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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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 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: $1,500)

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)

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Foreword

Public sector reform is no longer confined to the developed countries. It will be unfair, even for the sake of academic argument, to claim that there have been no reforms with regard to improving the quality of public services in developing countries. The developing countries are increasingly reforming their public sectors to make them less greedy of scarce public resources, more efficient, more competitive and more customer-focused. One of the most important reforms is the public sector accounting reform. Accounting and reporting in the public sector are the sole sources of information for monitoring and making effective management decisions and achieving the accountability and transparency in the public sector. Therefore, this current issue focuses mainly on the accounting reform in the public sector of developing countries.

The first article of this issue deals with the adoption of IPSAS in the public sector of Indonesia. In this article, Ibrahim Wijaya and his colleagues have attempted to investigate the conformity of the contents of Indonesian Government Accounting Standards with IPSASs. The findings of this study indicated that Indonesian Government Accounting Standards have already presented five elements of financial reports recommended by IPSASB, namely, balance sheet, cash flow statement, operating statement, statement of changes in net assets/equity, and accounting practices and financial statement notes.

The second article focuses on public sector accounting and financial reporting reforms in Sri Lanka. In this paper, Nagalingam Nagendrakumar has addressed the implementation process of the accounting and financial reporting reforms and argues that it should be appropriate to the context of international and country-specific constituents and should map sequential steps which should be logically appropriate for institutionalizing the reforms. The findings suggested that there is a need for a more pragmatic approach to identifying the right accounting reforms and their implementation.

The third article deals with the lack of actual use of accounting information in the public sector by different users, as they claim that this information is not practice-relevant. In this paper, Hassan Ouda has used a Practice-oriented Co-design Approach with the aim of conceptualizing a dynamic model for designing an accrual accounting and financial reporting system. This system can produce the practice-relevant financial information which takes into account the diverging needs of different stakeholders and can be used and appreciated by politicians and other users.

In the fourth article, Tetiana Iefymenko and Liudmyla Lovinska deal with the experience of Ukraine in implementation of IPSAS in the context of cooperation with the United Nations.

In the last contribution, Michael Parry and Jesse Hughes describe a structured but flexible approach to sequencing the modernisation of government financial reporting. The paper recognises the dual issues of moving to accrual accounting and expanding the reporting entity (consolidation), and the fact that such modernisation of financial reporting is likely to extend over many years.

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 contribute to the next issue of this Journal and/or attend future ICGFM events. We would also be pleased to receive reviews and suggestions for future issues. Send them to icgfm@icgfm.org.

We look forward to hearing from you!
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The Adoption of IPSASs: A Study in Indonesia

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Abstract

The aim of this paper is to investigate the conformity of the contents of Indonesian Government Accounting Standards with IPSASs. Material harmonisation study was conducted by comparing IPSASB's minimum recommendations on financial report with Indonesian Government Accounting Standards promulgated in Government Regulation “PP” 71/2010. The current study found Indonesian Government Accounting Standards has already presented five elements of financial reports recommended by IPSASB namely, balance sheet, cash flow statement, operating statement, statement of changes in net assets/equity, and accounting practices and financial statement notes. In addition, along with 76 items on each element recommended by IPSASB, Indonesia has already presented 71.05% of the items.

Keywords: government accounting standards, IPSASs, accrual accounting.

Introduction

The past twenty years have seen increasingly rapid advances in the field of Indonesian government accounting standards. Prior to the government accounting reform was discharged in the late 1998, Indonesian government only report cash and its change on its financial report (PSASP, 2003). Therefore, there was no information on asset, liability, and equity. Robinson and Harun (2004) believe that this cash basis system was not appropriate for planning and decision making tools.

Seemingly, it is becoming increasingly difficult to ignore the role of International Public Sector Accounting Standards (IPSASs) in shaping government's accounting reform in Indonesia. One important attempt had been made in the late 2002 was the release exposure draft on public sector accounting standard by Public Sector Commission-Indonesia Chartered Accountant (PSASP, 2003). It was claimed that the exposure draft was the translation of the 6 topics covered in IPSASs (PSASP, 2003). This adoption was in accordance with Chan (2006) suggestion. There are some reasons for developing countries that adopt IPSASs, such as majority of the developing countries do not have government's accounting standards that are similar or better than IPSASs and IPSASs could offer some advantages for assisting government's accounting reforms (Chan, 2006).

However, government's accounting reforms in developing countries are more difficult to be executed as compared to developed countries. Cost for applying the reforms is one of the problems (Chan, 2006). International Public Sector Accounting Standard Board (IPSASB) has captured this difficulty. Developing countries could discharge government reforms at a lower cost by avoiding "re-inventing the wheel", that is IPSASs adoption (Sutcliffe, 2003). According to Sutcliffe (2006), there are many benefits of the IPSASs, such as it could be used for
increasing transparency, quality, consistency, and usefulness of the government's financial reports.

In recent years, there has been an increasing interest in the study of IPSASs’ implementation around the world. However, there are only a few published articles that contain the study about IPSASs, especially in developing countries. As Chan (2006, p.35) stated that “Thus it is puzzling why developing countries did not receive emphasis early, despite the sponsors’ institutional responsibilities and apparent interest”. This could rise because the harmonisation and standardisation of government accounting is considered less important and relevant as compared to business accounting and to the area that does not belong to supranational union or international organisation (Benito et al., 2007). In addition, the standard itself is mainly developed from International Accounting Standards (IAS), which are mostly adopted by Anglo-Saxon countries (IFAC, 2011; Christiaens et al., 2010). Moreover, the strategy and approach on developing accounting standards for public sector within accrual accounting context is the adoption of International Financial Reporting Standard (IFRS) as a basis of IPSASs (IFAC, 2011; Sutcliffe, 2003).

A growing body of literature, in recent years, has attempted to explain public sector accounting in Indonesia (Djamhuri, 2009; Marwata & Alam, 2006; Robinson and Harun, 2004; Harun, et al, 2013; McLeod and Harun, 2014; Wijaya, et al, 2016). The phenomenon of the release of Indonesian Government Accounting Standard promulgated by government's regulation (PP) 71/2010, becomes the base of this study. The present paper aims at studying the conformity of the contents of Indonesian Government Accounting Standards with IPSASs based on documentary analysis. A comparison between Indonesian Government Accounting Standards and IPSASs would be conducted to gain an understanding of the conformity. Further study in developing countries, especially in Indonesia, needs to be conducted because it has some special characteristics different from other countries. However, it should be noticed that this study has limitations of scope. The triangulate multiple sources of data from interview or questionnaire (primary data) could not be conducted since it is mainly based on documentary analysis. Therefore, the result could not be generalised in broader perspectives.

**Accrual Accounting Needs**

IPSASB supports every country to adopt the accrual basis and also facilitates the transition from cash basis to accrual basis that provides more advantages for describing government's performance (IFAC, 2011; Chan, 2006; Pina and Torres, 2003). Chan (2006) even proposes that government in developing countries have greater needs for accrual accounting since it could reduce liquidity and solvency risk problems. In addition, Hepworth (2003) points out that World Bank and IMF also encourage government to adopt accrual accounting.

