a particular expenditure (investment) from this account. And, because it is already an interwoven aspect of how a country manages its business (finances), closing the gap between using evidence and results to inform out-year resource requests, becomes a natural and smooth progression. With some donor countries and some recipient countries using the UCOA-IA, a network begins to take shape that helps increase the value of outcome metrics on out-year budget planning. But the UCOA-IA system reaches its full potential when all countries spending and receiving international assistance are using interoperable and integrated frameworks.

The integration is possible by adding to the COA a mirrored set of “contra-accounts”, for each account. Traditionally contra-accounts are where information is recorded that is important context to an accountant, but that is not strictly critical to the accountant for the purposes of presenting a clean legible ledger. It could be considered that the contra-account is a place to record account specific narrative that could be useful in a longer and more detailed written report about transactions. What the UCOA-IA does that is novel is rely heavily on the contra-account as a permanent functional feature of the COA, a time bound collection point for outcome data for a pre-determined period of time. And, because instructions can be written into lines of code similar to the proteins in DNA, the budget process itself becomes self-replicating, not through the time-honored and inefficient process of momentum budgeting, where habit takes precedence, but by following instructions written to require the budget process to reference both the status of on-going similar projects and also prior completed projects.
For the purpose of running pilot tests of the UCOA-IA, it is possible both in a test environment, as well in the real PFM world, to create something called a bridge table that is essentially a complex web of translations between the old structure and the new architecture so information can be “cross-walked” back and forth between the two. However inefficient, this transition methodology may require an additional layer of data collection locations integrated into it something called memorandum accounts, which are the functional equivalent of footnotes to a ledger. The use of memorandum accounts would be terribly inelegant but just the same could be used to cross-reference project monitoring and evaluation performance data in the absence of formal contra-accounts.

Conclusion:

The time is now to reverse the trajectory of international assistance being doomed to an irrational, unpredictable, and non-transparent eternity; the need is clear for an administrative structure that can be globally unified around a UCOA-IA framework and that exemplifies the principles of good public financial management. Global adoption of this universal chart is a way to transparently track all assistance related financial flows, and has many positive first order external benefits to other high priority areas of foreign reform for the future of development assistance. Designed into the structure of an integrated performance monitoring and evaluation framework with a public expenditure and accountability framework will permit linkages to be drawn from appropriation, through transactions to execution and to output and possibly outcome, all while reducing opportunities for corruption and mismanagement. This is no magic solution to the problem of gathering data to develop evidence that supports improving the effectiveness of aid. But it can go a long way towards insulating policy formulation and program execution from otherwise negative and sometimes arbitrary effects of politics and ideology expressed through the appropriations process, which stands to render useless even the best evidence to justify resource requests for specific activities.

By reforming a government’s chart of accounts, and letting the newly formed structure also serve as the administrative and management architecture for international assistance, you can have a solid foundation that will support the bevy of innovative solutions to the execution side issues, all of which can finally work together to improve the effectiveness, and efficiency, of that assistance.

If modern history is any guide, political will for adoption of the UCOA-IA is likely to be spotty at best, at first. But if ancient history is any guide, we have several sources of optimism. Take many, many steps back through the distant annals of history to see how humanity has achieved similar ends against comparably (if not vastly superior) intractable problems. The Code of Hammurabi made predictable the enforcement of social norms with the Babylonian code of ancient Mesopotamian laws, around 1772 BC. Approximately 1500 years later, the Rosetta stone, issued at Memphis in 196 BC on behalf of King Ptolemy V, brought transparency to previously untranslated ancient languages. Approximately 1500 years after that, the Magna Carta, sealed under oath by England’s King John, in 1215, brought predictability to the monarch’s rule by
articulating a prohibition against arbitrary edicts, helped to lay the groundwork for later constitutional governance. It is against this historical backdrop of enshrining solutions to complex problems through the institutionalization of practical approaches that this paper, approximately 1800 years after the Magna Carta, takes aim in modernity at reforming the foundational document of public financial management, the Chart of Accounts, as a way to reform the future administration and management of foreign assistance.
Making Governmental Accounting More Practice-Relevant: Practitioner’s Perspective

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1. Introduction and Background

In fact, research in public sector accounting should ultimately fulfil a practical purpose (Ouda, 2005) and should aim at improving the public sector accounting practice in the same way as the goal of medical research is to improve medical practice. The many breakthroughs today in medical practice would have been impossible without medical research. In medicine, there is a symbiotic relationship among medical research, medical education, and medical practice (Inane and Schneider, 2005). The picture is different in public sector accounting. The relationship is disjointed, with wide gaps between public sector accounting education, public sector accounting research, and public sector accounting practice. While CIGAR scholars and IFAC-IPSASB have exerted great efforts in the last three decades to develop the public sector accounting, these efforts are still of little value to the public sector accounting practice. This is due to the fact that their efforts were not mainly directed towards improving the public sector accounting practice, but they were simply directed to describe or understand or critique it. Similar to what has been claimed by Choudhury (1986, p.24) for the management accounting research, public sector accounting research is also relevant to practice when it helps practitioners to understand their organizations and to improve practices, and when it contributes to a theoretical body of knowledge that is beneficial to effective organizational change in the future. Accordingly, public sector accounting research should be redirected to focus on creating better practices and developing the public sector accounting as academic discipline. While the movement towards the New Public Management (NPM) has required the reforming of public sector accounting through the adoption of accrual accounting in the public sector (Hood, 1995; Ball and Grubnic, 2008), Lapsley, Mussari and Paulsson (2009) have argued that despite the limited evidence available on the efficacy of accrual accounting system, the world of public sector accounting practice regarded the adoption of accrual accounting as progress, as self-evident, but on the other hand, they consider it as a ‘problematic’ reform. In fact, it is a problematic reform because the adoption of accrual accounting in the public sector has been based on one-size-fits all model which applies the conventional accrual accounting, that is developed for the private sector, to the public sector entities without taking into consideration that the public sector entities and assets are differentiated in purpose and essence. Yes, it is a problematic reform, because public sector accounting scholars did not develop and translate the accrual accounting principles and assumptions (which are originally designed for measuring the net income in the private sector) to be appropriate for the public sector accounting practice and for the specific nature of public sector entities. In
addition, the public sector accounting scholars did not develop more practice-relevant recognition and measurement criteria for specific public capital assets. Furthermore, as a result of a wider range of potential users that General Purpose Financial Reporting (GPFRs) by public sector entities expected to serve, the scope of financial statements in public sector should be expanded to include financial and non-financial information whether this information may be presented in the notes to financial statements or in separate reports included in general purpose financial reporting (IFAC, 2013). Reporting such information is necessary for government to discharge its obligation to be accountable—that is, to account for, and justify the use of, the resources raised from or on behalf of constituents (IFAC, 2013). In addition, the financial reporting of public sector entities needs to be expanded to provide information about the financial commitments that can have impact on sustainability of service delivery. Accordingly, the new set of financial statements should include all items that will affect the fiscal sustainability of government in the future, for example, to be supplemented by separate statement of future and contingent liabilities, statement of commitments and trust assets statement that include heritage assets in physical units.

Moreover, one of the common themes for the adoption of accrual accounting in the public sector is the discharge of accountability. However, there is argument in the literature strongly debate whether the requirement for public sector entities to provide financial statements based on the private sector GAAP impacts positively or negatively on public sector accountability outcomes (See for example, Barton, 1999; Carnegie and West, 2005; Wild, 2013, Micallef and Peirson, 1997; Cooper and Owen, 2007). The discharge of accountability obligations requires the provision of information about the entity’s management of resources entrusted to it for the delivery of services to constituents and others. Given the way in which the service provided by public sector entities are funded (primarily by taxation revenues or other non-exchange transactions) and the dependency of service recipients on the provision of those services over the long term, the discharge of accountability obligations will also require the provision of information about such matters as the entity’s service delivery achievements during the reporting period, and its capacity to continue to provide services in future periods (IFAC, 2013).

Frankly speaking, when an accounting method is introduced into a new environment, “it is naïve to assume that by simply assembling the components of a system that a desired or officially intended outcome will be achieved” (Hodges, 2013). The long-standing academic argument for using accrual accounting in the public sector (Taussig, 1963), appears to have missed some necessary adjustments that should be available for adopting accrual accounting in the public sector. The general finding is that mimicry of private sector techniques can be imposed and apparently complied with but that their assimilation into the culture of the public sector, if it is achieved at all, will take a considerable period of time and require a considerable changes that makes it suitable for the public sector entities that are differentiated in purpose and essence. A general lack of incentive to innovate accounting practices that can lead to consistency and comparability between countries has led to the diversity of accrual accounting norms and practices that have been shown by the different countries which have already adopted accrual accounting in their public sector such as the New Zealand, UK, and Australia.
is clear that the policy-makers within each country were not concerned with achieving comparability between countries (Berit, et al, 2011). In addition, Mellett et al (2009) argue that although the adoption of accrual accounting in the public sector requires some necessary adaptation, public sector accounting policies start from the private sector’s Generally Accepted Accounting Practices (GAAP) and change only where it is necessary to match them with the different environment of the public sector; such amendments have been relatively few in practice. The lack of such amendments/adjustments and the differences between the public and private sectors give rise to troubling to practitioners. Accordingly, the following question can be raised:

What are the necessary adjustments that should be available for making governmental accrual accounting more practice relevant for the practitioners?

Consequently, the underlying objective of this paper is to build a start-up point for developing a more practice-relevant version of accrual accounting that will improve the public sector accounting practices and hence it helps the practitioners to understand the nature of the governmental entities and how to apply the accrual accounting to the public sector. Our paper’s contribution to the literature is threefold: Firstly, making government accrual accounting more practice relevant should be approached from two perspectives: users' perspective and practitioners' perspective, this is due to the fact that public sector entities and assets are differentiated in purpose and essence which in turn requires from public sector scholars to find practical solutions for the challenging accrual accounting issues that cause troubling to practitioners and to challenge the design of public sector accounting to better fit into users practice and to meet the diverging needs of different users. Secondly, making clear how matching principle can be applied to the public sector. It is inferred that the most practical way for the application of matching principle to the public sector entities is to be based on timing relationship instead of exchange relationship. Thirdly, the paper has developed a practical holistic accounting approach for capital assets. This approach is based on creating two new recognition criteria and three sub-approaches which include economic businesslike approach, assets-liability- matching approach for the unrestricted assets and non-assets-liabilities-matching approach for the restricted assets.

The remainder of the paper is structured as follows. Second section addresses the practical relevance of public sector accounting from two perspectives. Third section will deal with the challenging issues of accrual accounting in the public sector and the necessary adjustments for these challenging issues such as the application of matching principle in public sector and developing new recognition criteria and accounting approach for capital assets. The paper is concluded in Section 4.

2. Practical relevance of public sector accrual accounting: Two perspectives

In reality, the experience of and problems encountered by the earlier public sector accounting reformer countries can lead us to conclude that the practice-relevance of public sector accounting should be addressed from two perspectives: 1- Practice-relevant
from user's perspective which requires the public sector accounting scholars to use the practice-oriented co-design approach, which integrates the efforts of accounting researchers, practitioners, consultants and standard-setting bodies together to produce a practice-relevant government accounting and financial reporting system that considers the diverging needs of different users. In addition, co-design makes users act as experts of their own experience by actively involving them in all design decisions and these decisions should be taken within the context of the users, their needs and their environment. Also the user's perspective requires that government accounting should start a new era that shifts its focus on attempting to fit users and their needs into the design process to challenging the design process to better fit into users' practice. 2- Practice-relevant from practitioner's perspective which requires the public sector accounting scholars to produce a new accrual accounting version for the public sector that considers the specific nature and essence of the governmental entities and tackles the practical accounting issues of concern to the practitioners. This paper focuses only on the second perspective as the first perspective has already been addressed by Ouda (2015). Guthrie et al (2011) argue that the impact of research in some disciplines is easy to discern, such as in medicine, where advances in medical procedures and developments of new drugs result in benefits to society. For accounting, this impact is not so easy to discern (Tilt, 2010). For example, in the field of accounting there have been claims that research has become too far removed from the interests of the profession and practitioners. Singleton-Green (2010) also argued that some in the accounting research community go so far as to consider that many practical issues of concern to practitioners do not warrant the attention of researchers. The accounting researchers should recognize the fact that if their accounting research lacks practical relevance, they will lose the potential impact from the academic to the practitioners' community. Practitioners can disregard accounting research on the grounds that it is perceived that the latter is working on a completely different agenda to the former. It is only when public sector accounting research develops ideas that are directly related to the specific and immediate problems of practice that accounting research becomes relevant (Laughlin, 2011). Now it is the time that accounting researchers should work together with the practitioners to find practical solutions for outstanding public sector accounting issues and stop to spend their entire career just talking to other accounting researchers about their work through conferences and journals. Otherwise, the practitioners will see accounting research as a pointless exercise unless the research is deemed to be practice relevant. So this paper is calling the public sector accounting researchers for getting closer to practice and to study public sector accounting in the context of unique nature of the government (in comparison with business) as well as the significant characteristics of its environment within which it operates. Overall, a clear message for public sector accounting researchers is that more work needs to be done if the academy is to claim to have an impact on practice (Cuganesan and Gainsford, 2011). In essence, in the field of public sector accrual accounting domain, there is an urgent need to encourage the academic researchers to explore financial reporting issues that will assist in the setting of accounting standards which in turn lead to improving the public sector accounting practice. Accordingly, there are several challenging issues related to the adoption of accrual accounting in the public sector that require to be addressed in a way that assist the practitioners in better
understanding of the specific nature of public sector entities and in improving the public sector accounting practice. For example, accrual accounting is based on some principles and postulations (e.g. matching principle and going concern postulate) that have been used for decades as an obstacle in the way of its adoption in the public sector. These principles and postulations need a further clarification and making clear how they can be applied to the public sector (Ouda, 2007). Another issue, public sector entities include capital assets that do not aim at generating cash flow such as Heritage Assets which are maintained and controlled by the government for cultural, historic, recreation and other community purposes rather than for the purpose of income generation (Barton, 2000). Examples of heritage assets comprise work of arts, antiquities, collection of rare books, historical monuments, conservation areas, historical building, archaeological sites, and nature reserves. Accordingly, there is a need for developing new criteria for the recognition and measurement of such as assets and other public capital assets. Indeed, there is an urgent need for reconsidering the conventional accrual accounting issues in a way that takes into account that public sector entities are differentiated in purpose and essence. This in turn can assist in developing a more practice-relevant version of accrual accounting that helps the practitioners to improve the public sector accounting practice. Consequently, the development of a more practice-relevant version of accrual accounting for the practitioners should be based on reconsidering the following dimensions:

- Accrual accounting principles and postulations dimension;
- Recognition, definition and measurement of capital assets dimension;
- Scope of General Purpose Financial Reporting (Financial statements) dimension; and
- Accountability Dimension.

Indeed, addressing these dimensions from the practitioners' perspective is necessary for improving the public sector accounting practice. However, this does not mean that we are going to start from scratch, as the conventional accrual accounting principles, assumptions, standards and concepts are familiar to accounting practitioners and academics but there are some principles, assumptions and concepts which are challenging and need to be reconsidered in the context of the specific nature and essence of the public sector entities in comparison with the private sector firms. Namely, the focus will be on whether the differences between public sector entities and private sector firms are so fundamental that they call for a different basis of reporting; or whether they are not essential differences and they require modifications for the conventional accrual accounting principles, assumptions and concepts. Accordingly, the aforementioned dimensions should be reconsidered in terms of whether the differences are: (van Peursem, 2006):

- "Conceptual" with implications for creating new standards and concepts;
- "Adaptable" which are conceptually the same and therefore may tolerate standards with adaptation; or finally
Minor or Equivalent to private sector principles and practices and thus represent situations in which little adaptation is likely to be needed in order to apply private sector standards to public sector entities.

Consequently, I will concentrate only on the accrual accounting issues that lead to a conceptual challenge/difference and need to be reconsidered in terms of creating new concepts, recognition criteria and standards. Therefore, the main focus will be on the challenging issues that may cause troubling to practitioners and represent a fundamental departure from a commercial framework such as: Matching principle; recognition and measurement criteria of capital assets especially for heritage assets and defense assets; recognition of non-exchange revenues; and certain liabilities. However, it is difficult to tackle the four challenging issues in one paper; therefore, this paper will addresses the first two challenging issues and keeping the last two challenges for other paper.