The rise of the new public management (NPM) promotes the replication of the private sector style inside the public sector (Lapsley, et al, 2009; Hood, 1995). However, it need to be noticed that the fundamental difference between public sector and private sector, which is profit vs. non-profit oriented, should be deemed the adoption of IASs (Sutcliffe, 2003). In addition, Lapsley et al. (2009), raises a deep question that why there were no limitations discussed in the accrual accounting application for public sector area on the IFAC report. Numerous studies have attempted to explain the accrual accounting in public sectors for example: Khan & Mayes, 2009; Christiaens & Rommel, 2008; Hepworth, 2003; and Guthrie, 1998, Craner & Jones, 1990. These studies describe the benefits, limitations, and the application of accrual accounting in public sectors.
However, the implementation of accrual accounting in some countries is not without problems. The problems that hinder the implementation are knowledge and skill of government’s officer (Azmi and Mohamed, 2014), unstable political situation (Tickell, 2010), low level of human capacity and resource (Adhikari and Mellemvik, 2011) and lack of accounting system and difficulty in recording assets (Van Wyk, 2007). While in Indonesia, there are two problems in accrual accounting issue, first, lack of government’s officers who expert in accrual accounting and second, lack of detail and comprehensive regulation in the accrual accounting implementation (Wijaya et al., 2016).

The benefits and limitation of IPSASs

Arguably, the main reason of development of IPSASs is to ensure the transparency and quality of the government's financial reports. Sutcliffe (2003) lists advantages of the development and promotion of IPSASs, such as to provide benchmark of financial reporting, to maintain consistency, to harmonize financial report between countries, internal user could increase the quality of its government's financial report, to provide greater efficiency and effectiveness of audit and financial statement analysis, and the developing countries could access financial reporting expertise and other resources at a lower cost. In addition, Benito et al. (2007) argues that the public sector reform could be implemented easier with the availability of IPSASs. Benito et al. (2007) concludes that IPSASs could be used in the development of new standards, the revision of standards, or in the countries or entities that has no standards yet.

Two main characteristics of IPSASs are the adoption of business standards and the strong influence of the Anglo-Saxon countries (Benito et al., 2007). Arguably, the adoption of private sector accounting style into government accounting is not without critiques. International Accounting Standards (IAS) is a set of standards that is written for business. Arguably, public sector has more aspects that should be covered. In addition, the IAS is created in order to help companies prepare financial report for investors and creditors. Hence, IPSASs only focuses on government’s financial report and neglect the wider part in accounting, such as management accounting, auditing, and finance (Jones, 2004).

Many developed countries in Europe have decided not to adopt IPSASs. The main reason for not adopting IPSASs is the accounting legislation, which is already based on local business accounting rules (Christiaens et al., 2010). Seemingly, IPSASs cannot play a main role in the government's accounting reform in developed countries, particularly in Europe. Most of the countries have already applied non-IPSASs accrual accounting, including leading countries, such as UK, France, and Germany (Ernst & Young, 2010).

Mautz (1989) also concludes that public sector is different to private sector. Therefore, it needs different financial reporting. Mautz (1989) questions the classification of building, libraries, museum, highways, or parks in public sector as assets. These service facilities do not produce probable future cash inflow for the government. Moreover, Mautz (1989) also suggests that depreciation is not appropriate for service facilities. It is better expensed rather than capitalized.

Carolini (2010) highlights the problem in the diversity of IPSASB and development standards process. To date, IPSASB members have represented from different regions and different level of income. However, Carolini (2010) concludes that mostly the comment of the “Exposure Draft” is derived from the English speaking countries and high-level income countries. These barriers could result in the development of standards that do not reflect the needs and “best practice” from low-level income countries (Carolini, 2010).
Despite the advantages IPSASs could offer, it should be noticed that there are some limitations of IPSASs. Another point is, if IPSASs encourage countries to adopt accrual, it should notice the capacity constraint of the countries before it moves to accrual based accounting systems. Chan (2006) suggests that IPSASs implementation in developing countries should be accompanied by a robust internal control. Lack of reliability in the transactions' recording, fraud and corruption in government finance, and lack of financial integrity often occurs in developing countries. The government's financial statement is not guaranteed to be free from fraud and misconduct despite the government adopts IPSAs.

**Uniformity and Harmonization**

IPSASB, in its main objective, mentions public sector accounting standards could enhance the uniformity of financial report between countries. In addition, the IPSASs have a role in increasing harmonisation of financial reports between countries (Benito et al., 2007; Sutcliffe, 2003). Fuertes (2008) concludes that the main difference in standardisation and harmonisation is in the term of strictness. According to Benito, et al (2007) harmonisation still allows for alternative case while standardisation does not.

Fuertes (2008) finds that IPSASs’ content consists of two items which are disclosure requirements where an item is recognised and what aspects are to be disclosed, and how. The other item is measurement, which deals with how much the item is recognised. The disclosure items have dominated IPSASs by around 77.31% while 22.69% deals with measurement items (Fuertes, 2008).

However, as regards the implementation practices, the “uniformity” objective as stated by IPSASB is not without barriers. Different conditions in every country including culture, historical background, legal system, political, users of financial report, and structural elements cause the diversity and difficulty in the government accounting reform (Pina and Torres, 2003). Benito et al. (2007) also points out that the implementation of IPSASs in the continental countries would be more difficult as compared to Anglo-Saxon countries. Potential barriers would be lower in Anglo-Saxon countries because IPSASs is mainly influenced by Anglo-Saxon accounting traditions (Fuertes, 2008).

Another barrier occurs in promoting IPSASs implementation, which is derived from the power to enforce. IPSASB has no power to force every country to adopt IPSAS in order to achieve fully uniformity of financial report (Christiaens et al., 2010; Carolini, 2010). Arguably, the natural way of the process of adoption is cooperation. As IFAC (2011, p6) stated:

“The IPSASB cooperates with national standard-setters in preparing and issuing Standards to the extent possible, with a view to sharing resources, minimizing duplication of effort and reaching consensus and convergence in standards at an early stage in their development”.
IPSASs Adoption in Practices

Christiaens et al. (2010), in the research, produces information about the variation of financial information systems in 17 European countries regarding the use of basis accounting system, the reason of the countries to link or not to link its accrual accounting to IPSASs, and also the reason of the countries to adopt or not to adopt accrual accounting. Surprisingly, most of the countries being studied choose not to adopt IPSASs. The IPSASs is applied weakly in European countries because the IPSASs are relatively unknown and not suitable with local accounting rules (Christiaens et al., 2010).

Benito et al. (2007) in their study divided three groups according to their level of conformity index of IPSASs. Benito et al. (2007) found that New Zealand, Sweden, Australia, US, Mexico, Holland, and UK are countries with high level of conformity index. Benito et al. (2007) argues that these countries mainly comprise of Anglo-Saxon countries. The medium level of conformity countries consists of Portugal, Finland, Spain, Belgium, and Italy. Their conformity level ranges from 49% to 70%. The last group consists of Argentina, Canada, Switzerland, Austria, Chile, and Norway. Their conformity level is below 50%.

The wave of public sector accounting reforms also happened in Central and Latin America countries. Perez & Hernandez (2007) compare financial statement produced by Latin-America countries with the IPSASs recommendations. Perez and Hernandez (2007) analyse the level of compliance IPSASs is based on. They are five elements of financial statement that should be provided by the countries (IPSAS 1) and 76 aspects that should be provided in five elements. Perez and Hernandez (2007) found that only Argentina, Colombia, Panama, and Peru obtained around 50% of information that should be provided in the financial statement as recommended by IPSASB. The low level of compliance was caused by different policy regarding transparency and disclosure in every country (Perez & Hernandez, 2007).

Leandro et al. (2011) also conducts a comparative study adoption of IPSASs in Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Panama. Some actions, in order to adopt IPSASs, have been implemented by the countries, such as action plan covering the design, implementation and evaluation and training, promulgation of legislation, and also hiring international consultant to support the decision of IPSASs adoption (Leandro et al., 2011).

Leandro et al. (2011) find that some problems arise regarding the implementation practices that are highly centralised trend setters and makes academician, professional college, or external audit firms participate in low degree of the IPSASs implementation, cost, and lack of IT. Finally, Leandro et al. (2011) concludes that the level of convergence between financial statements and IPSASs recommendation is not so high and needs to be improved.

Indonesian Government’s Accounting Standards

Indonesian Government’s Accounting Standards or “PSAP” is promulgated by government regulation 71/2010. Prior to this, Law 17/2003 was launched and required all government institutions to apply accrual accounting for their financial report. It is stated that the government agencies should apply accrual accounting maximum 5 years after the Law launched. However, this Law had no great practical effect until 2008 and even eleven years later or in 2014, the Law still had no great practical effect since majority of the local governments still using cash towards accrual basis. This could be occurred since government regulation 71/2010 allows entities to choose either full accrual based or cash toward accrual based. Therefore, it provides two attachments of accounting standards, full accrual and cash towards accrual. It could be concluded that the movement to use full accrual basis in Indonesia in a very slow.
Halim and Kusufi (2012) mentions that under government regulation 71/2010 government agencies should produce 3 main reports, such as budgeting report (cash basis), financial report (accrual basis), and notes to the financial statements. Therefore in a transaction, there will be two opportunity of recording (journals), first, transaction will be recorded in both journal based on budgeting and financial or second, the transaction will be recorded only in financial journal (accrual based). This could be happening since the budgeting report only mention the revenue, the expense, and the financing activities. Table 1 shows the Government accounting standards.

Table 1. Indonesian Government Accounting Standards based on PP 71/2010

<table>
<thead>
<tr>
<th>SAP 01</th>
<th>Presentation of Financial Statements</th>
</tr>
</thead>
<tbody>
<tr>
<td>SAP 02</td>
<td>Budget Realisation Report Based on Cash</td>
</tr>
<tr>
<td>SAP 03</td>
<td>Cash Flow Statement</td>
</tr>
<tr>
<td>SAP 04</td>
<td>Notes of Financial Statement</td>
</tr>
<tr>
<td>SAP 05</td>
<td>Accounting for Inventories</td>
</tr>
<tr>
<td>SAP 06</td>
<td>Accounting for Investment</td>
</tr>
<tr>
<td>SAP 07</td>
<td>Accounting for Fixed Assets</td>
</tr>
<tr>
<td>SAP 08</td>
<td>Accounting for Construction on Contracts</td>
</tr>
<tr>
<td>SAP 09</td>
<td>Accounting for Liabilities</td>
</tr>
<tr>
<td>SAP 10</td>
<td>Accounting for Changes in Accounting Policy, Errors, and Extraordinary Events</td>
</tr>
<tr>
<td>SAP 11</td>
<td>Consolidated Financial Statement</td>
</tr>
<tr>
<td>SAP 12</td>
<td>Operating Statement</td>
</tr>
</tbody>
</table>

Source: Government Regulation PP 71/2010

The Degree of Consistency of Indonesian Government Accounting Standards with IPSASs

In order to answer the degree of consistency between PSAP and IPSASs, material harmonisation study is conducted. The research methodology from Perez & Hernandez (2007) will be used to measure the degree of conformity.

The study will compare the minimum requirements of financial statement recommended by IPSASB with items that have already been provided by PSAP. The comparison will be indexed in two levels:

Level One: Five elements of financial statement as stated in IPSASs 1 will be compared with the elements that are provided in PSAP irrespective of their contents. Those five elements are: balance sheet, cash flow statement, operating statement, statement of changes in net assets/equity, and accounting practices and financial statement notes.

Level Two: Compares the minimum contents that are recommended by IPSASB in each five elements of financial statement with the contents provided on PSAP. Total 76 items were selected.

In order to score level one, score 1 will be given if PSAP provide elements of financial statement and score 0 will be applied if PSAP does not provide the element required by IPSASB. The total score is obtained by dividing the total number with 5. All items have same weight.
In order to score the items in level two, 76 items were weighed in the same degree. Score 1 is applied if PSAP provides the item, or score 0 will be applied if PSAP does not provide the item. The items will be divided into 5 groups. The formula is as follows:

\[ TC = \frac{\text{TRIPSAS}}{m} \times 100 \]

TC = Second Level of consistency

TRIPSAS = Total minimum IPSAS requirements fulfilled by the country

M = Number of items

Partial indexes for each financial statement are: TCb for balance sheet, TCp for operating statement, TCc for cash flow statement, TCn for the statement of changes in net assets, and TCs for the notes of financial statements.

In the first level degree of consistency with IPSASs, PSAP score 100%. 5 out of 5 of the elements of financial statement recommended by IPSASs no 1 provided by PSAP. Table 2 shows first level conformity with IPSASs.

<table>
<thead>
<tr>
<th>Items</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance sheet</td>
<td>1</td>
</tr>
<tr>
<td>Statement of financial/operating statement</td>
<td>1</td>
</tr>
<tr>
<td>Statement of changes in net assets/Equity</td>
<td>1</td>
</tr>
<tr>
<td>Statement of cash flow</td>
<td>1</td>
</tr>
<tr>
<td>Accounting practices and financial statement notes</td>
<td>1</td>
</tr>
</tbody>
</table>

First level degree of consistency 5 out of 5 100%

In the second level, consistency with balance sheet, PSAP scores 88.24%. PSAP provided 15 out of 17 items to be presented in balance sheet. Two items that do not conform are, firstly, the short and long term receivables in PSAP (not disclosed separately); secondly, the current portion of borrowing is not disclosed separately. The current portion of borrowing is included in other current liabilities items. Appendices 1 to 5 show second level consistency of PSAP.

Interestingly, PSAP provides 100% items on the Operating Statement and Cash Flow Statement. However, PSAP only shows three out of six items (50%) recommended by IPSASB on the statement of changes in net asset/equity. Finally, PSAP provides 20 out of 37 (54.05%) items recommended by IPSASB in the notes of financial statement. The total degree of consistency in level two is 71.05%. The score shows that at least IPSASs is well applied in Indonesia. Indonesia, clearly, still needs to work more to produce better statement of changes in net asset/equity and notes of financial statement. It could be said that Indonesia has moved along IPSASB direction by applying 100% recommendation on IPSAS 1 and 71.05% by applying items that has been recommended by IPSASB for each financial statement elements.
Conclusion

It needs to be noticed that the Indonesian Government Accounting standards, which are already applied in IPSASs recommendations, do not reflect a good implementation in practice since many government agencies have not been applied full accrual basis yet. Indeed, several barriers need to be overcome by the government supported by academician and accountancy profession. Arguably, one of the main problems is human resource. Harun, et al (2013) argues that accrual accounting implementation needs to be supported by government agencies who capable producing accrual accounting. The recommendation of using either full accrual or cash toward accrual in PP 71/2010 could be seen as a “compromise” strategy discharged by Indonesian Government to adjust the problem.