3. Accrual Accounting Challenging Issues

3.1 Matching Principle

Basically, accrual accounting and its matching principle is designed for measuring the net income in the private sector. Measuring of net income process requires the identification of both revenues and the assets which expired in generating those revenues. This process of identifying revenue and related expired assets (expenses) utilized to generate it, is called matching (Ouda, 2007). The essence of matching principle is to compare that generated with that taken to generate it (van Peursem, 2006). Ingram et al (1991) argue that matching of costs and revenues refers to the simultaneous or combined recognition of revenues and expenses that result directly and jointly from the same transactions or other events. The New Zealand Society of Accountants stated that matching of expenses and revenues... Under accrual accounting, expenses and revenues are recognized as they are incurred or earned (rather than as money is paid or received) and recorded in the financial statements of the period to which they relate. Results for the period are determined by matching expenses with the related revenues (NZSA, 1987b, para 4.2 (a).

This means that the application of matching principle in the private sector is based on a cause-and-effect relationship between reported expenses and reported revenues. Therefore, the direct link between revenues and expenses is a prerequisite in order to apply the matching principle (Ouda, 2007). Based on the direct relationship between the revenue generated and expenses used to generate it, it is logic to apply the matching principle in the private sector where the capital enables the managers to incur expenses which subsequently lead to the generation of revenues. However, the implementation of accrual accounting in the public sector entails the application of matching principle but the direct link between revenues and expenses is missing in the public sector. Moreover, public sector entities do not aim at making profit but at serving the public interest by providing public goods and services. The revenues are generated through a political process, not as a result of expenditures made by the public sector entities. If therefore, we attempt to match expenses to resources inflows, this will offer dilemma (van Peursem, 2006). This is that the inflows accrued through political means cannot be reasonably
matched to expenses accrued from payouts for what Rutherford (1983) terms self-sustaining operations. Private sector enterprise is self-sustaining whereas public sector entities transfer, collect or distribute wealth and support a public good.

Accordingly, the opponents of adoption of accrual accounting and its matching principles in the public sector have concluded that accrual accounting with its matching principle cannot generally be properly applied to governmental organizations (Monsen and Nasi 1997, p.13). In addition, van Peursem (2006) has concluded that unfortunately, alternatives to a traditional matching of revenue with expenses do not offer themselves up. It makes little sense to match politically-derived resources (taxes, grants and contributions) to internally-managed expenses and where outputs may be nonfinancial. Van Peursem further notes that matching is no longer distinguished as a "principle" in New Zealand standards and yet, no apparent replacement has been found to represent the unique situation of public benefit entities. The problem remains therefore: How can one achieve relevance in netting politically-driven resources against managerially-driven costs and he also added that while I do not propose an answer here, it would seem that to match numbers simply because they are all monetary does not yield a satisfactory results (van Peursem, 2006). In fact, applying matching principle without making the necessary adjustments represents a dilemma for the practitioners in the public sector entities, therefore we, as public sector accounting scholars, should find solution for this dilemma.

Laughling (2008) argues that "some of the [private sector] underlying concepts and standards need reshaping to allow them to fit the context of public benefit entities. In doing so, we should take into consideration that the public sector entities and assets are differentiated in purpose and essence. While private firms exist in an environment of competition, equity return and decision-usefulness, and their reporting requirements reflect this, moreover, the profit motive also explains user interest in statements of ‘income’ and in the accumulated earnings that can be returned to owners (van Peursem, 2009), the situation is entirely different in the public sector as:

... Governments ... are elected by citizens to make collective decisions on their behalf to provide those goods and services which cannot readily be provided by private firms, and those for social welfare purposes (Barton, 2005, p. 141-142). And in standards: Public benefit entities are reporting entities whose primary objective is to provide goods or services for community or a social benefit (NZICA, 2007c, para. 8.2)

As a result of differences in the objectives between public sector entities and the private sector firms, the matching principle should be reshaped to fit the context of public sector entities. Basically, for the governmental entities the net annual measure is of the net resources consumed to provide services during the year and net accumulated figure is a measure of unconsumed economic resources (IFAC, 1991, p.16). In this context, Ouda (2003) has suggested the Conceptual Approach which assumed that matching principle can be applied to the public sector entities to match resources consumed during the accounting period with services and goods provided (and usefulness accomplished) during the same accounting period or to match outputs with the associated costs. By this way, the conceptual approach does not aim at measuring the net income; instead, it measures the efficiency of governments in using the available resources:
Matching principle = services provided [output] -- matched with -- resources consumed [input] = Government efficiency

However, the operationalization of the conceptual approach through the financial statements has revealed that it is not possible to gauge efficiency from the financial statements, since one has to determine whether the outcomes (the policy objectives, for example) have been delivered (Ouda, 2007). If they have been delivered, then one can ask whether they could have been delivered as effectively for a lower cost – which is the efficiency point. So it has been found that it is so difficult and even it is impossible to prove the conceptual approach by the financial statements, as they do not indicate the level or the quality of the good and services which have been provided. Accordingly, we think that the conceptual approach is only right to the extent that the accruals accounts show the resources consumed in providing services. That is, the inputs are matched against the outputs in financial reporting terms but the inputs and outputs are not matched against the outcomes (Ouda, 2007). In fact, this conclusion makes us to agree with Guthrie (1998) about his comment on the National Commission of Audit NCA 1996, Australia: “it has been argued that the changes from the use of cash based statements to accrual based statements reflect a focus on an efficient and effective output and outcome (National Commission of Audit NCA 1996, Australia). This fails to recognize the reality that accounting statements are themselves focused on inputs. Outcomes are no more easily measured via the use of accrual financial reporting than cash based reporting and are usually determined on the basis of separate surveys, for example of customer satisfaction or the state of health or education (Guthrie, 1998)”. Similar to the conceptual approach, van Peursem (2009) has suggested a Conceptual Public Benefit Entities (PBE) Reporting framework where he replaced the traditional Statement of Income by two statements: the Statement of Net Expenses and of Service Efficiency. The Statement of Net expenses includes operating expenses matched only with commercial/earned revenues this is to distinguish between earned revenue and non-earned (political) revenue. The non-earned (non-commercial) revenue is included in Statement of Net Inflows which is equivalent to the commercial Cash Flow Statement. In using this title, there is a desire to convey that Net Inflows are not equivalent to Net Income (van Peursem, 2009). The Statement of Service Efficiency is used to match costs to non-financial enhancement (outputs). The Statement of Service Efficiency compares non-financial enhancements (outputs) to managed costs (inputs), and holds public sector benefit entities to account for their productivity in proportion to the outflows employed in reaching them. Van Peursem (2009) further notes:

While the ending balance from the Statement of Service Efficiency, being in ratio form, cannot be carried forward as would Net Income, it need not be as equity does not represent accumulated earnings in the PBE sector. The Statement of Service Efficiency’s contribution is in disclosing a PBE proxy for managerial efficiency, which is of value to the reader presumably no less than its equivalent (Net Income) is of value to commercial report users.

To avoid repeating, I see that the same criticism directed to the Ouda’s Conceptual Approach can also be directed to the Van Peursem Statement of Service Efficiency. As earlier noted, the efficiency cannot be measured from the financial statements as this
requires matching outputs with inputs and this fails to recognize the reality that accounting statements are themselves focused on inputs (Guthrie, 1998). In addition, the conceptual framework of van Peursem (2009) gives rise for considerable confusion to practitioners as it distinguishes the commercial revenue from non-commercial revenue and both revenues are included in different statements. Namely, commercial revenue is included in the Statement of Net Expenses and non-commercial revenue is included in the Statement of Net Inflows while he considered the latter is equivalent to the commercial Statement of Cash Flows. This means that the commercial and non-commercial revenues are not included in one statement which makes the application of matching principles to the public sector entities more difficult. In fact, he did not provide practical solutions on how matching principle can properly be applied to the public sector entities but rather he made the situation more complicated for the public sector practitioners. See the following conceptual PBE reporting framework:

To assist the practitioners in applying the matching principle to the public sector entities and due to the difficulties inherent in the operationalization of the conceptual approach and van Peursem conceptual framework, there is an urgent need to address the application of matching principle to the public sector entities in a practical way that can justify the adoption of accrual accounting and its matching principle.

**Practical Approach: Timing Relationship**

The corner stone of the practical approach (Ouda, 2007) is that the adoption of accrual accounting with its matching principle in the public sector will allow for the
measurement of the total cost of providing services on an aggregated basis and also allow for more accurate cost measurement of specific programs and activities. The total costs include not only the cost of goods and services produced or purchased and paid during the accounting period but also the cost of using long-lived assets (e.g. depreciation and cost of capital) and other non-cash costs. Accrual accounting with its matching principle means that the actual cost will be recognized in the year in which it occurs. It is stated in the Consolidated Financial Statements of the NSW Public Sector 1996-97 that “expenses are recognized when incurred and are reported in the financial year to which they relate”. In addition, Sacco (1997) argued that in government, matching would be central to calculating intergenerational equity, that is, there are sufficient revenues collected this period to cover all costs, whether actual outlays or promised outlays.

Consequently, the matching principle can be used to allow for the total costs of one period to be charged to the operating statement in the period in which they are incurred and matched with the total revenues (whether levied through the sovereign power or earned through the operations) related to the same period.

The practical approach takes into consideration the specific nature and characteristics of the public sector in comparison with the private sector and it has proposed that the matching of revenues with expenses of a certain fiscal year should be based on a Timing Relationship instead of an Exchange Relationship (Ouda, 2007). This based on the fact that “governments generally use resources from a variety of sources to pay for a variety of services. The “matching” relationship that normally exists between resources provided and services received is a timing relationship (that is, both occur during the fiscal year) rather than an exchange relationship” (GASB, 1987). This is consistent with Universality Principle of budgeting where all revenues are used to finance all expenditure without allocating revenues to particular items of spending as there is no relationship exists between the revenues and expenditures. So in the context of lacking the direct link between the revenues and expenses, the matching principle can be used in the public sector to show the surplus (or deficit) of revenues over expenses. This is a useful measure of whether a government has managed to meet current expenses from current revenues, and whether its net resource position has increased or decreased. Thus, comparing revenues with total expenses helps in assessing the inter-period/ intergenerational equity (i.e. whether current revenues are sufficient to cover the costs of programs and services provided in the current period).

In reality, the application of matching principle in the public sector based on timing relationship is not only measuring the intergenerational equity but also it assists in fulfilling the intergenerational fairness by charging the costs incurred in production of the usefulness to the period in which this usefulness will be consumed. Bac (2000), stated that “good allocation and sound intergenerationally neutral government financing demands that the cost of government activities will be so divided over time that cost will be attributed to the period in which the usefulness of such activities and the referred assets will be consumed”. This means that:

Costs incurred should be -- attributed to -- the period of consumption of the usefulness
In this context, matching principle means that both services and costs incurred in providing those services have to be recognized in the same reporting period in order to assure that current taxpayers are paying for the services that they receive and not pass those costs on to future generations. This assists in ensuring an equitable distribution of expenses between generations and that the long-term position of the government remains sound (Bartos, 2000). So in order to operationalize the Practical Approach (the Timing Relationship), the financial statements of New Zealand government can show how accrual accounting with its matching principle is applied to the public sector. These are: Statement of financial performance (operating statement), Statement of movements in equity and Statement of financial position: for the year ended 30 June 2014 (see the following statements).

Generally, the expenses can be provided in the statement of financial performance in one of two ways (IPSAS 1): the first is referred to as the nature of expense method. Expenses are aggregated in the statement of financial performance according to their nature (for example depreciation, purchases of materials, transport costs, wages, salaries), and are not reallocated amongst various functions within the entity. The second is referred to as the functional method of expense classification, classifies expenses according to the programs or purpose for which they were made (for example Health expenses, education expenses, defense expenses, etc.). This presentation often provides more relevant information to the users than the classification of expenses by nature. The statement of financial performance of the New Zealand government uses the classification of expenses by nature; this is in addition to providing the analysis of expenses according functional method. The statement of financial performance of the New Zealand government can show to what extent the New Zealand government has managed to meet current expenses from current revenues and whether the government actions have added to the net worth of the state, and whether the current generation has increased or decreased the worth of what is leaving for the next generation. It is evident from the statement of financial performance of the New Zealand government that the current expenses have been covered by the current revenues and the government has achieved a surplus (positive operating balance) of $ 2.946 Milliard which in turn means that the government actions have improved the net worth of the state and intergenerational equity. Thus, identifying a surplus or deficit each year would over time enable a conclusion to be reached about whether a government is eroding, enhancing or maintaining the net worth.
### Statement of Financial Performance as at 30 June 2014

<table>
<thead>
<tr>
<th>Forecast Budget</th>
<th>Actual 30 June</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>$m</td>
<td>$m</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Revenue</strong></td>
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<td></td>
</tr>
<tr>
<td>Taxation revenue</td>
<td>60,879</td>
<td>58,134</td>
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<tr>
<td>Other sovereign revenue</td>
<td>5,450</td>
<td>5,172</td>
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</tr>
<tr>
<td>Total sovereign revenue</td>
<td>66,329</td>
<td>63,306</td>
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<tr>
<td>Sales of goods and services</td>
<td>16,472</td>
<td>16,713</td>
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<tr>
<td>Interest revenue and dividends</td>
<td>3,175</td>
<td>2,939</td>
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<tr>
<td>Other revenue</td>
<td>3,420</td>
<td>3,697</td>
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<tr>
<td>Total revenue earned through operations</td>
<td>23,067</td>
<td>23,349</td>
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<tr>
<td><strong>Total revenue (excluding gains)</strong></td>
<td>89,396</td>
<td>86,655</td>
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<tr>
<td><strong>Expenses</strong></td>
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</tr>
<tr>
<td>Transfer payments and subsidies</td>
<td>23,360</td>
<td>22,708</td>
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<tr>
<td>Personnel expenses</td>
<td>20,484</td>
<td>19,935</td>
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<tr>
<td>Depreciation and amortization</td>
<td>4,872</td>
<td>4,812</td>
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<tr>
<td>Other operating expenses</td>
<td>35,553</td>
<td>36,163</td>
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<td>Interest expenses</td>
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<td>Insurance expenses</td>
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<td>3,031</td>
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<td>Forecast new operating spending</td>
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</tr>
<tr>
<td>Top-down expense adjustment</td>
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<td>-</td>
<td></td>
</tr>
<tr>
<td>Total expenses (excluding losses)</td>
<td>92,170</td>
<td>91,007</td>
<td></td>
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<tr>
<td>Minority interests share of operating balance before gains and losses</td>
<td>(159)</td>
<td>(62)</td>
<td></td>
</tr>
<tr>
<td>Operating balance before gains and losses (excluding minority interests)</td>
<td>(2,933)</td>
<td>(4,414)</td>
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<tr>
<td>Net gains/(losses) on financial instruments</td>
<td>4,820</td>
<td>7,270</td>
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<tr>
<td>Net gains/(losses) on non-financial instruments</td>
<td>540</td>
<td>3,706</td>
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<tr>
<td><strong>Total gains/(losses)</strong></td>
<td>5,360</td>
<td>10,976</td>
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<tr>
<td>Net surplus from associates and joint ventures</td>
<td>360</td>
<td>395</td>
<td></td>
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<tr>
<td>Minority interests share of net gains/losses</td>
<td>21</td>
<td>(32)</td>
<td></td>
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<tr>
<td>Operating balance (excluding minority interests)</td>
<td>2,808</td>
<td>6,925</td>
<td></td>
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<tr>
<td>Operating balance allocated between:</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Operating balance (excluding minority interests)</td>
<td>2,808</td>
<td>6,925</td>
<td></td>
</tr>
<tr>
<td>Minority interests share of operating balance</td>
<td>138</td>
<td>94</td>
<td></td>
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<tr>
<td><strong>Operating balance (including minority interests)</strong></td>
<td>2,946</td>
<td>7,019</td>
<td></td>
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</tbody>
</table>
## Statement of Financial Position as at 30 June 2014