The adoption of accrual based IPSASs in Indonesia, is a part of the government's accounting reforms in Indonesia. Two interesting points argued by Sutcliffe (2003) and Benito et al. (2007), are the increase in the quality of government's financial report and cost of IPSASs' implementation. Arguably, these advantages would be suitable with the condition of Indonesia. Indonesia, prior the promulgation of the first government's accounting standards (Financial Ministry Decree 337/2002), only produced budget realisation report for all government entities based on cash basis. It would also be very costly and time consuming for Indonesia to develop its new government accounting standards. Marwata & Alam (2006) find that among main player actors of public sector accounting reforms in Indonesia, there is a lack of goal congruence and coordination. Therefore, IPSASs could become the solution for the effective and efficient government accounting reforms in Indonesia. Despite IPSASs provide better quality of government’s financial reporting than the Dutch accounting system, several preconditions need to be envisaged cautiously. It could be concluded that Indonesia has moved along IPSASB direction. Indonesia has already implemented what IPSASB recommended at relatively high level. However, a further research needs to be conducted in the context of implementation on Indonesian Government Accounting Standards.
REFERENCES


### Appendices

#### 1. The second level of consistency of the balance sheet

<table>
<thead>
<tr>
<th></th>
<th>Items to be presented on the face of the balance sheet</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Non-financial fixed assets</td>
<td>1</td>
</tr>
<tr>
<td>1.1</td>
<td>Tangible assets</td>
<td>1</td>
</tr>
<tr>
<td>1.2</td>
<td>Intangible assets</td>
<td>1</td>
</tr>
<tr>
<td>1.3</td>
<td>Investments</td>
<td>1</td>
</tr>
<tr>
<td>1.4</td>
<td>Short and long-term financial assets disclosed separately</td>
<td>1</td>
</tr>
<tr>
<td>1.5</td>
<td>Receivables</td>
<td>1</td>
</tr>
<tr>
<td>1.6</td>
<td>Short and long-term receivables disclosed separately</td>
<td>0</td>
</tr>
<tr>
<td>1.7</td>
<td>Cash and cash equivalents</td>
<td>1</td>
</tr>
<tr>
<td>1.8</td>
<td>Prepayments</td>
<td>1</td>
</tr>
<tr>
<td>1.9</td>
<td>Payables</td>
<td>1</td>
</tr>
<tr>
<td>1.10</td>
<td>Short and long-term payables disclosed separately</td>
<td>1</td>
</tr>
<tr>
<td>1.11</td>
<td>Borrowing</td>
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</tr>
<tr>
<td>1.12</td>
<td>Short and long-term borrowings disclosed separately</td>
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</tr>
<tr>
<td>1.13</td>
<td>Current portion of borrowing disclosed separately</td>
<td>0</td>
</tr>
<tr>
<td>1.14</td>
<td>Provision</td>
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</tr>
<tr>
<td>1.15</td>
<td>Net asset/equity</td>
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</tr>
<tr>
<td>1.16</td>
<td>Current and non-current asset and current and non-</td>
<td>1</td>
</tr>
<tr>
<td>1.17</td>
<td>non-current liabilities as separate classification</td>
<td></td>
</tr>
<tr>
<td></td>
<td>or in order of their liquidity</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total minimum IPSAS requirements for the balance</td>
<td>15</td>
</tr>
<tr>
<td></td>
<td>sheet fulfilled by the country (TRIPSASb)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>CURRENT LEVEL OF CONSISTENCY OF THE</td>
<td></td>
</tr>
<tr>
<td></td>
<td>BALANCE SHEET (mb=17) TCB = (TRIPSASb/mb) X 100</td>
<td>88.24</td>
</tr>
<tr>
<td></td>
<td>%</td>
<td></td>
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2. The second level of consistency of the operating statement

<table>
<thead>
<tr>
<th>2</th>
<th>Items to be presented on the face of operating statement</th>
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</tr>
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<tbody>
<tr>
<td>2.1</td>
<td>Revenue from operating activities</td>
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<tr>
<td>2.2</td>
<td>Surplus or deficit from operating activities</td>
<td>1</td>
</tr>
<tr>
<td>2.3</td>
<td>Finance cost</td>
<td>1</td>
</tr>
<tr>
<td>2.4</td>
<td>Surplus or deficit from ordinary activities</td>
<td>1</td>
</tr>
<tr>
<td>2.5</td>
<td>Extraordinary items</td>
<td>1</td>
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<tr>
<td>2.6</td>
<td>Net surplus or deficit for the period</td>
<td>1</td>
</tr>
<tr>
<td>2.7</td>
<td>Expenses are aggregated according their nature, programme, or purpose for which they were made</td>
<td>1</td>
</tr>
</tbody>
</table>

Total minimum IPSAS requirements for the operating statement fulfilled by the country (TRIPSASp) 7

SECOND LEVEL OF CONSISTENCY OF THE OPERATING STATEMENT (mp=7) TCp=(TRIPSASp/mp) X 100 100%

3. The second level of consistency of the cash flow statement

<table>
<thead>
<tr>
<th>3</th>
<th>Items to be presented on the face of the cash flow statement</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>3.1</td>
<td>Net use of cash payments arising from operating activities disclosed separately</td>
<td>1</td>
</tr>
<tr>
<td>3.2</td>
<td>Major classes of gross cash receipts and gross from operating activities disclosed separately</td>
<td>1</td>
</tr>
<tr>
<td>3.3</td>
<td>Use of net cash payments arising from investing activities disclosed separately</td>
<td>1</td>
</tr>
<tr>
<td>3.4</td>
<td>Major classes of gross cash receipts and gross from investing activities disclosed separately</td>
<td>1</td>
</tr>
<tr>
<td>3.5</td>
<td>Net use of cash payments arising from financing activities disclosed separately</td>
<td>1</td>
</tr>
<tr>
<td>3.6</td>
<td>Major classes of gross cash receipts and gross from financing activities disclosed separately</td>
<td>1</td>
</tr>
<tr>
<td>3.7</td>
<td>Cash flows associated with extraordinary items disclosed separately</td>
<td>1</td>
</tr>
<tr>
<td>3.8</td>
<td>Cash flows associated with interest received and paid as either operating, investing, or financing activities disclosed separately</td>
<td>1</td>
</tr>
<tr>
<td>3.9</td>
<td>Reconciliation of the amounts in the cash flow statement with the equivalent items reported in the statement of financial position disclosed</td>
<td>1</td>
</tr>
</tbody>
</table>

Total minimum IPSAS requirements for cash flow fulfilled by the country (TRIPSASc) 9

SECOND LEVEL OF CONSISTENCY OF THE CASH FLOW STATEMENT (mc=9) TCc=(TRIPSASc/mc) X 100 100%
4. The Second level of consistency of the statement of the changes in net assets/equity

<table>
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<tr>
<th></th>
<th>Items to be presented on the face of the changes in net assets/equity</th>
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<tbody>
<tr>
<td>4</td>
<td>Net surplus or deficit for the period</td>
<td>1</td>
</tr>
<tr>
<td>4.2</td>
<td>Each item or revenue and expense, which is recognised directly in net asset/equity and total of these items</td>
<td>0</td>
</tr>
<tr>
<td>4.3</td>
<td>Contributions by owners and distribution by owners, in their capacity as owners</td>
<td>0</td>
</tr>
<tr>
<td>4.4</td>
<td>Cumulative effect of changes in accounting policy and the correction of fundamental errors</td>
<td>1</td>
</tr>
<tr>
<td>4.5</td>
<td>The balance of accumulated surpluses or deficits at the beginning of the period and at the reporting date and movements for the period</td>
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</tr>
<tr>
<td>4.6</td>
<td>A reconciliation between the earning amount of each component of net asset/equity at the beginning and end of the period</td>
<td>0</td>
</tr>
</tbody>
</table>

Total minimum IPSAS requirements for statement of changes in net assets fulfilled by the country (TRIPSASn) 3

SECOND LEVEL OF CONSISTENCY OF THE ASSET/EQUITY (mn=6)

\[ TCn = \frac{TRIPSASn}{mn} \times 100 \]