<table>
<thead>
<tr>
<th></th>
<th>Forecast Budget</th>
<th>Actual 30 June 2014</th>
<th>30 June 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>$m</td>
<td>2013</td>
<td>2014</td>
<td>$m</td>
</tr>
<tr>
<td><strong>Assets</strong></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>15,244</td>
<td>11,108</td>
<td>11,888</td>
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<td>18,070</td>
<td>17,873</td>
<td>17,480</td>
<td>19,883</td>
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<td>44,713</td>
<td>47,870</td>
<td>48,457</td>
<td>44,000</td>
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<td>18,176</td>
<td>19,672</td>
<td>20,596</td>
<td>17,359</td>
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<td>25,312</td>
<td>24,611</td>
<td>24,756</td>
<td>22,613</td>
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<td>1,321</td>
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<td>1,099</td>
<td>1,140</td>
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<td>2,061</td>
<td>2,267</td>
<td>2,510</td>
<td>2,295</td>
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<td>112,627</td>
<td>112,264</td>
<td>116,306</td>
<td>109,833</td>
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<td>9,642</td>
<td>10,021</td>
<td>10,071</td>
<td>9,593</td>
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<td>2,837</td>
<td>2,841</td>
<td>2,920</td>
<td>2,776</td>
</tr>
<tr>
<td>505</td>
<td>13</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>(330)</td>
<td>(395)</td>
<td>-</td>
<td>-</td>
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<tr>
<td><strong>Total assets</strong></td>
<td>250,178</td>
<td>256,083</td>
<td>244,416</td>
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<tr>
<td><strong>Liabilities</strong></td>
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</tr>
<tr>
<td>4,897</td>
<td>5,072</td>
<td>4,964</td>
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<td>12,360</td>
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<td>1,553</td>
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<td>112,201</td>
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<td>100,087</td>
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<td>35,902</td>
<td>34,900</td>
<td>35,825</td>
<td>37,712</td>
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<td>11,766</td>
<td>10,732</td>
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<td>11,903</td>
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<td>6,317</td>
<td>6,320</td>
<td>6,955</td>
<td>7,138</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>184,996</td>
<td>175,304</td>
<td>174,405</td>
</tr>
<tr>
<td><strong>Total assets less total liabilities</strong></td>
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<td>80,779</td>
<td>70,011</td>
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<tr>
<td><strong>Net Worth</strong></td>
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<tr>
<td>6,230</td>
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<td>13,300</td>
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<td>55,831</td>
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<td>(64)</td>
<td>40</td>
<td>43</td>
<td>141</td>
</tr>
<tr>
<td>61,997</td>
<td>70,032</td>
<td>75,568</td>
<td>68,071</td>
</tr>
<tr>
<td>3,185</td>
<td>5,435</td>
<td>5,211</td>
<td>1,940</td>
</tr>
<tr>
<td><strong>Total net worth</strong></td>
<td>65,182</td>
<td>80,779</td>
<td>70,011</td>
</tr>
</tbody>
</table>
## Statement of Changes in Net Worth for the year ended 30 June 2014

<table>
<thead>
<tr>
<th></th>
<th>498</th>
<th>3,216</th>
<th>Operating Balance</th>
<th>2,808</th>
<th>-</th>
<th>138</th>
<th>2,946</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>- (351)</td>
<td>Net revaluations</td>
<td>-</td>
<td>5,386</td>
<td>9</td>
<td>5,395</td>
<td></td>
</tr>
<tr>
<td>(59)</td>
<td>(119)</td>
<td>Transfers to/(from) reserves</td>
<td>229</td>
<td>(229)</td>
<td>(2)</td>
<td>(2)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- (3)</td>
<td>(Gains)/losses transferred to the statement of financial performance</td>
<td>-</td>
<td>(43)</td>
<td>-</td>
<td>(43)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>47</td>
<td>3</td>
<td>Other movements</td>
<td>(22)</td>
<td>(55)</td>
<td>2</td>
<td>(75)</td>
</tr>
<tr>
<td>486</td>
<td>2,746</td>
<td>Total comprehensive income</td>
<td>3,015</td>
<td>5,059</td>
<td>147</td>
<td>8,221</td>
<td></td>
</tr>
<tr>
<td>175</td>
<td>(542)</td>
<td>Gain/(loss) on Government share offers</td>
<td>(577)</td>
<td>-</td>
<td>-</td>
<td>(577)</td>
<td></td>
</tr>
<tr>
<td>1,325</td>
<td>3,300</td>
<td>Increase in minority interest from Government share offers</td>
<td>-</td>
<td>-</td>
<td>3,308</td>
<td>3,308</td>
<td></td>
</tr>
<tr>
<td>(74)</td>
<td>(48)</td>
<td>Transactions with minority interests</td>
<td>-</td>
<td>-</td>
<td>(184)</td>
<td>(184)</td>
<td></td>
</tr>
<tr>
<td>65,182</td>
<td>75,467</td>
<td>Net worth at 30 June 2014</td>
<td>28</td>
<td>13,300</td>
<td>62,268</td>
<td>5,211</td>
<td>80,779</td>
</tr>
</tbody>
</table>

Finally, I can conclude that matching principle can generally be applied whether to private or public sector based on following three relationships:

- Exchange Relationship to measure the net income *(private sector)*;
- Efficiency Relationship to measure the efficiency of government in using public resources. The conceptual approach is only right to the extent that the accruals accounts show the resources consumed in providing services. That is, the inputs are matched against the outputs in financial reporting terms *(public sector)*; and
- Timing Relationship to measure the surplus (or deficit) of revenues over expenses and hence measure the inter-period/ intergenerational equity *(public sector)*.

So for the practitioners in the public sector they can apply matching principle based on timing relationship not to measure the net income but to measure surplus or deficit. If it is surplus then government has enhanced the Net Worth and the current generations are bearing their burdens and supporting the next generations. If it is deficit then the current generations are shifting their burdens to the next generations and the government has eroded the Net Worth.
3.2 Recognition of public capital assets specially Defense Assets an Heritage Assets

The main focus here will be on specific categories of assets that represent a fundamental departure from a commercial framework and are deemed unique for the public sector and require a specific treatment in financial accounts and hence the practitioners struggle with how to report them in the financial statements (van Peursem, 2009). While the recognition of public sector physical assets in the balance sheet has witnessed an extensive debate in the last three decades, there is a lack of unanimity of accounting treatment of heritage assets and defense assets. In fact, the prior literature in the last 25 years has shown that reporting of heritage assets and defense assets have become a highly problematic issue for the public sector entities holding those assets. Heritage assets are defined as assets with historic, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture and this purpose is central to the objectives of the entity holding them (IFAC –IPSASB, 2006). Heritage assets are considered to be unique assets and they have specific characteristics that discern them from other public assets. IFAC-IPSASB (2006) has determined the following important characteristics of heritage assets for the accounting purposes: a- their value in cultural, environmental, educational and historical terms is unlikely to be fully reflected in a financial value based purely on a market price; b- legal and/or statutory obligations may impose prohibition or severe restrictions on disposal by sale; c - they are often irreplaceable and their value may increase over time even their physical condition deteriorates; and d- it may be difficult to estimate their useful lives, which in some cases could be several hundred years. Whilst there exists an extensive prior literature focused on how heritage assets might be accounted for and whether the heritage assets are sufficiently different to merit different treatment, there is little that addresses the reporting of heritage assets from an alternative, financial and non-financial perspective (Ouda, 2014). The current accounting approaches for heritage assets, which focus on the provision of financial information, are inadequate for ensuring the provision of information useful to the types of decision-making relevant to the needs of stakeholders. Hence, additional forms of information should be provided (Wild, 2013; Pallot, 1990; Carnegie and Wolnizer, 1995; Barton, 1999 & 2005; Hooper and Kearins, 2003; West and Carenie 2010). Furthermore, if heritage assets have no financial value to the governmental entity, then it is misleading to match them against its liabilities. They are not resources, which can be used to generate cash for discharge of liabilities, and their inclusion in a balance sheet is misleading to management and to creditors (Carnegie and Wolnizer, 1995). Moreover, immediate expensing of the heritage assets will lead to the distortion of the statement of financial performance (Stanford, 2005).

Some authors have proposed some approaches for accounting for the public assets. Christiaens et al (2012) have proposed a holistic approach which addresses the recognition of public sector capital assets from a general perspective and argues that the recognition of capital good as asset in the financial statements is not merely related to the physical type of assets involved but to the status they are given by the government or the legislator. The holistic approach suggests that if the capital good is given the status of
businesslike assets and used for provision of economic benefits, then the assets should be included on the balance sheet. On the other hand, if the assets are given a social status leading to social benefits rather than economic benefits, then they should not be included on the balance sheet. So the following figure shows the Holistic Approach:

![Holistic Approach Diagram]

**Source:** Christiaens et al (2012): Recognition of capital assets from a general perspective

Generally, I can agree with the holistic approach with respect to the status given to the assets whether economic or social. However, there are also certain military/defense assets (such as components of weapons systems and support military missions and vessels held in preservations) that are treated as current expenditure which means that they are excluded from the balance sheet because of national security reasons or because there was no output against which the costs of these items could be matched, this is according to the FASAB in Statement of Federal Financial Accounting Concepts (SFFAS -8, 11). Also Ström (1997) support the exclusion of defense assets from the balance sheet as he concludes that future economic benefits do not occur when defense assets exist. The service potential can also be questioned because defense assets provide more of an “insurance premium” than ongoing service, thus excluding defense assets. Consequently, the holistic approach can be modified to not only include the economic or social/cultural status but also national security/defense status. The national security/defense status requires that defense assets should be excluded from the balance sheet and disclosed in specific reports where the following information can be disclosed: the number of units of defense assets in each category of assets (this could be number of aircraft, etc); the number of units added or withdrawn during the fiscal period; the description of the
methods of acquisition and withdrawal; the condition of the defense assets; information on deferred maintenance on defense assets (SFFAS#8, 50, 68, 80, SFFAS#11, 10).

**Modified holistic approach:** Recognition of capital assets from a general perspective

In fact, this paper aims at making the government accounting more practice relevant from the practitioner's perspective. Basically, the holistic approach is also aiming to the same objective, as Christiaens et al (2012) argue that a practical consequence of applying the holistic approach is that it offers the possibility to reach clarity and general acceptance on how to deal with all kinds of capital goods in governments when applied in practice

However, the application of holistic or modified holistic does not resolve the problem from practitioner's perspective because the practitioners will find that the two approaches are not consistent with the assets recognition criteria determined by IPSAS 16 &17. An asset should be recognized in the statement of financial position when and only when:

- **a-** It is probable that future economic benefits or service potential associated with the asset will flow to the entity;
- **b-** The cost or fair value of the asset to the entity can be measured reliably.
According to the assets recognition criteria, capital assets should be recognized in the balance sheet where information on cost or value of the capital assets is available and not-recognized where the information on cost or value is not available. So the question is: if a capital assets given a social/cultural status and on the other hand, the information on cost or value of this asset is available, then should this asset be recognized? In fact, the answer of this question will take two perspectives: from the holistic approach perspective so long as the asset is given a social status, it should not be recognized in the balance sheet but it should be recognized in social reports. From the recognition criteria perspective so long as the information on cost or value of the asset is available, it should be recognized in the balance sheet. This contradictory makes the situation for the practitioners more complicated and on the other hand, makes the governmental accounting not be practice relevant.

Furthermore, another question remains if a capital asset (e.g., heritage assets) is given a social/cultural status and the information about its cost or value is available and this asset appears on the balance sheet, do the financial statements contain misleading information because there is an expectation of the ability to sell/dispose such asset, which is unlikely for heritage assets, or does recognition of the dollar amount of heritage assets add value to the reporting process?

In fact, if the assets is given a social/cultural status (such as: heritage assets) and the information on cost or value is available and there are cultural/social or legal restrictions on the disposal of such assets, then the capitalization of heritage assets will be misleading to management, and to creditors because they are not legally accessible by them. This can be supported by what is stated by SAC-4 that where assets and liabilities have been set off against each other, or where revenues and expenses have been netted off, in the presentation of those items in financial statements, those elements would nonetheless have been recognized. This means that the recognition of assets in the financial statements should only include the assets that will be matched against liabilities. Accordingly, inclusion of assets in the balance sheet that will not be matched against liabilities either because there are legal, social or cultural restrictions on their disposal is in reality misleading. Therefore, I can conclude that whatever the status given to the capital assets, the main criteria here is whether or not the assets is matched against liabilities. This can lead to developing new recognition criteria and approach, which I might call Practical Holistic Accounting Approach for capital assets. This approach will be based on the Practical Accounting Approach for Heritage Assets developed by Ouda (2013) and Holistic Approach developed by Christiaens et al (2012). The development of the practical holistic accounting approach will require adding new recognition criteria to the original two recognition criteria stated by IPSAS 16 & 17. Under this approach, the two recognition criteria stated in IPSAS 16 & 17 should be extended to include two more criteria which can be used for deciding on whether or not an asset can be recognized. These are as follows:

\[c\] There are no legal, cultural/social and national security/defense restrictions on the disposal of the asset.
d- Recognized assets should be matched against liabilities to avoid the misleading.

So recognize the public capital goods as assets in the balance sheet where the information is available on the cost or value of assets and these assets can be disposed and be matched against liabilities. In addition to the two new criteria, the new approach should include the following three sub-approaches:

- **Economic Businesslike Assets**: under this approach any capital asset is given the economic businesslike status should be capitalized in the balance sheet (Christiaens et al, 2012). Similar to the businesslike assets, their expenses should be included in the statement of financial performance.

- **Assets-liabilities matching approach - Unrestricted Assets**: Capitalize if the information on cost or value of heritage assets and defense assets is available and heritage assets and defense assets can be disposed, and hence they can be matched against liabilities (Ouda, 2014). Under this approach, heritage assets are considered as legally, culturally and socially unrestricted assets. The information on their cost or value is available and they can be matched against liabilities. Accordingly, they should be capitalized in the balance sheet at current value. An obvious example of heritage assets that can follow this approach in Egypt is the Heritage Presidential Palaces. Due to the financial problems after January 25th Revolution, many of the Egyptians economists argue that these problems can be solved through the disposal of many of the presidential palaces in Egypt, which are not in use. In fact, this option has already been applied in Tunisia in 2012 as a solution for their financial problem after the revolution (Ouda, 2014). In the time of austerity, the heritage assets can be sold to overcome financial problems. This was the case in UK, as the local press reported (November 7, 2012) ‘Tower Hamlets Council made the difficult decision to sell the Henry Moore sculpture, Draped Seated (Woman Ellwood and Greenwood, 2014). Similar to the heritage assets, under the assets-liability matching approach the defense assets are legally/national security unrestricted assets and the information on their cost or value is available and they can be matched against liabilities, therefore, they should be capitalized at their current value. With respect to the revenues and expenses of heritage assets should be included in the statement of financial performance and we should differentiate between the indefinite and definite assets as we should calculate impairment for indefinite assets and depreciation for definite assets. Regarding the defense assets their expenses are included in the statement of financial performance.

- **Non-assets-liabilities matching approach – Restricted Assets**: Herein Not-Capitalize if the information on cost or value is not available or available but heritage assets and defense assets cannot be disposed, and hence they cannot be used to be matched against liabilities (Ouda, 2014). According to this approach, heritage assets are considered as legally, culturally and socially restricted assets and defense assets are also considered as legally and national security restricted...
assets. Therefore, they should not be capitalized in the balance sheet. But both assets are treated differently as follows: Heritage assets are treated as **Agent Assets, Trust Assets, or Custodial Assets**. Accordingly, each country should create an **Agent/Trust Assets Statement** where heritage assets stated in this statement **in physical units not in financial values** (Ouda, 2014). The statement of trust assets should include a description of major categories (types), physical units added and withdrawn during the year, a description of the methods of acquisition and withdrawal. In addition, an explanatory note (note disclosure) should supplement the statement of trust assets.

Furthermore, heritage assets held in trust may generate revenues indirectly through **admission charges** and incur costs such as restoration and maintenance costs. So in order to account for the revenues and costs related to heritage assets, each county should create a **Trust Fund (Agent Fund)** (Ouda, 2013). This fund will include all the revenues and costs related to heritage assets in a country. The balance of the trust fund would be reported as either a liability or an asset in the balance sheet. If this balance is positive (fund surplus), then it will be considered as an asset and the increasing of the net worth will be called **Heritage Net Worth**. Moreover, if it is negative (fund deficit), then it will be considered as a liability and the decrease in the net worth will be called as **Negative Heritage Net Worth** (Ouda, 2013).

With respect to Defense Assets, each country can create defense assets statement or specific reports and disclose these assets in these statements or reports where the defense assets can either be stated in physical units (number of systems or items) or in financial value. The Disclosure can include the following information: the number of units of defense assets in each category of assets (this could be number of aircraft, etc); the number of units added or withdrawn during the fiscal period; the description of the methods of acquisition and withdrawal; the condition of the defense assets; information on deferred maintenance on defense assets (SFFAS#8, 50, 68, 80, SFFAS#11, 10). In addition their cost will be included in the statement of financial performance.
A Practical Holistic Accounting Approach for Capital Assets

Status Assigned by Law/Government

- Economic "Businesslike"
  - Recognized as capital assets in the balance sheet
  - Expenses and revenues included in statement of financial performance

- Social, Cultural and Defense/Security
  - Unrestricted Assets: Assets-Liability-Matching Approach
    - Recognized as capital assets in the balance sheet
    - Expenses and revenues (if any) included in statement of financial performance

- Social, Cultural and Defense/Security
    - Not capitalized and recognized in social and defense reports

- Heritage Assets
  - Create: Trust assets
    - Statement: where Heritage assets stated in Physical units
  - Revenues and costs
  - Create: Trust Fund: where fund balance would be reported as either a liability or an asset in the balance sheet
  - Impairment
  - Depreciation

- Defense Assets
  - Create: Defense Assets
    - Statement/reports: where the defense assets can be stated whether in physical units or financial value
  - Their costs/expenses are included in statement of financial performance
4. Conclusion

While many countries have copied the commercial accrual accounting and applied it to the public sector and some other countries have applied IPSAS, there remain several accrual accounting challenging issues that encounter the practitioners into practice without solutions. These challenging issues may cause troubling to practitioners and represent a fundamental departure from a commercial framework such as: Matching principle; recognition and measurement criteria of capital assets especially for heritage assets and defense assets; recognition of non-exchange revenues; and certain liabilities. This paper has focused only on the matching principle and recognition and measurement criteria. It has attempted to tackle the application of matching principle in the public sector in a way that is understandable by the practitioners and hence it requires reconfiguration for the public sector. Accordingly, the practical approach has proposed that the matching of revenues with expenses of a certain fiscal year should be based on a **Timing Relationship** instead of an **Exchange Relationship**. This is based on the fact that “governments generally use resources from a variety of sources to pay for a variety of services. The “matching” relationship that normally exists between resources provided and services received is a timing relationship (that is, both occur during the fiscal year) rather than an exchange relationship”. Consequently, the matching principle can be used to allow for the total costs of one period to be charged to the statement of financial performance in the period in which they are incurred and matched with the total revenues (whether levied through the sovereign power or earned through the operations) related to the same period.

In addition, our paper has proposed the Practical Holistic Accounting Approach for capital assets. Under this approach, the two recognition criteria stated in IPSAS 16 & 17 should be extended to include two more criteria which can be used for deciding on whether or not an asset can be recognized. These are as follows:

- **There are no legal, cultural/social and national security/defense restrictions on the disposal of the asset.**
- **Recognized assets should be matched against liabilities to avoid the misleading.**

In addition to the two new criteria, the new approach should include the following three sub-approaches: Economic businesslike assets; Assets-liabilities-matching approach for the unrestricted assets; and Non-assets-liabilities-matching approach for the restricted assets. Under the practical holistic accounting approach, practitioners recognize the public capital goods as assets in the balance sheet where the information is available on the cost or value of assets and these assets can be disposed and hence be matched against liabilities which in turn leads to avoiding the provision of misleading information to management and creditors. Accordingly, this paper has attempted to assist the practitioners in how to account for different capital assets in governmental entities in a practical way. Therefore, the main message here is that more work needs to be done if the public sector accounting researchers are to claim to have an impact on practice, therefore, they should work together with the practitioners to find practical solutions for outstanding public sector accounting issues and stop to spend their entire career just talking to other accounting researchers about their work through conferences and journals. Otherwise, the practitioners will see accounting research as a pointless exercise unless the research is deemed to be practice relevant. Future research could address the rest of challenging accrual accounting issues, which need to be tackled from the practitioner's perspective such: recognition of non-exchange revenues; and certain liabilities.
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Administrative Classification of the Budget: Practical Experience of Reform in Tajikistan

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George Gridilian, Managing Partner, ECORYS-Tajikistan LLC

Abstract
This article examines the practical issues of developing and applying a financial classification in the context of Tajikistan. The problems of developing a coherent administrative classification consistent with international standards are discussed. The specific problems of applying international classification standards to the actual organisational relationships. These include the difficulties of linking the standard Classification of the Functions of Government (COFOG) to existing organisations. Also, the problems of identifying public sector entities that are not part of the General Government Sector (GGS), but are administratively mixed with entities that are part of the GGS. Ongoing problems of maintaining the integrity of the classification structure as new entities are created and suggested strategies to address the issues. Problems of applying a sectoral approach when there are multiple top level organisational entities (in Tajikistan Main Administrators of Budget Allocations (MABAs)) responsible for some sectors. The concept of clustering sectoral MABAs and identifying a lead MABA for each sector. The article shows how each of these problems has been addressed in the development of the new classification structure for Tajikistan.

1 Introduction
The Administrative Classification of the Budget of a national government is usually only mentioned in passing in the various international standards and literature. Yet the Administrative classification is typically the basis for appropriating budget funds and subsequently managing the use of such funds. Hence the administrative classification is of critical importance to managing government expenditures.

This paper considers some of the practical difficulties of establishing and managing an administrative classification based on experience in Tajikistan. The paper also proposes an approach to sectoral policy management within a Medium Term Expenditure Framework (MTEF) based on clustering government entities by sector and then identifying a lead entity for each sector.

2 The budget classification structure
Government expenditures are classified according to a number of dimensions for different purposes. This paper is based on the experience of Tajikistan where six dimensions, or segments, of the classification have been identified for the new Unified Chart of Accounts (UCOA), as illustrated in Table 1 below.
Table 1: Structure of new budget classification

<table>
<thead>
<tr>
<th>Dimension/segment</th>
<th>Description</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Functional Classification</td>
<td>Based on the IMF Government Finance Statistics Manual (GFSM) 2001</td>
</tr>
<tr>
<td>2</td>
<td>Administrative Classification</td>
<td>Specific to Tajikistan</td>
</tr>
<tr>
<td>3</td>
<td>Economic Classification</td>
<td>Based on GFSM 2001</td>
</tr>
<tr>
<td>4</td>
<td>Classification of Funds</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Program Classification</td>
<td>Specific to Tajikistan</td>
</tr>
<tr>
<td>6</td>
<td>Geographic Classification</td>
<td></td>
</tr>
</tbody>
</table>

Both the functional classification (Dimension 1) and the Economic Classification (Dimension 3) are based on international standards. The economic classification is based on GFSM 2001, though with additional detail to enable reporting in accordance with International Public Sector Accounting Standards (IPSAS).

The functional classification is based on the Classification of Government Expenditure (COFOG) as used in the GFSM 2001 and also the UN System of National Accounts (SNA). Thus COFOG is a universal classification applied across all countries, whereas the Administrative Classification is country specific.

Both functional and administrative classifications have their role in the management and reporting of expenditure, as illustrated in Table 2 below.

Table 2: Comparison of functional and administrative classifications

<table>
<thead>
<tr>
<th>Functional classification</th>
<th>Administrative Classification</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Universal - enables comparison between countries</td>
<td>Country specific</td>
</tr>
<tr>
<td>2. Stable over time - enables inter-period comparisons</td>
<td>Changes as administrative structures and responsibilities change</td>
</tr>
<tr>
<td>3. Based on generally agreed major functions of government</td>
<td>Structure based on management of functions within a particular country and political environment</td>
</tr>
<tr>
<td>4. Not linked to managerial responsibility</td>
<td>Directly linked to managerial responsibility</td>
</tr>
<tr>
<td>5. Not suitable as a basis for appropriating budget funds</td>
<td>Suitable for fund appropriation</td>
</tr>
</tbody>
</table>

A Medium Term Expenditure Framework (MTEF) approach typically is based on sectoral goals and resource allocation. Sectors are defined as the high level grouping of functions within COFOG, e.g. health, education, etc. This sectoral approach has to be translated into an administrative classification for legislative budget approval and resource appropriation.

In many situations the administrative structure will be close to the functional structure, e.g. the major functions of health and education are likely to be represented by separate Ministries. But

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1 The GFS Manual 2014 exists but only as a pre-publication version. There no changes to COFOG in the new version.
there will almost certainly be some differences between the functional and administrative structure, especially at the sub-function level.

Therefore it is essential to ensure mapping between the administrative and functional classifications. Such mapping will significantly strengthen Public Financial Management (PFM) system of a country, improve budget planning, allocative efficiency, strengthen accountability and, eventually better public service delivery. To enable mapping:

1. Each administrative entity must be linked to one, and one only, COFOG function
2. Each COFOG function must be identifiable with at least one administrative entity

This paper explores the problems of developing an administrative classification that enables such mapping in the context of Tajikistan. The paper focuses on the Administrative Classification of the general government sector for central government that includes ministries, state committees, departments and their subordinate spending agencies.

3 Structure of Government in Tajikistan

The Administrative Classification follows the three-level structure of the Government of the Republic of Tajikistan as summarised in Figure 1.

**Figure 1: Overview of Administrative Structure of the Government of the Republic of Tajikistan**

- **Level 1**
  - Main Administrator of Budget Allocations (MABA)
  - Ministries and high level budget entities
- **Level 2**
  - Administrators of Budget Allocations (ABA)
  - Departments, Agencies and other mid-level budget entities
- **Level 3**
  - Recipients of Budget Allocations (RBA)
  - Spending entities, e.g. schools, colleges, health facilities

For budget management the administrative segment of budget classification must be comprehensive, consistent with international standards and regularly updated. All these prerequisites are indispensible for sound budget management, the use of budget IT software, formulating and executing the budget. Meeting these requirements for the administrative classification also facilitates reporting and statistical analysis.

A further issue relates to the introduction of an MTEF approach and the options for integration of the Administrative segment with the MTEF sector-based approach, as summarised in Box 1 below.
Three key features are embedded into MTEF design to help achieve a stronger link between plans and budgets:

- **An extended budget calendar (strategic budget phase):** This allows spending agencies to formulate a budget framework that is discussed at the strategic level by policymakers before final expenditure ceilings are set and detailed budget estimates are prepared.

- **The division of budgets into sectors:** The clustering of ministries and spending agencies into sectors makes it easier to translate policies into budget allocations.

- **The integration of all expenditures into a unified budget:** This allows activities and outputs to be fully aligned and traced to policy areas irrespective of the revenue source (recurrent, capital or donor). It also helps with the tracking of expenditures and output allocations.  

The challenge is that all budget organizations should be appropriately classified in the Administrative segment to enable clustering across sectors, so as to enable the MTEF sector-based approach.

In Tajikistan the administrative classification of budget organisations at the Republican level (i.e. central government) has been officially approved by the Ministry of Finance in June 2009 and introduced for the 2010 budget formulation process. The various issues that have arisen since adoption are summarised in the following sub-sections.

### 4 Practical issues of managing the administrative classification

#### 4.1 Inclusion of entities in the administrative classification that are not part of the General Government Sector

This refers to entities that do not fall into the categories defined by GFS 2001 Manual to be included in the General Government Sector (GGS). Primarily this problem relates to public corporations (referred to as State Owned Enterprises, SOEs, in Tajikistan) that have been included in the administrative classification. These are commercially oriented entities that belong to the public sector but are not members of the general government sector.

The importance of distinguishing the general government sector from the rest of the public sector is clearly stated in the IMF Code of Good Practices on Fiscal Transparency. But the government structure in Tajikistan makes this principle difficult to apply through the coding structure. The only solution is to ensure public corporations are identified and treated appropriately for reporting purposes.

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2 A guide to public financial management literature - For practitioners in developing countries, ODI, 2011, p.5
3 IMF GFSM-2001, Ch.2, p. 10; par. 2.28, 2.31
4 IMF GFSM -2001,Ch.2, p. 7, par. 2.9; p. 15; par. 2.62
5 IMF Code of Good practices on fiscal transparency (2007); Part I Clarity of Roles and responsibilities, p.1;
Box 2: Clarity of Roles and responsibilities

The government Sector should be clearly distinguished from the rest of the public sector and from the rest of the economy, and policy and management roles within the public sector should be clear and publicly disclosed.

The requirements in Box 2 emphasize the requirement to distinguish the main constituents of the public sector. The IMF GFSM 2001 provides clear definitions for all components of the public sector and the economy on the whole, in accordance with which economic entities should be defined.

The experience gained in Tajikistan has shown that there may be some areas that prove to be difficult to match with the requirements of GFS. For example, there are some institutional arrangements such that some functions within the GGS are undertaken by a public corporations operating for profit.

An example in Tajikistan is the Housing and Communal Services. This has the legal status of a Public Corporation (in this case a State Unitary Enterprise). Hence it is not a member of General Government Sector (GGS) and therefore not eligible to be included in the administrative classification. Nevertheless this entity is providing public services that are of part of the COFOG GGS structure.

COFOG does not seek to impose on governments a particular mode of operation or institutional arrangements. Rather it is a matter of translating COFOG in terms of the structures that exist. Thus, there is no reason in principle why certain functions of government should not be carried by out by public corporations operating for profit. But by definition such corporations cannot be part of the GGS.

If the expenditure of such public corporation is through budget allocations, then the function of government belongs to the funding agency. But in such a case there will have to be a careful analysis against the GFS definitions to ensure that the entity is properly described as operating for profit and hence a public corporation.

Thus there are three options:

i. Assign an existing MABA to be in charge of the relevant sector policy, leaving the existing public corporation to operate commercially. In this case the lead MABA will be responsible for the policy to provide public goods and services.

ii. Change the status and functioning of the public corporation so that it properly becomes an administrative entity within the GGS. In other words the entity should be converted into the budget organization with all related features. This should be done only if examination shows such a transformation is both feasible and appropriate.

iii. Establish a new entity that would operate as an MABA paralleling the existing public corporation and would be responsible for the provision of the services.

4.2 Management of amendments to the administrative classification

The administrative classification needs to be updated and amended on a regular basis because of the creation, re-classification or abolition of budget organisations. In Tajikistan the Ministry of Finance has responsibility for such amendments.

However, although the roles and responsibilities of the Ministry of Finance have been set out in the Financial Instructions, prompt implementation of the required amendments has been
difficult to achieve. Issues have included the absence of a computerised database to manage the multiple budget organisations. The hierarchical structure of the Ministry of Finance also means all such decisions require multiple levels of authorisation, and officials may lack the appropriate training or motivation.

Also it is important that the internal audit department has an appropriate role in relation to all such amendments to ensure their consistency with the principles of the Administrative Classification.

The consequence is that the Administrative Classification often fails to promptly reflect organisational changes. This has important implications because if an organisation does not exist in the Administrative Classification it cannot be appropriated any funds of the budget.

4.3 Defining the level and hierarchy of new budget organisations

The legislation provides that Government Decree or legislation may create new budget organisations. In practice the majority of budget organisations are created by Decree. The Decree creating such budget organisations should specify the level of a new budget organisation. If the new budget organisation is assigned the level of ABA or RBA the Decree should indicate the MABA to which it should be responsible.

Various government units may initiate new budget organizations. If the initiating organisation is itself a MABA it is relatively easy to place the new budget organisation under that MABAs subordination and responsibility. In other cases it is more difficult.

A four-stage process is required for all new budget organisations to address the problems above:

i. Identification of newly established budget organisation as either part of the GGS or as Public Corporations (SOEs)

ii. Assigning an appropriate level (MABA, ABA or RBA) to new budget organizations that are members of general government sector

iii. The decree clearly indicates the level of the budget organisation (MABA, ABA, or RBA)

iv. If the new budget organization is created at the level of ABA or RBA then attribution of this new organization to the appropriate MABA. Preferably this should be consistent with the COFOG functional classifications, e.g. if the new organization has features and functional responsibilities that belongs to the sector of culture this organization should be placed under the Ministry of Culture.

4.4 Excess number of Level 1 budget entities

The principles of effective public sector management indicate that there should be a relatively small number of Level 1 budget organisations (MABAs). Typically this number is regarded as being in the range 20 to 30. In Tajikistan there are more than double this number of MABAs.

This is not an issue of classification but of management. However, an effective process for structuring and maintaining the administrative classification should incorporate processes to limit the creation of new MABAs and to identify opportunities for the rationalisation of existing MABAs.

There are of course many factors that lead to the creation of such a large number of MABAs. In any country government is a matter of consensus amongst competing pressure groups, and a Level 1 budget organisation confers both power and status on Ministers and officials. However, an excess number of Level 1 budget organisations dilutes the power of each and makes the
development of an effective strategy for sectoral resource allocation more difficult to implement.

For example, in Tajikistan there are three Level 1 MABAs that together have responsibility for the Agriculture sector. In consequence developing sector strategies and allocating resources is complicated by the need to negotiate and reach agreement between three separate entities. Rationalisation of budget entities goes beyond issues of classification and is to do with the structure of government. But the need to develop rational classification structures so as to be able to implement sectoral policies does bring the issue into focus.

4.5 Roles and responsibilities for managing the creation of new budget entities

In Tajikistan most new budget organisations are created by decree. It follows that the decree should define the level and hierarchical responsibility of such new budget organisations. This will then define the appropriate Administrative Classification for such entities. Under this approach the role of Ministry of Finance staff is simply to implement the government decision. However, in practice this often does not happen. The definitions are left to Ministry of Finance staff, who often lack the knowledge and authority to make appropriate decisions.

5 Strategy for tackling the practical issues

One of the primary objectives of this paper has been to examine the practical challenges that arise when implementing a new and structured approach to the administrative classification. Strategies for tackling the issues include the following:

i. The adoption of clear criteria for assigning an appropriate status to any budget entity and the mechanism by which the Ministry of Finance would be guided when updating and using the Administrative classification

ii. Integrating of the process of creating new budget organisations with the principles of the new classification structure.

iii. Training of the staff involved so as to enable a better understanding of the process and individual responsibilities

iv. Reforms to legal and institutional arrangements to enable the new classification structure to function effectively

The problems are often complex and varied. It is important to establish principles and guidelines that can be applied in a variety of situations.