50%
5. The Second level of consistency of notes to the financial statements

<table>
<thead>
<tr>
<th>5</th>
<th>Information presented in the main section or in the notes to the financial statements</th>
</tr>
</thead>
<tbody>
<tr>
<td>5A</td>
<td>Supporting information for the items included in the balance sheet (further sub-classifications of line items included)</td>
</tr>
<tr>
<td>5.1</td>
<td>Tangible assets show separately</td>
</tr>
<tr>
<td>5.1.1</td>
<td>Land and buildings</td>
</tr>
<tr>
<td>5.1.2</td>
<td>Plant and equipment</td>
</tr>
<tr>
<td>5.1.3</td>
<td>Infrastructure asset</td>
</tr>
<tr>
<td>5.1.4</td>
<td>Accumulated depreciation</td>
</tr>
<tr>
<td>5.2</td>
<td>Net assets/equity shown separately</td>
</tr>
<tr>
<td>5.2.1</td>
<td>Reserves</td>
</tr>
<tr>
<td>5.2.2</td>
<td>Accumulated surpluses/deficits</td>
</tr>
<tr>
<td>5.2.3</td>
<td>Capital contributed by other government entities</td>
</tr>
<tr>
<td>5.3</td>
<td>Intangible asset</td>
</tr>
<tr>
<td>5.4</td>
<td>Investments</td>
</tr>
<tr>
<td>5.5</td>
<td>Receivables</td>
</tr>
<tr>
<td>5.6</td>
<td>Cash and cash equivalents</td>
</tr>
<tr>
<td>5.7</td>
<td>Prepayments</td>
</tr>
<tr>
<td>5.8</td>
<td>Payables</td>
</tr>
<tr>
<td>5.9</td>
<td>Provision shown separately</td>
</tr>
<tr>
<td>5.9.1</td>
<td>Employee benefits</td>
</tr>
<tr>
<td>5.9.2</td>
<td>Other provisions</td>
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<td>Borrowing</td>
</tr>
<tr>
<td>Total section A</td>
<td></td>
</tr>
<tr>
<td>5B</td>
<td>Supporting information for the items included in the operating statement</td>
</tr>
<tr>
<td>5.11</td>
<td>A sub-classification of total revenue</td>
</tr>
<tr>
<td>5.12</td>
<td>An analysis of expenses using a classification based on either the nature of expenses or their function within entity</td>
</tr>
<tr>
<td>Total section B</td>
<td></td>
</tr>
<tr>
<td>5C</td>
<td>Supporting information to the financial statement in general:</td>
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<td>5.13</td>
<td>Cross references to any related information in the notes</td>
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<td>Measurement basis used</td>
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<td>Specific accounting policy on:</td>
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<td>5.15.1</td>
<td>Revenue recognition</td>
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<td>5.15.2</td>
<td>Consolidation principles</td>
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<tr>
<td>5.15.3</td>
<td>Investments</td>
</tr>
<tr>
<td>5.15.4</td>
<td>Recognition and depreciation/amortisation of tangible and intangible assets</td>
</tr>
<tr>
<td>5.15.5</td>
<td>Capitalisation of borrowing costs and other expenditure</td>
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<td>5.15.6</td>
<td>Construction contracts</td>
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<td>Investments properties</td>
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<td>5.15.8</td>
<td>Financial instruments and investments</td>
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<td>5.15.9</td>
<td>Employee benefit cost</td>
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<td>Research and development cost</td>
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<td>5.15.11</td>
<td>Provisions</td>
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<td>5.15.12</td>
<td>Foreign currency translation and hedging</td>
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<tr>
<td>5.15.13</td>
<td>Inflation accounting</td>
</tr>
<tr>
<td>5.16</td>
<td>The cash not available for use by the economic entity</td>
</tr>
<tr>
<td>5.17</td>
<td>Contingencies not included in the balance sheet</td>
</tr>
<tr>
<td>5.18</td>
<td>Commitments not included in the balance sheet</td>
</tr>
<tr>
<td>5.19</td>
<td>Non-financial information not included in the balance sheet</td>
</tr>
</tbody>
</table>

Total section C | 9 |

Total minimum IPSAS requirements for the notes to financial statement fulfilled by the country (TRIPSAs) | 20 |

SECOND LEVEL OF CONSISTENCY OF THE NOTES TO FINANCIAL STATEMENTS (ms=37)  
TCs=(TRIPSAs/ms) X 100 | 54.05 |

TOTAL CONSISTENCY LEVEL (m=76)  
TC=(TRIPSAs/m) X 100 | 71.05 |
Public Sector Accounting and Financial Reporting Reforms: Public Entities Perspectives, Sri Lanka

Nagalingam Nagendrakumar, Senior Lecturer at Eastern University

Abstract

The theme addressed in this paper, Accounting and Financial Reporting Reforms viz. Business-like Accounting Practices in the Public Sector and their Failure has been widely discussed in both developed and developing countries. Scholars have been debating over the appropriateness of cash vs. accrual-based accounting practices, the extremes in the continuum of accounting practices in the public sector. Taking Institutional Theory as the theoretical lens, the author argues that both the non-appearance of the logic of appropriateness of business-like accounting practices and flaws in the implementation process have been the reasons for their failure. The paper argues the need for a more pragmatic approach to identifying the right accounting reforms and their implementation.

Key Words: Business-like Accounting Practices, Reforms, Public Sector, Continuum of Practices of Accounting, Institutional Theory, Logic of Appropriateness

Introduction

Though in recent times, countries, both developed and developing, have witnessed the introduction of accounting reforms in the public sector there have been tensions leading to failure in implementing them. Despite reforms being introduced under New Public Financial Management (NPFM) initiatives within the broader framework of New Public Management (NPM) many an issue associated with public sector accounting and financial reporting (PSAFR) remain unsolved. A case in point is the replacement of cash-based accounting with accrual-based accounting, i.e., an aspect of business-like accounting practices (BLAPs), in different settings including Sri Lanka which have not achieved the anticipated goals. This prompted scholars to examine public sector accounting concepts, principles, and practices anew as is evident in the recent literature (Christiaens, 2004). This paper is an attempt to explore the introduction and implementation aspects of BLAPs and their failure in the Sri Lankan context for which Institutional Theory will be used as the theoretical lens of the investigation.

Initiated in the latter part of the 1970s, NPM involves introducing private sector-based management practices in the public sector (Buhr, 2012; Hood, 1995; Tolofari, 2005; Yamamoto, 2003; Whitcombe, 2008) which set the background for NPFM to evolve (Buhr, 2012; Kamase, 2012; Soverchia, 2012; Guthrie, 2008; Lapsley, 2008; Ryan, 2008; Carlin, 2005; Hood, 1995). NPFM includes incorporation of private sector financial management practices such as accrual accounting, performance budgeting, medium-term expenditure frameworks and accounting standards in the public sector. This study mainly concentrates on the incorporation of BLAPs, i.e., accrual-based accounting practices, the mainstay in the private sector in the public sector (Al-husaini and Gowda, 2008; Guthrie, 2008; Helden, 2005; Carpenter & Feroz, 2001). Thus, dissemination of BLAPs spread across both developed and developing countries far and wide (Soverchia, 2012; Al Husaini and Gowda, 2008; Oulasvirta, 2010; Buhr, 2012). However, although BLAPs were in use for reasonable periods of time they were hard to get rooted in many settings owing to the contradictions and issues that emerged. This was observed in the Sri Lankan public sector as well, which requires the early attention of administrators and policy makers.