The choices made by a government are conditioned by economic, institutional, legal and political arrangements. The problems identified above may be influenced by these factors and therefore require detailed analysis to identify specific solutions.

6 Administrative Classification and a Cluster Approach to a Sectoral MTEF

In parallel to other reforms Tajikistan has been implementing an MTEF approach to resource allocation and budget management. The MTEF approach has been initiated in pilot sectors and is being progressively extended across the whole of government.

A primary objective of an MTEF is to improve the budget planning process by linking the budget to strategic priorities. The latter should be articulated in officially approved policy
papers. The policy papers should be developed by the budget organisation responsible for the policy formulation and development of each sector.

The literature does not set out requirements as to the entities responsible for sectoral policy. In the context of Tajikistan logically the entities will be the MABAs responsible for a particular sector. For instance, the Ministry of Culture is the MABA responsible for the policy formulation in the culture sector, the Ministry of Health and Social Protection for the health and social protection sectors, and so on.

This implies that each sector should have a single MABA that is responsible for general sector policy. In MTEF terms, this MABA will develop the strategy paper that articulates and prioritises objectives to be addressed and achieved by allocating the appropriate budget resources over the medium term.

In practice in no country is there likely to be a perfect match between the administrative and sectoral structures. This is to be expected as government structures are created to meet the needs of the country not some international standard. An appropriately designed Administrative Classification can address this issue as follows:

i. Cluster the existing MABAs to each sector
ii. Assign a single lead MABA responsible for policy formulation in each sector
iii. Ensure other sectoral MABAs plan and allocate resources consistently with the sectoral plan.

The concept of a lead MABA is consistent with the recently adopted new Public Finance Law in Tajikistan. Article 32 of the Public Finance Law states the key responsibilities of MABAs, responsible for developing and implementation of the public policy in a certain sector, accepting that there are other MABAs that are not responsible for this activity.

Hence, whilst an ideal institutional structure would be that the sectors exactly matched MABAs, a more realistic view, particularly within Tajikistan environment, suggests dealing with the different type of the institutional arrangement of the central government sector.

The concept of the Lead MABA is a solution to ensuring a single ministry is responsible for sector policy development even when there are multiple MABAs within the sector.

It is important to understand that this “Lead MABA” concept does not involve creating another, higher hierarchy in the three-level classification structure. The lead MABAs are not expected to negotiate the budget proposals of other MABAs within the same sector with the Ministry of Finance. The role of Lead MABAs is limited to outlining the sector policy. The process of developing the policy is exercised jointly and includes contributions by other sectoral MABAs that articulate their own “sub-priorities” to be aligned with the general sector policy. The concept of a Lead MABA only relates to the sectors where there are two or more MABAs.

For example, in Tajikistan the agriculture sector comprises the following MABAs: (i) Ministry of Agriculture, (ii) State Committee for Land Management and Geodesy, and (iii) Agency for Land Reclamation and Irrigation

Under the lead MABA approach, the Ministry of Agriculture undertakes the role of Lead MABA with responsibility for developing the general agriculture sector policy. The State

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6 The Law of the Republic of Tajikistan “On State Finance of the Republic of Tajikistan” of 27.06.2011
Committee for Land Management and Geodesy and Agency for Land Reclamation and Irrigation will develop sub-sectoral policies consistent with the sector general policy.

Hence the Lead MABA must establish a close cooperation with other members of the sector. Conversely, the other MABAs within the sector should be willing to interact with the Lead MABA in terms of integration of their priorities into the sector policy paper. A detailed mechanism for interrelations between MABAs of the same sector must be developed and enshrined in law.

The approach described above allows the development of an integrated sector policy to meet the requirements and objectives of all the stakeholders involved. This implies that the role of line ministries (MABAs) should be enhanced, allowing prioritizing their objectives and linking them to the budget ceilings determined by the Ministry of Finance.

7 Conclusion

A summary of the proposed approach to the administrative classification is as follows:

1. The general government should be divided into sectors that can be mapped to the COFOG structure.
2. General government sector entities (budget organizations in Tajikistan) are clustered and assigned to each sector;
3. Each sector has a lead entity (MABA in Tajikistan) responsible for general policy formulation and articulation of the sector priorities;
4. Each entity within a sectoral cluster drafts their budget proposals on the basis of sectoral policy priorities agreed by the lead entity for that sector;
5. The government assigns appropriate levels for all the entities within the general government sector.

This approach does indicate the importance of integrating the Administrative and Functional classifications, and the requirement for a structured approach to managing the administrative classification by government.

References


Note: the views expressed in this article are the personal views of the authors and do not necessarily represent the views of any other organisation.
## ANNEX: LIST OF ABBREVIATIONS

<table>
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<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>ABA</td>
<td>Administrator of Budget Allocations</td>
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<tr>
<td>COFOG</td>
<td>Classification of Functions of Government</td>
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<td>GGS</td>
<td>General Government Sector</td>
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<td>GoT</td>
<td>Government of Tajikistan</td>
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<td>HCS</td>
<td>Housing and Communal Services</td>
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<tr>
<td>MABA</td>
<td>Main Administrator of Budget Allocations</td>
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<tr>
<td>MoF</td>
<td>Ministry of Finance</td>
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<tr>
<td>MTEF</td>
<td>Medium Term Expenditure Framework</td>
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<td>PFM</td>
<td>Public Financial Management</td>
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<tr>
<td>RBA</td>
<td>Recipient of Budget Allocations</td>
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<td>SNA</td>
<td>System of National Accounts</td>
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<td>SOE</td>
<td>State Owned Enterprise</td>
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<td>SUE</td>
<td>State Unitary Enterprise</td>
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<tr>
<td>UCOA</td>
<td>Unified Chart of Accounts</td>
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Results-Based Systems Are the Path Towards Results-Oriented Government

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Abstract

Purpose – The purpose of this article is to explore the path towards Results-Oriented Government (ROG) by proposing a framework that can lead to achieving it into actual practice.

Design/methodology/approach – The article is based on review of existing experience of pathfinder countries and literature.

Findings – The article argues that the Results Oriented-Government cannot work with the traditional government systems and the adoption of Results-Oriented Government needs to be based on a balanced public sector reform that includes all the following main components: Result-oriented management system (New Public Management (NPM) and New Public Governance (NPG)); result-oriented accounting system (accrual accounting system); result-oriented budgeting system (Output-based Budgeting System); result-oriented performance measurement system (Result-based Performance Measurement); result-oriented Auditing System (Performance Audit); and result-oriented Staff (Result-based Culture).

Practical implications – It has been noticed from the earlier experiences that some countries had placed emphasis only on public management reform (e.g., NPM) and some others only on accounting and budgeting reform. Other countries have chosen alternatives paths. This can result in increasing the variance between countries in the path towards Results Oriented-Government. The first hand practical experiences of the pioneer Sovereign States such as New Zealand, the UK and Australia substantiate that for instance, the budgeting process cannot be reformed without taking into consideration the public sector management structure and organization, in conjunction with the financial environment within which it operates. All this implies that the implementation of ROG requires a consistent and comprehensive approach.

Originality/value – The article contributes to the discussion about the right path towards Results-Oriented Government. It presents original conclusions about the implementation of Results-Oriented Government that should be based on a balanced public sector reform.

Key Words - Results-Oriented Government, Balanced Government Sector Reform, Public Sector, and Results-Based Systems.

Paper type - Research paper

1. INTRODUCTION

The old command-and-control system in the public administration system (bureaucratic management regime) gave public sector managers the message that risk would not be rewarded, that inefficiency would not be penalized, that what mattered most was complying with the current procedures, rules, and regulations. It did not matter what you did as long as you observed the rules (OECD, 2002). This means that accountability in the public (government)
sector has traditionally been based on compliance with rules, regulations and procedures. Now, when the public sector is deregulated, a new results-based system is needed to hold managers accountable. This is a fundamental change: holding managers accountable for what they do, not how they do it (OECD, 2002). In fact, the public sector reform process across the world started three decades ago, as a large number of member countries of the Organization for Economic Cooperation and Development (OECD) have made radical changes in their public sector. In addition, the Asia-Pacific region (especially the countries which are called Asian Tigers such as: Malaysia, Singapore, Thailand, and Philippines) has also witnessed remarkable public sector reform initiatives in terms of changing the role of state and its impact on public sector management; state/private sector relationship; resource use and efficiency; and decentralized planning (Fulin, 2001, Xavier, 1998). However, public sector reform is complex; cross-sectoral and multi-disciplinary. The context for reform ranges across such aspects as: fiscal management and budgeting; executive decision making and cabinet systems; performance management; alternative services delivery; changes in the role of government and state; privatization of state-owned enterprises; legislative and regulatory reform; management reform; accounting reform; auditing reform and so on. These initiatives in the framework of the New Public Management (NPM) are encouraging implementation of private sector management techniques in the public sector, as well as the development of performance audits in order to monitor the degree of efficiency and effectiveness with which the public sector services are delivered and to evaluate the financial consequences of management decisions (Lapsley, 1999). Moreover, these initiatives have had a substantial impact on public sector accounting, where accounting as an information system plays an essential role in whatever reform process any governmental entity would want to undertake. In addition, these initiatives, especially the NPM, resulted in changing the accountability concept. From accountability in terms of procedural compliance to accountability in terms of efficiency and results (effectiveness and cost effectiveness, sometimes referred to as value for money). Accountability for results depends on clear objectives stated in measurable terms and on budgets showing the minimum results to be achieved (Htun, 2000). This must also be based on expenditure limits and on accounting and auditing systems that measure and report on actual results. Of course, this raises the desirability of accrual-based accounting, output-based budgeting (performance budgeting), result-based performance measurement and performance audit (Ouda, 2005). In the light of increasing economic and financial crisis, very high budget deficits, high public debt and decreasing the economic growth rate, Hillier (1996) argues that governments are required to: Be fully accountable to the community for public resources entrusted to them; optimize the use of the government’s total economic resources; be accountable for results - not just for input, process and compliance with spending authorities; work better and cost less, in other words, do more with less; show the actual cost of public sector services and activities; improve the fiscal policy for creating value-for-money; determine the value-added of the budget; realize that living on credit is not sustainable; better manage the governmental assets and liabilities; not leave huge public debt burdens on future generations; disclose the net worth of the State and public entities within the State; provide improved financial information that can assist in decision-making and discharging the mandatory accountability; and disclose the real financial position of the whole Government.

In a nutshell, governments are required to be Results-Oriented Governments. Accordingly, several countries (e.g., New Zealand, UK and Australia) have attempted to adopt Results-Oriented Government in order to create value for money through focusing on results not on inputs, processes and compliance and focusing on creating value for available resources instead of spending the available resources. In other words, the governments are required to be efficient and effective. In order to achieve that, the decision-makers in all levels in the public
sector need sophisticated management, accounting, budgeting, performance measurement and auditing systems that can furnish more improved and useful information. However, most countries, especially the developing countries are currently using traditional government systems such as: cash-based government accounting system, line item/traditional budgeting system, public administration system (bureaucratic management), traditional performance measurement system and traditional auditing systems. The experiences of pioneer countries such New Zealand, UK and Australia, have proven that these systems are no longer able to provide the required information for an efficient and effective government and to enhance the efficient management of public resources. This can raise the following questions:

- Can Results-Oriented Government work with government traditional systems?
- How could Results-Oriented Government be achieved in the most pragmatic manner?

Accordingly, the main objective of this paper is to investigate whether Results-Oriented Government can work with the traditional government systems or not and to explore the path towards Results-Oriented Government by proposing a framework that can lead to achieving it into actual practice.

The paper is structured as follows: Section two deals with Results-Oriented Government (ROG), especially the main idea behind the ROG, its main principles and the key factors that directing it. Section three will investigate whether Results-Oriented Government can work with the traditional government systems such as bureaucratic management system, traditional government accounting system, line item budgeting system, traditional performance measurement system and traditional auditing system. Section four will be dedicated to propose a framework that can lead to achieving ROG in actual practice. Section 5 will lead to the conclusion.

2. CONCEPT OF RESULTS-ORIENTED GOVERNMENT


Results-Oriented Government focuses on achieving results for customers; being responsive and accountable to the taxpayers. Main Idea behind results-oriented government is that it focuses on determining the strategic priorities and objectives of the country (outcomes/results) desired to be achieved and translating these outcomes/results into outputs and linking the allocation of costs to outputs and outcomes and measuring whether outputs and outcomes are being achieved in an efficient and effective way. ROG should be based on: Outcome: what influence the government wishes to have to the community; output: how the government wishes to achieve that influence; performance indicators: how the government and the community know whether that influence is being achieved in an efficient and effective way; and What may that influence cost? (See figure 1). In other words, the following questions are the cornerstone of ROG: What does government want to achieve (Outcomes)? What actions is government going to undertake to achieve it (Outputs)? What may those actions cost (Input)? And how the government and the community know whether those outcomes are being achieved in an efficient and effective way (Performance indicators and measurements)?

The main ideas of Results-Oriented Government were summarized by Osborne and Plastrik (1997), Osborne and Gaebler (1992), and Ouda (2006) under twelve principles:
Manage for results instead of focusing on inputs, processes and compliance; focus on creating value from available resources instead of spending available resources; budget for results (outputs/outcomes), not input; shift accountability for inputs to outcomes or results; manage total economic resources not cash flows and cash balances; measure the operational performance in terms of the three Es (Economy, Efficiency and Effectiveness), not compliance with rules, regulations and procedures; audit the performance of government not the legality and regularity of disbursement; report on total economic resources and performance of government instead of reporting on monetary position of government; foster closer link between strategic planning, policies, budgeting, financial management, performance management systems; centralization of objectives and decentralization of management (Government needs to centralize in order to decentralize); encourage collaboration between and within departments; and link resources with results to improve budgeting decisions. Accordingly, the main ideas behind ROG can reflected in the following figure:

**Figure 1: Main Idea behind Results-Oriented Government**

*Outcome Statements for the whole country (Government Agreement)*
Articulate Government’s strategic priorities and objectives (Results/ Outcomes)

**Outcome Statement** for each Ministry

**Outcome Statements**: between governmental entities heads and relevant minister. These are endorsed by Minister of Finance

Then, governmental entities determine series of outputs (deliverable goods and services) relating to these outcomes. All outputs must relate to an identified outcome.

**What may those outputs cost?**

**Planned performance**: Performance Indicators: how the government and the community know whether that outputs and outcomes are being achieved in an efficient and effective way.
The key factors that direct results-oriented government are perceived in terms of: Better Performance; better Accountability; and better Transparency. In addition, Osborne and Gaebler (1992), suggest the following themes for result-oriented government: 1- What gets measured gets done; after performance measures are established, people begin to ask the right questions, to redefine the problem, to diagnose that problem, and to think about organizational goals; 2- If you don't measure results, you can't tell success from failure; when government lacks objective information, decisions depend largely on political considerations; 3- If you cannot see success, you cannot reward it; by rewarding successful managers, Sunnyvale has increased its productivity; 4- If you cannot reward success, you are probably rewarding failure; in practice, if you are failing, you qualify for aid. When the crime rate rises, we give the police more money; 5- If you can't see success, you can't learn from it; unexpected success may be an important lesson to be learned; 6- If you can't recognize failure, you can't correct it; no one outside the bureaucracy can tell if these agencies do anything worthwhile, because no one measures the results of their work; and 7- If you can demonstrate results, you can win public support.

3. RESULTS-ORIENTED GOVERNMENT (ROG) AND TRADITIONAL GOVERNMENT SYSTEMS

As aforementioned, ROG focuses on results not on inputs, processes and compliance; and on creating value from available resources instead of spending available resources. Moreover, it concentrates on funding outputs/outcomes (results), not input; and on shifting accountability for inputs to outcomes or results. The adoption of ROG means that governments are requested to be efficient and effective. However, most countries, especially the developing countries are still using the traditional government systems such as: cash-based government accounting system, line item/traditional budgeting system, public administration system (bureaucratic management), traditional performance measurement system and traditional auditing systems. Accordingly, to what extent Results-Oriented Government can work with the traditional government systems:

- **Public Administration System (Bureaucratic Management System):** gives no (or little) incentive to manage the public resources in an efficient and effective way. In fact, this system has several shortcomings: it focuses on the blind following of instructions and compliance with written rules and regulations that aim at limiting discretion. The administrative structure is strongly hierarchical and many quite trivial decisions have to be referred to higher levels for resolution. Managers may not have been exposed to modern business techniques and they follow administrative methods based on precedent rather than personal initiatives (Ball, 1994). The Ministers are making the detailed decisions about the internal management of departments for which decisions they did not have adequate knowledge and suitable information. Furthermore, managers act as extension of the Minister, without having any independent existence and consequently no independent responsibility (Ouda, 2008). Therefore, the main feature of the public administration system (bureaucratic management system) is the focus on the input instead of output. Under this system: there is no relationship between the input and the output, managers are not completely responsible for their departments; the expenditures are more important than the costs (expenses); there is lack of a performance measurement system; the incentives to encourage efficiency and effectiveness are absent. Furthermore, under the public administration system, the role of the managers is limited to following instructions and they have no effective role in improving the efficiency of their departments. Their evaluation is not based on the following points: the output, results, total costs, relationship between the input and the output (efficiency) and the relationship between the output and the outcome (effectiveness) (Ouda, 2005). Based on the aforementioned features of the public administration
system, it can be inferred that public administration system is managing the inputs and not the outputs (results). This means that governments that do not manage for results cannot apply Results-Oriented Government (ROG), and hence, the bureaucratic system does not support the implementation of ROG.

-Cash-based Government Accounting System: recognizes transactions and events only when cash has been received or paid. This takes place independently of the time when goods and services are ordered, delivered and consumed. Goods and services for which payments are made (labour, stores, transportation …etc.) are considered to be consumed when suppliers are paid. This means that the cash basis of accounting shows only the volume of disbursements. Such disbursements do not reveal the amount of resources used and the value of actual work done (Ouda, 2006). According to the cash basis, the statement of receipts and expenditures is prepared to disclose information about cash flows during a period and cash balances at the end of that period. Under cash accounting it is not possible to prepare balance sheets because there are no assets and liabilities in the books: “sales are only recognized when cash is received (so there are no debtors); purchases are only recognized when cash is paid (so there are no creditors); there are no stock adjustments because the accounts are not concerned with recording usage, only with the fact that cash has been paid for purchases (so there is no closing stock figure); there are no fixed assets, for the same reasons (Jones, and Pendlebury, 2000). Based on cash accounting, it is not possible to measure the financial performance of the government because there are no revenues and expenditures. Accordingly, traditional government accounting system does not assist in measuring the financial results of the government and do not support the management system, which is based on clear objectives, good performance information, incentives and freedom to manage well. In addition, it does not provide the cost of outputs. In attempting to link resources to results, it will be important to measure the full costs of the resources associated with performance goals using a consistent definition of costs between and among programs (Ouda, 2006). Consequently, it can be concluded that a traditional cash based government accounting system does not facilitate the implementation of ROG.

-Traditional budgeting system uses the bottom-up approach: the traditional budgeting system has traditionally operated on a “bottom-up” principle. In practice, all the governmental agencies and Ministries send requests for funding to the Ministry of Finance/Treasury. It is widely known that these requests greatly exceed what they realistically believe they will receive approval for. In order to come to a realistic budget, the Ministry of Finance/Treasury negotiates with those concerned governmental agencies and Ministries until some common ground for agreement is reached. This “bottom-up” approach has several disadvantages as follows (OECD, 2002 and Ouda, 2003 b): It is very time consuming and is essentially considered a game; all participants know that the initial requests are not realistic. This approach has an inherent bias for overstating the expenditure-allocation requests. All new programs or additions/expansion of the scope of existing on-going programs are funded on the basis of new requests. Generally, using funds for a purpose other than that originally approved is not permitted under the Treasury rules. There is no system for re-allocation within and among Ministries and their respective Departments during mid-fiscal year, and there are no pre-determined internal controls and safeguards against cost over-runs. And it is difficult to reflect political priorities in this approach, as it is a driven “bottom-up” with the budgetary allocations “emerging” at the end of the process. In fact, reflecting the political priorities and strategic objectives in the budgeting system is one of the main requirements for the implementation of ROG. So the bottom-up approach is not consistent with the nature of ROG.

-Traditional Performance Measurement Systems: within the aforementioned context (especially, the bureaucratic management system), the traditional performance measurement
systems are no longer able to measure whether the government has efficiently and effectively used the resources entrusted to it; whether the appropriations have been used to produce the outputs that are required to achieve the outcomes. Hence, under the traditional public administration system, the managers are most concerned about the compliance with rules and restrictions and they are not accountable for results. Therefore, there was no real need for a sophisticated performance measurement system. In fact, the adoption of ROG will require that performance measurement should tell us how well government uses resources in production and provides decision makers with information that can be used for monitoring of results, program performance improvement, as well as the rationale for allocation resources and budget justifications. Basically, the performance measurements are required to measure whether the governmental entities have achieved their results in terms of economy, efficiency and effectiveness. It is also clear that traditional performance measurement systems do not support the implementation of ROG.

- **Traditional Auditing System**, which is more concerned with compliance with rules and instructions, is not able to assist in assessing the management and operational performance of governmental entities and to consider questions of economy, efficiency and administrative effectiveness of the operations for which management is responsible. This also means that the traditional auditing system will not facilitate the adoption of ROG.

Consequently, the use of the aforementioned traditional government systems has led to the appearance of the following facts: The objectives for governmental entities are not clearly defined; the respective responsibility of politicians and civil servants are confused, so that the lines of accountability and responsibility are never clear; assets levels are poorly maintained and changes in value or depreciation are not required to be recorded; the relationship between the expenditure and results is not indicated; appropriations are based on input in place of output/outcome; goals and performance requirements of government departments are poorly specified; losses, long-term liabilities, and future revenues are obscured by cash-based accounting system; it is not clear whether the government actions have added to the net worth of state, and whether the current generation has increased or decreased the worth of what is left for the next generation; incentives often encourage dysfunctional behaviour (for example, year-end spending); and responsiveness to changing circumstances is slow. This means that the currently used traditional government systems will not be able to provide the requisite information for an efficient and effective public sector management regime or assessment, evaluation, and enhancement of the value-added factor to the government economic resources, as well as services to the public. Consequently, it can be inferred that ROG cannot work the traditional government systems. In addition, these shortcomings are not only related to one of the following: lack of management reform, public sector accounting reform, budgeting reform, performance measurement reform, performance audit reform and resulted-based culture but they are related to all of them. Accordingly, reform of public management alone is not going to solve the problem. Therefore, the adoption of Results-Oriented Government needs to be based on a balanced public sector reform that includes all the aforementioned systems.

### 4. BALANCED GOVERNMENT SECTOR REFORM

In fact, it has been noticed from the earlier experiences that some countries had placed emphasis only on the budgeting reform and some others only on the accounting reform. The first hand practical experiences of the pioneer Sovereign States such as New Zealand, the United Kingdom, and Australia substantiate that the budgeting process cannot be reformed without taking into consideration the public sector management structure and organization, in
conjunction with the financial environment within which it operates. These experiences and insights corroborate the fact that budgeting and accounting reform cannot occur in isolation - one to the exclusion of the other – both reforms must be undertaken concurrently and in parallel. Budget reform is a case in point, for it has been premised on the mistaken notion that the process by which funds are allocated can be revamped without taking into account considerations such as: the information generated by the accounting system; the demands made by auditors; the incentives provided by the public sector rules and other procedures; the embedded habits and norms of budget makers; the interface of the accountability between the Ministers and the Managers; and numerous other managerial considerations. In many contemporary reforms, by contrast, budgeting is regarded as part of a grid of inter-connected practices and processes. For example, Budgeting Reform: the shift from input-based budget to output-based budget requires the determination of the outputs that will be used as a basis for allocating the appropriations. In the context of the public administration philosophy, these outputs are not determined and it is also not known who is going to determine such outputs. Basically, the determination process of the outputs is originally a technical and management issue rather than an accounting and budgeting issue; namely, the management (operationally and politically) is basically responsible for specifying the outputs. Logically, before we talk about the shift from input to output-based budget, we should firstly specify the outputs (Ouda, 2005). Another example, Accounting Reform: accounting is important and exciting when it generates information that is used by decision makers. Conversely, without decision-makers demanding and using accrual information, the provision of this information is meaningless. Frankly speaking, the public administrators who spent their lives to administrate rules and regulate and formalize procedures are not accustomed to using improved information. Consequently, the transition to accrual accounting in the public sector will provide superfluous information that will not be used and the costs of generating this information cannot be justified. Hence, the target benefits from the accounting reform will not be achieved under a traditional public administration system. So similarly, before talking about the production of improved information, we should firstly create the scope, which allows for using this information and to find the right person who can efficiently and effectively use it (Ouda, 2005). Consequently, any change in accounting and budgeting system must be justified in terms of benefits from that change. Accordingly, Accrual Accounting and Budgeting can really work in the Government Sector only if parallel management reforms are made, too. Should this not take place, the adoption of Accrual Accounting and Budgeting will not bring about major end-results to the performance of the Government Sector. In fact, the experience of the pathfinder country (New Zealand) has proved that these financial reforms did not occur in isolation. They were part of a movement to make the New Zealand economy more competitive as well as to make the government more competitive and accountable. So, the New Zealand approach with respect to public sector reform is a consistent and comprehensive framework, which comprises all the mechanisms of accounting, reporting, budgeting, parliamentary appropriations, performance specifications and monitoring, rather than dealing with accrual accounting and budgeting as a separate issue (Ball & Bradbury, 1998). Based on the aforementioned facts, the Public Sector Reform should be implemented in a consistent and comprehensive manner, which we identified as a Balanced Government Sector Reform program that comprises the following components:

4.1 Management Reform: [including both New Public Management (NPM) and New Public Governance (NPG)]:

Bear in mind that the main focus of this paper is on Results-Oriented Government. Managing for results is an essential/integral part of Results-Oriented Government. In fact, the
management reform means shifting from the focus on compliance with written rules and regulations aimed at limiting discretion, rewarding compliance and creating incentives to avoid risk, having little freedom and less accountability (*Bureaucratic culture*) towards the focus on the output (results) instead of input, granting the managers extensive discretion in the use of resources and measuring the performance in terms of efficiency and effectiveness (NPM culture). The *Input-focused management approach* is oriented towards how much resources, staff, facilities, etc. are made available for a programme or ministry. The amount of money being spent on a programme or problem is often the main performance measure when managing to input. The internal management information of an input system does not reveal what the resources actually bought or achieved were and often an input focus is accompanied by process regulation – i.e. standards and rules on how inputs should be aligned, how things should be done. Whereas *an output-focus to management* describes public functions in terms of goods and services and calculates how many services are being delivered, or products produced. An output focus is primarily oriented to increasing the individual accountability, giving the managers extensive discretion in the use of resources, measuring the performance in terms of efficiency and effectiveness. Unlike the private sector, the government sector has far more difficult management problems; therefore, the challenge for the government sector is to move to the development of new methods of management appropriate to the distinctive needs of government. For example, based on the NPM, the Minister has to specify the performance (outputs) that are required of the Department Chief Executive. Due to the distinctive nature of the government sector, it can happen that one output has to be produced by two or more governmental entities. Thus, there should be a new management approach to manage the interrelationships between the governmental entities. Therefore, the shift to New Public Management (NPM) has to be accompanied by New Public Governance (NPG) (Hodges, 2013). As NPM has a focus on intra-organizational management involving independent contracts, whereas NPG provides an emphasis on inter-organizational governance of inter-dependent agents involving relational contracts. In this regard, the Governance is viewed as representing the structures which are created or develop to manage the relationships between governmental entities within networks or partnerships drawing upon the concepts of collaborative governance.

Consequently, the main feature of the *management reform* includes the following:

1. **Development of an effective accountability relationship** [framework] between the Ministers, and Department Chief Executives;
2. **Development of performance-based employment contract agreements** between the Ministers, and Department Chief Executives; and
3. **Development of partnerships working structure** between governmental entities (New Public Governance -NPG).
4.1.1 The Accountability Framework: The components of an accountability framework and relationships are depicted as follows: (Ball, et.al, 2000)

Figure 2: Components of Accountability Framework and relationships.

The accountability framework comprises four components as follows: (Ball, et. al, 2000)

- **Performance Specification**: At the beginning of the contract period it must be made clear to both the Principal [the Minister] and the Agent [Department Chief Executive] the specifics of the performance that are required of the Department Chief Executive. This means that the performance requirements have to be specified in advance.

- **Decision-making Authority**: The Department Chief Executive must have authority to achieve the agreed level of performance and outputs. Consequently, the Chief Executives shall be granted extensive authority over their use of resources, and the processes by which they produce the agreed output. In other words, there is the devolution of decision-making authority to give the Chief Executive control over the acquisition, utilization, disposal and mix of input.

- **Incentives on Behaviour**: There must be real incentives associated with the decisions and behaviour of the Department Chief Executives empowering them to deliver the agreed performance, namely, to act in the government’s interests.

- **Performance Information**: The performance information reported at the end of the period should reflect the agreed performance [outputs targeted], per the specification at the start of the period. In other words, there should be ex-post reporting of actual performance against specification.
These accountability relationships are more efficient when ex-post monitoring, assessment, and reporting are based on clear ex-ante agreements about performance expectations. Therefore, it is postulated that problems in performance evaluation arise more often from inadequately specified targeted outputs than from the ex-post evaluation itself. In any event the ex-post evaluation is of limited use other than with the prior agreement on goals established and recognized with the person being held to account (Ball, 1994). In fact, the accountability relationship will only be efficient if there is an appropriate balance among the elements of the relationship. Performance expectations must be consistent with the delegated decision-making authority, reporting must mirror the agreed performance expectations, and there must be incentives systems to generate the necessary motivation. To the extent that any one element of the relationship is missing, weak or poorly specified, it is less likely that manager will perform as expected.

4.1.2 Performance-based employment contract agreements

In order to establish the Departmental objectives and to hold accountable the government’s executive officers [the Ministers and Department Chief Executives] for results [output/outcome framework], it is important to strengthen the relationship between the Ministers and Department Chief Executives with measures such as: Re-definition of the relationship between the Ministers; and Department Chief Executives in such manner that Department Chief Executives are fully accountable to the respective Ministers for the performance [output/outcome framework] of their Departments; and establishment in due manner of a uniform application of Labour – Market regulations to both Government Sector and Private Sector employment.

In summary: The Government Sector Reform component for the re-definition of management structure and form, aims at the development of performance-based employment contract agreements between the Ministers and Department Chief Executive[s]. These agreements specify what is to be delivered [output deliverable], and the expectations regarding quality and cost [cost/benefit], together with the management policy and criteria for ensuring the effective use of resources. As mentioned, the employment contract of the Department Chief Executives is performance-based. Accordingly, that contract prescribes the method of determining the remuneration, the criteria and metrics to be used for specifying the reporting of the performance outputs against the predetermined targeted results – further, the process for the proposed performance appraisal will be stated explicitly. This also means that the accountability relationships between the Minister and respective Department Chief Executives are seen as: Contract focussed; Performance-based; Incentives driven; Factored for decentralized decision-making; and Having predetermined criteria for performance appraisal.

4.1.3 Development of partnerships working structure between governmental entities (New Public Governance -NPG).

Partnership working in the government sector is a more recent world-wide phenomenon. Based on the NPG literature, the partnership working in the government sector can take one or more of the following types (Hodges, 2013)
- **Collaborative partnerships**: are those in which each partner exercises power in decision-making. Each partner gives up some autonomy to other partners so that there is mutual dependence in meeting the project objectives;

- **Operational partnerships**: are characterized by sharing of work, rather than decision-making power. Control may be retained by one partner particularly if it provides the bulk of the resources;

- **Contributory partnerships**: are those in which a governmental entity agrees to provide support, usually in form of funding, for activity in which it will have little operational involvement; and

- **Consultative partnerships**: are those in which a governmental entity solicits advice from others.

4.2 **IMPLICATIONS FOR PUBLIC FINANCIAL MANAGEMENT**

In fact, the undertaking of public management reforms necessitates a re-assessment of the public financial management; namely, these reforms will make the revamping of the public financial management components inevitable. These components are: Public sector accounting system Reform; budgeting system reform; auditing system reform; and performance measurement system reform.