The present study deploys Institutional Theory in analyzing as to why the recent PSAFR reforms in the public sector in Sri Lanka have been a failure. It is hoped that being a body of knowledge that focuses on the deeper and resilient aspects of social structure involving concepts such as legitimacy, isomorphism, and rational myths; Institutional Theory would serve as an
appropriate tool for understanding the observed non-institutionalization of accounting reforms in the public sector. The institutionalization process refers to the activities which create an organized pattern of action for members of an institution. (These are dealt with comprehensively under propositions and concept-indicator model.) Here, institutionalization (of BLAPs) is considered a process which involves the creation of social reality (i.e., PSAFR reforms) in the public sector. The social reality thus created gives rise to an organizational field which, according to Di Maggio and Powel (1983), constitutes a set of organizations that, in the aggregate, forms a recognized area of institutional life comprising key suppliers, resource and product consumers, and other organizations that produce similar services and regulatory agencies. Shared rules and meanings govern organizational fields. In essence, it constitutes a social arena which positions the locus of the institutionalization process shaping organizations (Scott, 2014). It is evident that PSAFR reforms form the core of this study and as a result turns out to be the organizational field the center of the inquiry.

Although the history of governments dates back to millennia, public sector accounting research is confined to the past three decades or so. According to Chua (1996) and Guthrie (1998), the public sector comprises Government Business Enterprises (GBEs) engaged in business activities and Public Entities (PEs) devoted to providing services to the general public. It had been the tradition that GBEs and PEs have resorted to accrual-based and cash-based accounting practices respectively where the former recognizes transactions and events as and when they take place whereas the latter recognizes them at the point cash is received or paid.

However, the choice and application of cash-based accounting practices in the PEs have been criticized for some reasons. Cash-based practices do not provide information about the total expenditure of the government for a given period. Further, they do not comply with public resource management and control requirements owing to the inadequacy of information on effective and efficient utilization of resources. Moreover, they do not indicate the link between consumption of resources and output. Finally, they contend that PEs are functioning without progressive development in the field of public financial management (Soverchia, 2012; Tickell, 2010; Al Husaini and Gowda, 2008; Guthrie, 1998).

In the meanwhile, some countries such as United Kingdom, Australia, and New Zealand had already attempted to introduce PSAFR reforms in the form of BLAPs in their PEs. However, the choice and application of BLAPs in these countries had also been criticized for some reasons. The International Federation of Accountants (IFAC), the apex body, had not carried out a thorough assessment of PEs and as a result, failed to develop a conceptual framework governing PSAFR. This resulted in PSAFR reforms being based on the Private Sector General Purpose Financial Reporting Framework, which is claimed to be irrelevant for user needs in the PEs and hence inappropriate for PSAFR (Jacobs, 2012). Finally, the expediency of BLAPs for decision-making by politicians and other stakeholders seems to be in doubt since they do not find such information to be adequately useful, relevant and understandable (Soverchia, 2012; Grossi and Soverchia, 2011; Oulasvirta, 2010; Wynne, 2003).

In contrast, some argue that cash-based accounting practices are more suitable for governmental activities owing to their heterogeneous nature in transferring funds, etc. (Barton, 2009&2011). As a result, Australia, for example, has reintroduced cash-based accounting practices to (or “intending to”) completing accrual information and thereby satisfies the need for both resource management and fiscal policy. To quote another example, Nepal has reverted to cash-based accounting, having made a reasonable effort to continue with accrual-based accounting practices. Thus, it is evident that neither cash-based nor accrual-based accounting practices meet the desired objectives of PSAFR.
The Continuum of Accounting Practices (CAP) consists of the spectrum of all possible alternative accounting practices that are available for an organization. Cash-based and accrual-based accounting practices are positioned at the extremes of this spectrum with a myriad of possibilities, modified accounting practices, positioning themselves in between. Accrual-based accounting practices have been a relatively new addition to PEs while cash-based accounting practices have been customarily used over long periods of time.

It is widely debated why neither of the two extremes of CAP does not meet the accounting and financial reporting requirements of PEs fairly and squarely. Having considered the factors above, one could advance three reasons to explain the observed phenomenon. They are *inappropriateness of the accounting system to PEs, shortcomings in the implementation process, and the impact of associated environmental influences*. The present study proposes the concept of CAP, the institutionalization framework (Figure 1), and an in-depth evaluation of constituent factors of PSAFR reforms to (or “intending to”) explaining and suggesting courses of action be taken to resolve the prevailing issues.

Hence, the authors initially question as to what point(s) on the spectrum of CAP would best fit if the two extremes do not fit into the social domain (i.e. PEs). This is about the choice of the accounting system. The authors argue that the best fit depends on the logic of appropriateness of the accounting system to the PEs. Next, the authors argue that even though the choice of the system is right, the reforms may fail in the absence of an effective implementation process.

The latter argument is substantiated since scholars in public sector accounting have criticized the implementation process of PSAFR reforms in many settings. They argue that the way BLAPs are adopted cause them to perform differently owing to country-specific factors, and thus the outcome of PSAFR reforms is not consistent across cases. Further, they point out that after the initial euphoria the reforms do not always yield the expected results. Moreover, according to scholars, the reforms have not identified and followed a consistent pattern resulting in a misleading transfer of commercial accounting practices to the public sector. Finally, they question whether all countries have adopted the identical implementation process and state that this is answered inadequately and that studies already were undertaken are very reticent about it (Buhr, 2012; Soverchia, 2012; Grossi and Soverchia, 2011; Lapsley, 1999; Guthrie, 1998; Olson, 1998; Bogt, 2000).

Therefore, it can be affirmed that the choice of the appropriate system and the implementation process are the common conditions which have a considerable impact on the success or failure of reforms. As a result, the authors argue that the success or failure of PSAFR reforms depends on the logic of appropriateness, the parameter of acceptable behaviour of elements of an organization, of the social reality and the implementation through the institutionalization process.

Moreover, it is claimed that the factors associated with PSAFR reforms (i.e., the constituents) are the vital ingredient for developing a promising negotiation among the related parties. However, recent literature indicates that even if most of the associated factors are favorable, still PSAFR reforms are likely to fail (Harun & Eggleton, 2012; Barton, 2011; Grossi & Soverchia, 2011; Arnaboldi & Lapsley, 2009; Christensen, 2007; Connolly & Hyndman, 2006; Carlin, 2005). This gives rise to the third argument as to whether there may be other factors which might have a significant bearing on PSAFR reforms in addition to what has already been considered.
Therefore, from the arguments developed so far, the main research question to be answered in this study is:

Why have PSAFR reforms failed?

In answering this question, the authors deploy Institutional Theory and propose an institutionalization process (Figure 1) for PSAFR reforms. According to Institutional Theory, organizations tend to adopt specific systems, structures, and procedures that are valued in their social and cultural environments (Kamase, 2012). It is to be noted that the institutional perspective is adopted for research in the disciplines of economics, political science, sociology, business studies and accounting (Johansson, 2002). Further, the recent review by Jacobs (2012) asserts that half the research in PSAFR is based on Institutional Theory. According to Bjorck (2004), it is one of the commonly used theories in organizational analysis and is considered suitable for exploring institutional practices.

The current study attempts to understand and explain the logic of appropriateness of choice and the implementation process of BLAPs introduced under NPFM. The choice of appropriate accounting practices depends on the human analytical ability to decide which of the possibilities on the CAP would be more suitable for the PEs, whereas the choice of the implementation process depends on the human ability to decide which of the aspects of the institutionalization framework would be more appropriate in implementing the chosen accounting practices.

The contributions emanating from this study are many-fold. It provides a comprehensive description of constituents of PSAFR reforms. After that, it tries to answer the important questions of the variations in the levels of institutionalization of PSAFR reforms and how such variation might affect the degree of similarity among sets of organizations. Next, this study uncovers the phenomenological status of structural arrangements in the institutionalization process, and, finally, it attempts to address the issues in PSAFR reforms and thereby propose a pragmatic approach in choosing the appropriate accounting practices and implementation process.