4.2.1 **Public Sector Accounting Reform**

Due to the shortcomings of cash accounting, public sector accounting reform means shifting from Cash-Based Accounting to an Accrual-Based Accounting. Public sector accounting reform aims to disclose financial information useful to evaluate matters such as: the financial position of the State as a whole and its financial performance in a manner so as to facilitate the enhancement of the value of its usefulness for decision-making purposes, and the accountability aspects of the public sector management. By this approach it is possible to enlarge the public sector information systems through an evolution of the public sector accounting methodology towards the utility paradigm (Ouda, 2003a). Furthermore, the public sector accounting reform reflects a shift from a cash flow and cash balances concept to a total-economic resources concept, namely, it is an extension of measurement focus to encompass the total economic resources of the public sector instead of only directing attention to the public sector cash resources and their utilization. Accrual basis of accounting recognizes transactions and events when these occur rather than when cash is paid or received. The financial statements under the accrual basis disclose the total assets [*i.e. current and fixed assets*], total liabilities [*i.e. short and long-term liabilities*], net worth/public equity, revenues and expenses [*including the statement of financial performance*]. Accordingly, the measurement focus under accrual accounting is on the total economic resources (IFAC, 2000). Hence effectively, the assets, liabilities, revenues and expenses arising from transactions and/or in relation to events, as must be, are duly recognized in the financial statements at the point in time when these transactions/events produce a financial impact on the public sector entities’ operations, regardless of the actual timing of the associated cash flows. Unlike the information outputs from cash-based accounting, accrual-based accounting system output reports consist of information drawn up at specified period-ends, setting down:

The total assets [financial values and physical units]; the total liabilities [short-term - current and contingent, and medium to long-term liabilities]; net assets/net worth; and expenses,
revenues, and the surplus or deficit. The focus of accrual-based accounting is on all transactions that have a value consideration expressed usually in money terms, and not just cash-based transactions *per se*. Nevertheless, accrual-based accounting records [normally the statutory books of account comprising the Cash Book, Journal, and Ledger], contain complete information on all transactions [cash or credit] also enabling the ready preparation of periodic cash flows statements, as and when necessary, for management decision-making purposes. Further, a statement of cash flows is an integral part of the periodic financial statements (IFAC, 2004). The periodic *Financial Statements*, prepared on the basis of the accrual-based accounting system and in terms of generally accepted accounting principles, comprise: *Statement of Financial Position*, this includes details of all recognized assets and liabilities. The balance of assets less liabilities is referred to, in the Public Sector, by a variety of terms including net assets, public equity, net financial position or net worth. The Balance Sheet discloses the financial position as at a specified period-end [usually a half year-end; and/or year-end]. *Statement of Financial Performance*: This comprises details of all recognized revenues and expenses. It shows the surplus [or deficit] of revenue [income] over expenses. This is a useful measure of whether an entity has managed to meet current expenditure from current revenue, and whether its net resource position has increased or decreased, during the period reported. This measure is consistent with one element of golden rules of fiscal policy, which states that the Sovereign State/Government should finance current expenditures from current revenues. The Statement of Financial Performance discloses the operating results for a specified period [usually a half year, and or a year]. *Statement of Cash Flows*: This encompasses a summary of cash receipts and cash payments during the year, classified under various sub-headings [operating, investing, and financing] and shows the opening and closing balances of cash and cash equivalents. The Statement of Cash Flows discloses the sources and uses of cash and cash equivalents for a specified period, together with the opening and closing balances of cash and cash equivalents (IFAC, 2004).

Accordingly, each government sector department must provide a full set of Financial Statements (Includes Statement of Financial Position [Balance Sheet], Statement of Financial Performance; Statement of Cash Flows) to the Ministry of Finance/Treasury on a half-yearly and annually basis. In addition to the financial statements, Departments must produce and duly submit non-financial performance information, for example, Statement of Service Performance, outlining the outputs produced versus the outputs agreed and reports on the degree of the achievements in both quantitative and qualitative terms. Thereafter, the Ministry of Finance can simply consolidate the Financial Statements of the whole government Sector [applying the principles of consolidation enunciated in the current International Financial Reporting Standards] and produce national financial statements on an accrual basis. The consolidated financial statements should be forwarded to the Central Auditing Organization in order to carry out the final audit of the records, accounts, and financial statements of all the governmental entities. The Central Auditing Organization should scrutinize the consolidated financial statements and it prepares and presents its audit report to the Parliament within three to six months of the close of the fiscal year.

The consolidated financial statements should at least encompass the following statements: (Miah1991): Statement of financial position (balance sheet); statement of financial performance; statement of cash flow; statement of movements in equity; statement of accounting policies; statement of borrowing; statement of commitments; statement of contingent liabilities and assets; statements of segments; notes to the financial statements; and comparison of budget to actual (IPSAS 24).
The main objectives [anticipated benefits] aimed at by the adoption of accrual-based accounting in the public sector are to: Better manage [stewardship] the assets and liabilities; present a full picture of the financial position of the whole Government Sector; make more transparent the true cost of the public sector services and activities; improve decision-making in the public sector by utilization of an improved and enhanced accounting information system; improve performance measurement; determine the net worth/State’s worth; evaluate economic outcomes relative to inter-generational equity status/situation; provide reliable measures of the fiscal policy implementation; improve transparency of the government’s fiscal policy and the integrity of governance; derive the full benefits of economic planning and the appropriation of budgetary allocations in the short- and medium-terms; support the public sector management reforms; and create an opportunity to build and use cost accounting systems for cost/benefit analysis models.

4.2.2 BUDGETING SYSTEM REFORM

Budgeting system reform means shifting from Traditional/Line item Budgeting System to Performance (or Performance-policy) Budgeting System. Due to the following shortcomings, the traditional budgets are problematic because they: Result in uncontrollable and unforeseen management behaviour; generate a short term perspective; produce an incremental budgetary enlargement with no linkage to economic strategy; involve focusing on inputs rather than outputs and results/outcomes; produce waste due to passive adherence to rules and procedures; involve cash-based accounting resulting in weak management of assets; provide little or no information about “total” revenues and “total” expenses; and are unresponsive to socially sensitive issues and demands. (Caiden, 1998). Therefore, most of the Sovereign States have performed a radical change-over to improved budgeting techniques and systems. Some have adopted the use of the performance budget methodology, while others have developed and put together more sophisticated budgeting systems such as: Outcome-based budget; policy budget; accrual-based budget, etc.

Performance budgeting is defined as presenting the purpose and objectives for which funds are requested, the cost of programs proposed for achieving those objectives, and the quantitative data for measuring the accomplishment and work performed under each program. The performance budget aims to provide a systematic method of improving the allocation process; to incorporate in the planning activity the recognition of costs/benefits of alternative programs and resources available; and to provide a basis for choosing the most economically feasible [competing] program (Shah and Shen, 2007). The performance budget indicates the relationship between the inputs and the outputs and whether the resources have been effectively used and the target objectives have been achieved. In short, it focuses on the purpose[s] of the expenditure[s] and the end-results/outcomes of the expenditures and provides data, which can be used to evaluate those outcomes. As aforementioned, the development of the budgeting system has gone beyond the scope of the output-based budget. Many Sovereign States have developed more sophisticated budget models such as outcome-based budget and policy budget. For example, the Netherlands has developed a new budgeting system, which is known as Policy Budget. In fact, the Policy Budget aims at making the budget more policy-oriented and the Budget is considered as the Netherlands Government’s policy document (Blondal & Kristensen, 2002). This means that a linkage between policy, performance, and resources must be established. It is also important to note that parallel changes are made to the ex-post annual reports: consequently, the structure of the policy budget provides answers to the following questions: What does the Government want to achieve? [these are the outcomes]; what action is
the Government going to undertake to achieve it? [these are the outputs]; and what may those actions cost? [these are the inputs-expenditures]. Logically, the new structure of financial reporting should follow the budget structure to give answers to: Did the Government reach its goals as set down in the budget? Has the Government done what it was going to do? Did the cost of those actions remain within the limits previously set down in the budget?

While there are differences among the aforementioned budget models [Output-based budget, Policy budget, and Outcome-based budget], they share the following common elements: Focus on results; the shift to a more multi-year focus [Medium-term budget framework]; Top-down budgeting techniques; relaxing central input controls; prudent economic assumptions; carry-overs; capital charge; and others. For a proper understanding of the new budgeting models, for purpose of illustration, three of the aforementioned elements are discussed below:

**A. Shift to a more Multi-year Focus:**

Multi-year budget frameworks/formats are the basis for achieving fiscal consolidation. Within these frameworks, the Sovereign State’s medium-term objectives are stated in terms of high-level targets such as the magnitude of aggregate revenues; aggregate expenditures; deficit/surplus; and debts. The high-level fiscal targets are fixed in the context of a medium-term. They aim to achieve a certain fiscal outcome over a number of years. The short-term [one year] traditional budget format does not assist in monitoring the achievement of the high-level fiscal targets. In addition, the multi-year budget framework enables the Public Sector managers to be in a better position to plan their operations logically and strategically as they have some indicative level of funding beyond the next ensuing fiscal year (Spackman, 2002). The application of the multi-year budget framework could vary from one country to another on taking into account the particular local needs. For example, Sweden employs a multi-year budget framework as the basis for the annual budget process. It has a three-year time horizon, i.e. the upcoming budget year and the next two consecutive years. The multi-year budget framework provides the linkage between the Swedish Government’s fiscal policy objectives in a macro-economic setting and their application in an operational context. It operates on the specified three cascading levels: (OECD, 2002).

The **first level** constitutes the articulation of the Swedish Government’s fiscal policy objectives in macro-economic terms, i.e. level of surplus or deficit as a percentage of GDP.

At the **second level**, these objectives are translated into a maximum level of the total expenditure based on certain economic assumptions.

At the **third level**, the limit for total expenditure is further analyzed operation-wise by giving indicative funding levels for each of the expenditure areas.

As the multi-year budget framework is in place, the starting point in the annual budget exercise is to update the information for year 2 in the framework. The Ministry of Finance [Sweden] starts by re-examining the macro-economic outlook for the coming year to see if the economic assumptions applied in the multi-year framework remain valid. The updated macro-economic outlook plays a key role in determining the stance of budget policy. For example, a higher level than the assumed economic growth would permit making available additional resources for the next ensuing year.
B. Top-down Budgeting Techniques:

As earlier noted, the “bottom-up” approach has many shortcomings. Therefore, that approach is now being abandoned and replaced with a modern “top-down” approach to budget formulation. The “top-down” approach, in practice, has been found to be of great assistance in achieving fiscal consolidation. The starting point of the “top-down” approach is for the government, to make a decision as to the total level of expenditures and to divide that “pool” among individual spending Ministries. The key point is that each Ministry has a pre-set limit on how much it can spend. Once this decision is taken by government, the Ministry of Finance/Treasury largely withdraws (stops taking part in) from the details of budgetary allocations of each ministry. The Ministry of Finance/Treasury concerns itself only with the level of aggregate budgetary expenditure allocation for each Ministry, not the internal allocations within each respective Ministry. The internal allocation is attended to by the Minister for each respective Ministry. Each Minister is deemed to be his own finance minister. Each Ministry has a total amount and each Minister can re-allocate the budgetary provision among that Ministry’s various agencies and programs. This approach gives each Minister greater control over his Ministry’s Budget proposals. In this manner, each Minister is in a position to identify and select the priority level of each budget program for appropriate funding accordingly (OECD, 2000).

C. Capital Charge [or Cost of Capital]:

Ministries and Departments may be made to bear a capital charge, calculated on the basis of their net assets, for the cost of the capital the government has invested in them. This charge has several benefits. First, it ensures that the cost of capital is reflected in output prices because a Department’s total cost must be allocated to its outputs to ensure comparability with non-Public Sector producers. Second, the charge encourages Departments to manage their financial position carefully and to divest surplus or redundant assets. Third, it encourages Management to consider the mix of assets needed to produce services efficiently. If a Public Sector manager finds it more efficient to purchase additional computers and sell some cars, he or she is free to make this decision. If the sale of assets reduces the overall capital charge, the savings can be applied to other budgeted expenses.

4.2.3 PERFORMANCE MEASUREMENT REFORM

Shifting from Traditional Performance Measurement System To Result-based Performance Measurement System. Getting the financial incentives right is essential in the public sector management reforms. In Government, no less than in the marketplace, money is a powerful signal: It pushes entities to produce more not less; to care about costs and not to ignore them; to be more efficient; and to take business risk after due diligence. In fact, the shift to a Result-based Performance Measurement System is basically connected with the New Public Management (NPM) approach. In other words, the change brought on by the doctrine of “accountability” is from responsibility in terms of procedural compliance to accountability in terms of efficiency and effectiveness [output/outcomes]. In addition, the accountability for results depends on clear objectives stated in measurable terms. This requires, in turn, a performance measurement system that can assist in assessing whether the public sector entity has achieved the contemplated objectives or not. In fact, the trend of decentralization, power devolution, and making the public sector managers accountable for results, has created the need for developing a new Performance Measurement System (Van Thiel and Leeuw, 2002). Performance Measurement would tell us how well the public sector uses economic resources in
production and provide decision-makers with information that can be used for monitoring the results, program performance improvement, as well as the rationale for the allocation of resources and budget justifications. Performance Measurement data can also be used for transparency purposes [provision of clarity on matters of social interest]. Basically, performance measurements are required to assess whether the governmental entities have achieved the projected results, quantified with respect to economy, efficiency, and effectiveness. **Economy:** provision of inputs of a specified level of quality at the lowest cost. **Efficiency:** how well a Public Sector entity uses its resources to produce outputs [goods and services] relative to the best practice at a given point in time. In other words, the relationship between inputs and outputs, or the productivity rate at which inputs are converted into output. **Effectiveness:** how well the outputs of a Public Sector entity fulfil the objective criteria and reach the levels expected by the government; for example, are the activities of hospitals having an effect on the general health of the community? So it is usually conceived to be the extent to which objectives have been fulfilled. It is sometimes considered to be the ratio of outputs to outcomes. However, measuring the performance of Public Sector entities is considered to be a complex issue. The State performs different activities such as education, defence, health care, etc. and the accomplishment of those actions results in different outputs. Hence, the assessment of the value created would involve specialised technical know-how. The outputs of each public sector entity require a suitable performance measurement system with appropriate metrics. In addition, the Performance Measurement System is essentially an integral part of the New Public Sector Management System, Accrual Accounting System, and Performance Budget. Therefore, the Performance Measurement System of the public sector would need to be considered from the standpoint of the aforementioned reforms. Essentially, effective performance measurement in the Public Sector should be guided (Wang, 2002) by the following axioms:

- **Performance Measurement must be “Value – Based”**
  The focus is on the value-added concept relative to a public sector entity being organized and managed according to a well formulated strategic plan with defined measurable results. These accomplishments must justify the fundamental purpose of that public sector entity.

- **Performance Measurement to reflect achievement of Long-term Objectives:**
  The performance measurement should be designed to help the public sector entities “learn to do the right things right”. To achieve this, performance measurement requires a long-term, multi-dimensional multi-disciplinary perspective, not just a short-term outlook.

- **Performance Measurement must not be sold as a “Self-contained” Solution:**
  Performance measures [metrics] will not produce per se higher levels of efficiency, quality, and effectiveness. These are achieved through decisions to re-allocate or re-assign resources, improved work methods, adoption of best practices, and adjusting as necessary the task priorities. Nevertheless, the Performance Measurement System can provide some of the data to facilitate the re-direction/deployment of resources.

- **Rewards must be linked to Performance:**
  To be successful a public sector entity needs to have carefully defined measures of success. This involves a structured process for the linking of government’s objectives to critical success factors and to the associated performance measurements. Experience shows that the behaviour of Executive Managers is directly linked to the performance criteria on which their contribution is appraised. This contention is valid and affirms the motivation value of their compensation being pegged to the performance appraisal.
- **Performance Measures should provide:** Information to facilitate accountability; a means of identifying areas for review; a means of monitoring policy implementation and success; information on the potential productivity improvements of a Public Sector entity; 

Assistance for the resource allocation/budgeting process by providing the means of allocating funding between competing needs, based on priorities and performance cost/benefit, rather than historic precedent; and powerful internal management tool for the Public Sector entities - they provide Managers with an idea of how efficient they are, and may explain areas of poor performance as well as identify appropriate leading performers.

**4.2.4 AUDITING REFORM**

*Shifting from Traditional Auditing System to Performance Audit System.* Traditional auditing systems are viewed as a process-oriented task that measures success by comparing audit work to generally accepted auditing standards. This type of audit aims at ensuring that the public sector does not spend more than was approved by the Parliament, in the Budget and that it has been spent on the goods and services which are determined by the Parliament. So the traditional task of this type of audit is to audit the legality and regularity of the disbursement of public sector fund allocations. In the present times, public sector entities are required to continue performing in the most economical and efficient manner. This implies the requirement for the audit of the public sector entities’ activities to be consistent with the Government Sector Reform initiatives, and not be constrained by the traditional audit methodology (Summa and Waerness, 1999).

*Performance Audit is the process of assessing objectives, programs, and their implementation coupled with economy, efficiency, and effectiveness.* In short, the shifting to Performance Audit is fundamental to: Achieve considerable savings in public money through improved administration; assist the parliament in its role of holding the government-of-the-day to account, this through providing valuable information about the government operational performance; assess the management and operational performance of governmental entities and consider questions of economy, efficiency and administrative effectiveness of operations for which management is responsible; provide Parliament and the public with critical evaluations of a wide range of public sector activity in all governmental organizations and not to be confined to financial statements audits; and add value to public sector management with constructive criticism and recommendations for improvement and not only report on performance. In addition, the auditing reform will inevitably require a new criterion to be established for “performance” auditors in that their audit should measure the value-added factor in the public sector performance. In this regard, performance auditors should make themselves knowledgeable, at the very start of the performance audit work process, of the expected/likely socio-economic outcomes of the outputs/results achieved by the particular Public Sector entity. The proper and accurate assessment of the socio-economic outcomes should take center stage throughout the audit process (Gendron, Cooper, & Townley, 2000 & 2007). In order to add value from conducting the audit process, the following questions should be asked at each audit stage: What is the impact of the audit?
What savings will emerge from the audit? What value is being added by the audit? However, the shifting to performance audit involves certain technical considerations that need to be carefully examined. Examples of these considerations are shown below:

A. Establishing Audit Criteria should comprises the following: Sources and Types of Criteria in Performance Audit; Criteria in Performance Audit; How to Determine Performance Audit Criteria? General Criteria; Specific Criteria; and Elements of Performance Audit Criteria (Kiraka, Clark, & Martinis, 2007). B. Executing Performance Audit considers: Objectives of Audit Program; Scope of Audit Program; Developing Performance Audit Program; Step-by-step Approach to Audit Program; and Carrying out Performance Audit Program.

C. Reporting Results of Performance Audit considers: Conditions for an Effective Performance Audit Report; Style of the Performance Audit Report; Structure of Audit Findings; Format of Performance Audit Report; Issues in Performance Audit Reporting; and Dissemination of the Report (Kahan, 1994).

Consequently, the Balanced Government Sector Reform will lead to improving the public management by creating value-for-money and facilitating the implementation of Results-Oriented Government as follows:

- Encouraging a greater emphasis on outputs and the achievement of the aims and objectives;
- Identifying the outputs and the processes by which they are produced;
- Making the decision-makers focus more on resources consumed and not just on cash spent;
- Treating the capital and current expenditure in a way which better reflect their different economic significance;
- Charging for all resources consumed including the use of capital assets and non-cash items;
- Producing more systematic information on what each department expenditure has achieved;
- Keeping tight control on public spending through the additional information that will be provided by accrual accounting and performance budgeting;
- Improving the way in which government conducts its public expenditure planning and control procedures at central and local government level;
- Reducing or eliminating the pressure for spending at the end of financial year (the year-end surge);
- Measuring whether the departments have achieved their results in terms of economy, efficiency, and effectiveness; and
- Making comparison of cost of services provided by the Public Sector with those of the private sector more straightforward.
Figure 3: The Path towards the Results-Oriented Government

New Public Management & New Public Governance

Results-Based Performance Measurements

Performance Audit

Output-based Budgeting

Accrual-Based Accounting

Results-Oriented Government

Balanced Government Sector Reform

Outcome Statements for the whole country (Government Agreement)
Articulate Government’s strategic priorities and objectives (Results/Outcomes)

Outcome Statement for each Ministry

Outcome Statements: between governmental entities heads and relevant minister. These are endorsed by Minister of Finance

Governmental entities then determine series of outputs (deliverable goods and services) relating to these outcomes. All outputs must relate to an identified outcome.

What may those outputs cost?

Planned performance: Performance Indicators: how the government and the community know whether that outputs and outcomes are being achieved in an efficient and effective way.
5. CONCLUSION

It is obvious that the currently used traditional government systems will not be able to provide the requisite information for an efficient and effective public sector management regime or assessment, evaluation, and enhancement of the value-added factor to the government economic resources, as well as services to the public. In addition, it has been noticed that the lack of efficient and effective public sector management is not only related to lack of management reform, or public sector accounting reform, or budgeting reform, or performance measurement reform, or performance audit reform and resulted-based culture but they are related to all of them. This means that the reform of public management without taking into consideration the public financial management reform is not going to solve the problem. Therefore, the adoption of Results-Oriented Government needs to be based a balanced public (government) sector reform that includes all the aforementioned systems. Consequently, in order to adopt Results-Oriented Government, it should be based on the following main components:

- Result-oriented Management System—New Public Management (NPM) and New Public Governance (NPG);
- Result-oriented Accounting System – Accrual Accounting System;
- Result-oriented Budgeting System – Output-based Budgeting System;
- Result-oriented Performance Measurement System-- Result-based Performance Measurement;
- Result-oriented Auditing System – Performance Audit; and
- Result-oriented Staff – Result-based Culture.

In addition:

No results-oriented government without setting and achieving strategic objectives and priorities;
No setting and achieving strategic objectives and priorities without results-based management;
No results-based management without performance-based budgeting;
No results-based budgeting without performance-based accounting system;
No performance-based accounting system without performance-based audit; and
No performance-based audit without result-based performance measurement
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ICGFM Ad Hoc Committee on Accounting Standards - Proposed Changes to the Cash Basis Standard

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Overview

It is our view that the Cash Basis standard is of great importance for two groups of users. Firstly, for sovereign governments will not implement accrual standards in the foreseeable future. The Cash Basis standard provides an international standard for such governments to publish IPSAS compliant General Purpose Financial Statements (GPFRS).

Secondly, for countries planning to transition to accrual, the Cash Basis standard provides a starting point and also a method of publishing IPSAS cash basis compliant GPFRS until full accrual is implemented.

A number of countries around the world have sought to publish GPFRS that are compliant with the Cash Basis standard. However, so far as it has been possible to determine, no country has been able to achieve full compliance (even though some claim to have done so). To be relevant the Cash Basis standard must be a feasibly achievable standard. The evidence is that at present this is not the case.

At the same time, if the Cash Basis standard is part of the overall IPSAS framework, then there needs to be a linkage between cash and accrual standards. This issue is addressed below.

1. Conceptual linkage between cash and accrual standards

The Conceptual Framework as developed by the International Public Sector Accounting Standards Board (IPSASB) does not address the issue of the relationship between the Cash Basis and Accrual Standards. We consider it important that the relationship is made explicit.

It is our view that the GPFRS as defined in the Cash Basis Standard should be envisaged as a sub-set of the GPFRS as defined in the accrual standards.

Under the Cash Basis standard the GPFRS contains three statements:

- Cash Flow statement (Statement of Receipts and Payments)
- Budget comparison (where appropriate)
- Notes and accounting policies.

These three statements are just three out of six statements required by IPSAS 1 for accrual financial statements. The additional accrual IPSAS statements are:

- Statement of Financial Position (Balance sheet)
- Statement of Financial Performance (Operating statement)
- Statement of changes in net assets/equity
This relationship of the Cash Basis standard as a sub-set of the accrual IPSAS is summarised in Figure 1 below.

Figure 1: Relationship between Cash Basis and accrual IPSAS

Note that this model also illustrates how the Additional Voluntary Disclosures under Part 2 of the Cash Basis standard provide the link between cash and accrual GPFRS.

The model in Figure 1 is important for four reasons:

1. The model defines the conceptual linkage between the IPSAS Cash Basis and accrual GPFRS
2. If the Cash Basis standard is a sub-set of accrual IPSAS then this logically defines the requirements of the Cash Basis standard as being limited to those within accrual IPSAS requirements
3. The model indicates how the Cash Basis standard Part 2 Additional Voluntary Disclosures can be used to incorporate some elements of accrual information whilst remaining compliant with the Cash Basis standard.
4. Hence the model provides a route from cash to accrual GPFRS whilst retaining IPSAS compliance.

Points 2 through 4 above are expanded in the sub-sections below.

Point 2: the model of the relationship defines the Cash Basis standard requirements

Since the Cash Basis standard is a sub-set of the accrual IPSAS then the requirements of the Cash Basis standard must be consistent with, and not exceed, those of the accrual IPSAS. However, at present the Cash Basis standard contains requirements that are not reflected in accrual IPSAS. Such requirements are identified and further discussed below.

The relationship also means that if additional disclosures are made under Part 2 of the Cash Basis standard such disclosures should be consistent with the requirements of any relevant
accrual IPSAS. For example, if information is provided on actual and contingent liabilities, then that information and presentation should be consistent with accrual IPSAS 19.

**It is our view that the requirements of the Cash Basis standard should be limited to the requirements within accrual IPSAS. Furthermore, there should be a specific requirement that additional disclosures under Part 2 of the Cash Basis standard should be consistent with any relevant accrual IPSAS in terms recognition, measurement and presentation.**

**Point 3: the model indicates how Part 2 of the Cash Basis standard can be utilized**

Many national governments publish GPFRS described as “modified cash” or “modified accrual”. The IPSASB has declined to define such basis for the valid reason that the concept is too vague and application of modified cash or modified accrual varies between countries.

However, Part 2 of the Cash Basis standard allows a country to publish IPSAS compliant GPFRS whilst also allowing such additional “modified” accrual or cash information, and without any need to define such terms.

This option already exists under the Cash Basis standard but has never been formally recognised by IPSASB. An entity that publishes GPFRS that comply with Part 1 of the Cash Basis standard may be compliant with that standard. This compliance remains even if the notes contain extensive additional information in accordance with Part 2 of the Cash Basis standard, and even if such additional information in the Notes amounts to modified cash or accrual information.

This feature can be useful for countries in either of two situations:

1. A country that is transiting to accrual (see the next sub-section), or
2. A country that has decided not to move to full accrual but desires to publish more information that the mandatory information under the Cash Basis standard.

**It is our view that the approach to using Part 2 of the Standard to provide some elements of accrual information should be specifically stated and explained in the Standard.**

**Point 4: the model provides a route from cash to accrual whilst continuing to publish IPSAS complaint GPFRS**

As noted above, a country that is in transition to accrual accounting can continue to present GPFRS compliant with the Cash Basis standard whilst publishing an increasing range of accrual IPSAS information in the Notes.

This facility is especially important for national governments where the move to accrual accounting and GPFRS is being driven from a national level and there is likely to be a long period whilst groups of accrual IPSAS are sequentially adopted and implemented. In such countries the transition period may extend over decades. During the transition it is important that such a country commences and continues to publish IPSAS compliant GPFRS.

The IPSASB Study 14 “Transition to the Accrual Basis of Accounting: Guidance for Public Sector Entities” does not address the above problem. IPSAS 33 “First Time Adoption of Accrual Accounting” only deals with the issue once all of the accrual IPSAS have been adopted.
There are two approaches to the problem publishing GPFRS of an extended transition to full accrual:

1. A country progressively adopts national public sector accounting standards. The national standards may be based on IPSAS. Adoption is sequenced over time. Thus at any stage the government or other public sector entities can publish GPFRS that are compliant with adopted national standards. This is the approach adopted, for example, by Tajikistan.

2. An alternative approach is that during the transition the country and sub-national entities continue to publish Cash Basis compliant GPFRS, but with progressively more accrual information being published in the Notes. This is the approach adopted, for example, by Georgia.

*It is our view that the Cash Basis standard should specifically refer to Option 2 above and explain how such an option can be applied.*

2. Requirements in the Cash Basis standard that are more onerous than accrual IPSAS requirements

As indicated above if the Cash Basis standards are a subset of accrual IPSAS, then it follows that the Cash Basis mandatory disclosure requirements should never be more onerous than those in accrual IPSAS. Thus the accrual IPSAS define the parameters for the Cash Basis standard. Yet in two cases the Cash Basis standard requirements are significantly more onerous than those in accrual IPSAS, as indicated below.

2.1 Third party payments

The inclusion of third part payments is unique to the Cash Basis standard, though the term “third party payments” is used in relation to construction contracts in IPSAS 11. There is no general requirement for accrual GPFRS to show third party payments.

As indicated above, in our view the Cash Basis standard should not contain requirements that are more onerous than requirements in accrual IPSAS. Hence we consider that the requirement to provide information on third party payments should be moved to Part 2 of the Standard as an encouraged additional disclosure.

We do consider that disclosure of third party payment information should be encouraged, because the information is needed for fiscal control and resource allocation. The payments for goods and services by third parties are part of the fiscal resources available to government and disclosure should be encouraged. We would also wish to see such disclosure being required under an accrual IPSAS.

In addition, the Cash Basis Standard should provide additional information and examples to guide the identification and presentation of information on third party payments. The Cash Basis Standard provides no guidance on the most important example of third party payments as described above.

A problem is that it is common practice of development partners to establish separate bank accounts for payments relating to a particular programme of assistance. There is a grey dividing line as to whether such bank accounts are in fact public money of the entity, or are bank accounts not controlled by the entity but used by the development partner for third party payments on behalf of the entity. Factors such as signatories on and control over the use of the bank account need to be taken into account. At present the Standard provides no guidance or examples on how to draw the dividing line.
We consider that the requirement to publish information on third party payments should be moved to Part 2 of the Standard as an encouraged additional disclosure. At the same time there should be improved guidance and examples of applying the concept of third part payments to national government GPFRS. Where appropriate, this requirement should also be included in the accrual IPSASs.

2.2 Information on external assistance

There are very specific requirements in Section 10 of Part 1 of the Cash Basis Standard on the disclosure of information about external assistance. Sections 64-93 in Part 2 of the Standard encourages yet more disclosure.

Accrual IPSAS 23 on Non-Exchange transactions refers to external assistance, but there are no specific disclosure requirements. The example in the implementation guidance to IPSAS 23 discloses information on a specific example of external assistance, but this is only under the general requirement to disclose major classes on non-exchange transactions. There is no general accrual IPSAS requirement to disclose information on external assistance.

Furthermore, the requirements for disclosure of information on external assistance are difficult to fulfil. This is one of the areas where Cash Basis GPFRS typically fail to fully comply with the Cash Basis Standard.

It is our view that the requirements for disclosure of information on external assistance should be moved to Part 2 of the Cash Basis Standard as an encouraged additional disclosure.

3. Issues making the Cash Basis standard difficult for full implementation by national governments

2.1 Consolidation

The Cash Basis Standard requires the preparation of consolidated statements for all controlled entities. For sovereign governments this will include some or all of:

- Not-for-profit entities, agencies and Funds that are under the control of central Government
- Government Business Enterprises (GBEs, referred to as Public Corporations in the IMF Government Financial Statistics Manual (GFSM)) and their subsidiaries
- Sub-national levels of government if these fall within the definition of controlled entities, and in such cases entities, agencies, funds and GBEs controlled by subnational levels of government.

This Cash Basis consolidation requirement is consistent with the accrual IPSAS other than that it is based on IPSAS 6, which has now been replaced by IPSAS 35.

There are a number of reasons why implementing the consolidation requirements of the Cash Basis standard has proved so challenging:

1. It is technically difficult to consolidate entities that report in an accrual basis (as is likely to be the case with GBEs) with government entities that report on a cash basis. Published GPFRS of the GBEs will not provide a detailed analysis of cash flows in a format...
consistent with the government cash chart of accounts. Additional unpublished analysis of the cash flows may be difficult to obtain and will lack the reliability of audited GPFRS.

2. Countries reporting under the Cash Basis may not have the skills or resources to carry out technically complex consolidations and may doubt the value of allocating limited resources to this task.

3. The consolidation structure under the GFSM is simpler than the IPSAS structure, being based on administrative structures, and may take precedence over IPSAS consolidation in terms of government priorities.

The GFSM consolidation structure is summarised in Figure 2 below.

**Figure 2: GFMS Consolidation Structure**

Under accrual IPSAS 22 it is permitted to provide additional statements consolidating the General Government Sector (GGS) as defined in the GFSM. In fact for most countries reporting under the Cash Basis a GGS consolidation provides a more feasible option to consolidation based on control.

It is our view that the present Cash Basis standard consolidation requirements are so onerous that it is unlikely that most countries reporting under the Cash Basis standard will ever be able to meet the requirement. Making GGS consolidation an option would be more feasible, but then the Cash Basis Standard would not be consistent with the accrual IPSAS.

**Hence it is our view that the whole of the consolidation requirement should be moved to Part 2 of the Standard as an encouraged disclosure. Furthermore, since Part 2 is more flexible, consolidation could be encouraged on either the control basis (as in IPSAS 35) or on the GGS basis (as in IPSAS 22).**

3. Other issues

3.1 Format of the Receipts and Payments (cash flow) Statement
Paragraph 2.2.1 of the Cash Basis Standard states “An entity which intends to migrate to the accrual basis of accounting is encouraged to present a statement of cash receipts and payments in the same format as that required by International Public Sector Accounting Standard (IPSAS 2), “Cash Flow Statements”. Presumably in other situations the format used in the examples in the Appendix to the Cash Basis standard is envisaged.

It is our view that the format of the presentation should always be in the IPSAS 2 cash flow statement format for the following reasons:

1. The model in Figure 1 above indicates the need for consistency between accrual IPSAS and Cash Basis Standard presentation as far as feasible
2. The cash flow statement format provides useful information for fiscal management - the traditional receipts and payments format is less useful
3. The cash flow format is largely consistent with GFSM cash flow statement format.

It is our view that instead of the existing paragraph 2.2.1 the Standard should more simply require presentation of the receipts and payments in a format consistent with IPSAS 2 cash flow statement.
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