The rest of the paper is organized as follows: The next section presents the theoretical background which discusses in detail the PSAFR reforms, the effectiveness of PSAFR reforms, the Institutional Theory, and the knowledge gaps in PSAFR reforms. This will be followed by the proposed theory, the concept indicator model, along with the propositions. The paper concludes with a discussion of the theoretical and managerial implications.

Literature Review

The literature review is broadly organized into two major areas: PSAFR reforms and Institutional Theory. First, this section focuses on PSAFR reforms.

The Failure of PSAFR Reforms as a global phenomenon with special reference to developing countries

The debate on the implementation of BLAPs in government entities has existed since the inception of NPM (Kamase, 2012). For instance, the Nepal central government has been using accrual-based accounting practices since the late 1980s, for which the thrust came from international agencies and the involvement of professional accounting (Mellemvik, 2011). However, this turned out to be a failure, and the authorities took the necessary steps to replace accrual-based accounting with an improved version (modified) of cash-based accounting (Mellemvik, 2011).

Christiaens (2004) argues that the Flemish in the early part of PSAFR reforms had not sufficiently recognized the transition difficulties and incorporation of a first balance sheet. Christiaens believed that it was due to the non-existence of a guiding framework for capital
assets. As a result, Christiaens pointed out that the absence of a separate accounting framework for capital assets on the preparation of the first balance sheet caused the country a lot of confusion in the implementation of BLAPs.

With the liberalization of the economy and developing closer links with the Western economies, Vietnam changed its system of accounting to a mixture of principle-based conceptual accounting pattern taken from the West and the rule-based formal accounting elements retained from the old Soviet-style system. Vietnam’s Accounting Association became a member of IFAC in 1996, and as a result, they happened to harmonize its accounting system by adopting IFRS with the rest of the world. However, this process has faced certain difficulties owing to Vietnam’s specific national characteristics such as its local economic system and accounting tradition. Nguyen (2013) suggested that the regulators of Vietnam need to be careful in their approach in finding and designing the accounting system to combine or adapt the accounting practices which lead to the co-existence of Vietnamese accounting traditions and IFRS.

The Thai government required public agencies to adapt their accounting practices to be in line with NPM. The management of Thai universities needed improved information for planning and control which was attained through a change of the accounting system with the adoption of computerized BLAPs. Here the constraining factor happened to be the low institutional capacity of some Thai universities evidenced by the lack of technological resources and staff with knowledge of private sector accounting practices. Thai Universities that had become autonomous or intended to be so had given attention to changes in the accounting systems, emphasizing the importance of external consultants and staff that had knowledge of data requirements (Upping and Oliver, 2012).

**PSAFR Reforms and Stakeholders**

The stakeholders of PEs do not feel the significance of PSAFR and financial information in making policy decisions. One can discern four different stakeholders in the standardization process of accounting practices with varying authority to shape the outcomes (conceptual frameworks and standards), viz. financial statement users, management, independent public accountants, and national regulators of accounting practices. After NPFM reforms, national governments and other PEs now seek consistency and conformity in presenting their general purpose financial statements and budget statements. Before reforms, the presentation styles were a matter to be decided entirely by the national governments themselves. However, in the present context, it is a matter to be decided by professionals. As a result, the conflict among accounting professionals and the national government accounting regulators are apparent (Oulasvirta, 2010).

It is highlighted that there is a lack of interest and understanding of issues concerning NPFM reforms among newly empowered members of the legislature of countries. There is a considerable reluctance by successive political parties coming to power to press for PSAFR reforms as improved accountability poses a threat to the income levels of politicians and bureaucrats (Harun, 2007). Also, imprudent human resource management practices in the public sector have resulted in a shortage of accounting skills, which is a critical factor for successful implementation of accounting reforms (Harun, 2007).

**PSAFR Reforms and the Conceptual Framework of Accounting**

The basic question confronted by researchers about conceptual frameworks and accounting standards is whether the needs of shareholders in the private sector and stakeholders in the public sector are the same (Guthrie, 2008). Though much effort had been taken to introduce a PSAFR framework and standards during the last thirty years in Australia, New Zealand, Spain, UK, Canada, Italy and the United States (Soverchia, 2012; Buhr, 2012), it had not been identified and followed (Ryan, 2008; Oulasvirta, 2010). It is only in 2015 that the International
Public Sector Accounting Standards Board had come out with a draft framework for PSAFR. It is worth noting that none of the public sector conceptual frameworks had been empirically validated and this explains the flagging interest in the academic literature in conceptual frameworks (Jones, 1992). As a result, though the research on PSAFR has increased lately, the issue of the most appropriate theoretical framework to be adopted in the PSAFR remains unanswered (Jacobs, 2012).

IFAC is the private sector-based accounting professionals behind the BLAPs reforms. Though it is said that IFAC had failed to carry out a thorough assessment of PEs in formulating a suitable framework of PSAFR, scholars argue that researchers can form normative and practical conclusions on the best model for a specific accounting environment (Oulasvirta, 2010). However, they argue that the formal adoption of BLAPs per se will not bring about the officially stated outcomes (Kamase, 2012). In this situation and developing countries, in particular, there are many technical and institutional problems which hamper the government's efforts at PSAFR reforms to (or “intending to”) improving efficiency in PEs (Kamase, 2012).

**Effectiveness of PSAFR reforms**

The effectiveness in simple terms refers to the degree to which something is successful in producing the desired result. Thus, effectiveness is the component that identifies which policies are best fitting, timely, deliver the expected results, needed by clear objectives, an evaluation of future impact and, where available, of experience (Karellacina, 2011). It also depends on implementing policies in an appropriate manner and on taking decisions at the most appropriate level (Karellacina, 2011). The objectives of PSAFR are defined as the provision of relevant, reliable, understandable and comparable financial information which shapes the decision’s usefulness, transparency, accountability and comparison needs of the public sector stakeholders. Therefore, based on the argument by Soverchia (2012), the effectiveness of the PSAFR reforms depends on how well it is designed and implemented which may result in achieving the objectives of PSAFR.

**Institutional Theory**

Therefore it is evident that the PSAFR reforms are proposed to achieve the effectiveness of accounting and financial reporting. Whether the PSAFR reforms improve the effectiveness of accounting and financial reporting is a matter of design and institutionalization. As such, Institutional Theory becomes significant in the present study. The next section focuses attention on Institutional Theory.

Institutional Theory considers institutions as “multifaceted, durable social structures made up of symbolic elements, social activities, and material resources” (Scott, 2014). The theory provides useful insights into not only the persistence and the homogeneity of institutions but also institutional change and transformation (Dacin, Goodstein, and Scott, 2002). Hence, the center of Institutional Theory is how a social reality is made legitimate in the social domain. Carpenter and Feroz (2001) argue that Institutional Theory assumes that organizations adopt management practices that are considered legitimate by others, regardless of their actual usefulness.

**Legitimacy**

Legitimacy is the process of institutionalizing a social reality binding in a social domain. Thus, Institutional Theory is supported by three pillars: regulatory, normative and cultural-cognitive (Table 1). All three pillars of institutions lead to the legitimacy of a social reality albeit on different bases: legally sanctioned, morally governed and culturally supported. Therefore, legitimacy constitutes a generalized perception or supposition that actions of reform are desired and accepted per se or as a suitable component within a particular social domain (Suchman,
Hence, it is argued that legitimacy plays a role as a fundamental accompaniment to the isomorphic conditioning of social reality in a social domain.

**Isomorphism**

Isomorphism could be defined as "a constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions" (DiMaggio & Powell, 1983). The emergence of homogeneity is the result of structuration of the organizational field. The structuration is largely affected by legitimacy and thus becomes a fundamental accompaniment of isomorphism. There are three mechanisms according to Di Maggio and Powell through which isomorphism is conditioned: coercive isomorphism, normative isomorphism, and mimetic isomorphism.

**Coercive Isomorphism:** This results from both formal and informal pressures exerted on organizations by other organizations upon which they are dependent and by cultural expectations in the society within which organizations function (DiMaggio & Powell, 1983).

**Mimetic Isomorphism:** Uncertainty is also a powerful force that encourages imitation. When organizational technologies are poorly understood when goals are ambiguous or when the environment creates symbolic uncertainty, organizations may model themselves on other organizations (DiMaggio & Powell, 1983).

**Normative Isomorphism:** This is professionalization as the collective struggle of members of an occupation to define the conditions and methods of their work, to control “the production of producers,” and to establish a cognitive base and legitimization for their occupational autonomy (DiMaggio & Powell, 1983).

It is argued that the rate of institutional isomorphism increases when firms are highly dependent on the institutional environment or their survival is under question or relies extensively on professionals. Mimetic and normative processes are internal to the organizational field and help to explain the spread of roles and structures whereas coercive processes are external to the organization field and help to explain the spread of threats to survival in the absence of adoption (Frumkin & Galaskiewicz, 2004). Apparently, therefore, different isomorphism mechanisms may prevail at work during the process of institutionalization, from coercive through normative to mimetic (Wahid & Sein, 2013). Actors in the organizational field ought to comprehend what segment of the isomorphism mechanism plays the major role and which segment plays the least role in building the ground for the legitimacy of social reality in the social domain.
### Table 1: Three Pillars of Institutions

<table>
<thead>
<tr>
<th></th>
<th>Regulative</th>
<th>Normative</th>
<th>Cultural-Cognitive</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Basis of compliance</strong></td>
<td>Expedience</td>
<td>Social obligation</td>
<td>Taken for grantedness</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Shared understanding</td>
</tr>
<tr>
<td><strong>Basis of order</strong></td>
<td>Regulative rules</td>
<td>Binding expectations</td>
<td>Constitutive schema</td>
</tr>
<tr>
<td><strong>Mechanisms</strong></td>
<td>Coercive</td>
<td>Normative</td>
<td>Mimetic</td>
</tr>
<tr>
<td><strong>Logic</strong></td>
<td>Instrumentality</td>
<td>Appropriateness</td>
<td>Orthodoxy</td>
</tr>
<tr>
<td><strong>Indicators</strong></td>
<td>Rules, laws, sanctions</td>
<td>Certification, Accreditation</td>
<td>Common beliefs, Shared logic of action, Isomorphism</td>
</tr>
<tr>
<td><strong>Affect</strong></td>
<td>Fear, Guilt/Innocence</td>
<td>Shame/Honor</td>
<td>Certainty/Confusion</td>
</tr>
<tr>
<td><strong>Basis of legitimacy</strong></td>
<td>Legally sanctioned</td>
<td>Morally governed</td>
<td>Comprehensible, Recognizable, Culturally supported,</td>
</tr>
</tbody>
</table>

*Source: Scott (2014)*

### Actors' Interplay

Institutional actors can be viewed as agents and carriers for producing and reproducing the institutional logic within a specific institutional environment (Scott, 2014). In this sense, it is simply a consequence of the fact that institutions do not exist in isolation, but frequently overlap and influence each other in their operation (Jungeurt, 2006). Cross-institutional influences and pressures are taken into consideration as factors among those that influence the positions of the state parties and the internal organs of the institution (Benvenisti, 2005). Thus, interplay refers to conscious efforts by any relevant actor or group of actors, in whatever form or forum, to address and improve institutional interaction and its effects. As such, actors’ interplay is the active interrelationship among the associated factors to arrive at a negotiated settlement through established common sense. As a result, actor’s interplay becomes the determinant of evolution and change. The interplay among the actors thus opens the assertions for isomorphism and legitimacy. The actor’s interplay is significant in reducing organizational diversity (Oliver, 1988) and improving organizational homogeneity (Di Maggio & Powell, 1983). Therefore, the logic of appropriateness becomes the parameter of behavior among actors (Friedland & Alford, 1991).

### Logic of Appropriateness

The logic of appropriateness is a perspective that sees human action as driven by rules of appropriate or exemplary behaviour, organized into institutions (March & Olsen, 2009). It is defined as “the socially constructed, historical patterns of material practices, assumptions, values, beliefs, and rules by which individuals produce and reproduce their material subsistence, organize time and space, and provide meaning to their social reality” (Thornton & Ocasio, 1999). It is worth noting that this concept is synonymous with institutional logic, which was introduced by Friedland & Alford (1991), who argue that institutional logic seeks to explain contradictory practices and beliefs inherent in institutions. Every institutional order has a central logic that guides its organizing principles and provides social actors with vocabularies of
Institutional logic may work at different levels, both within institutions and between institutions (Thornton & Ocasio, 2008). Within an organization, multiple and competing institutional logics may be simultaneously at play (Friedland & Alford, 1991). These competing institutional logics can hinder or trigger change, and they can be pre-existent or appear as a consequence of change (Thornton & Ocasio, 1999). Over time, institutional logic may shift from one institution to another, and this will influence how the institutionalization process takes place. Institutional logic guides the behaviour and practices of an organization’s members. Multiple and often contradictory institutional logics may be present in the same organization. Changing the prevalent institutional logic and installing a new logic is the key to bringing about a change (Wahid & Sein, 2013). As a result, therefore, no doubt, different social domains might experience different degrees of institutionalization of the social reality of the multiple and often contradictory institutional logic experienced by them and the same may lead to similar experiences at different times.

**Institutionalization**

Institutionalization is “how social reality is produced, repeated and comes to evoke stable, similar meaning in self and others” (Scott, 2014). Institutionalization is both a process and a property of organizational arrangements. Zucker (1987) defines institutionalization as “a rule-like, social fact quality of an organized pattern of action, and embedding informal structures, such as formal aspects of organizations that are not tied to particular actors or situations.” The formation of the institution is perhaps the central contribution of Institutional Theory (Scott, 2014). Scott (2014) borrowing the ideas of Hoffman (1997) argues that the three pillars of institutions form a continuum of institutionalization moving from the conscious to the unconscious, from the legally enforced to the culturally supported.

**Negotiation, Incorporation, Acceptance and Consistence**

Conscious institutionalization is the function of negotiation, incorporation, and acceptance whereas unconscious institutionalization is the function of conscious institutionalization and sustenance of social reality. Negotiation is the concept which explains to what extent the actors’ interplay succeeds in reaching a common consensus having explored the appropriateness of the reforms in the process of institutionalization (Benvenisti, 2005; Demetriadi et al., 2003.). Negotiation is the primary role of the actors’ interplay, and resolution of the conflict is the major goal of negotiation. Negotiation can reinforce the effectiveness of the institutions involved or can lead to disruptions in the achievement of agreed objectives, diminishing or even offsetting gains from cooperation. In both cases, inter-actor coordination is necessary to consolidate rules and reduce conflict, or to exploit synergies in implementation (Jungcurt, 2006). Incorporation is the process of isomorphic conditioning and legitimizing the social reality in a social domain. It has already been pointed out that isomorphism and legitimacy involve different mechanisms and bases. Therefore, incorporation of a social reality would experience different degrees of the outcome. This claim is further validated by Hall (1999) (cited in Kardulias, 2007) who points out that incorporation is a variable phenomenon. Acceptance is an act of positive perception and real exercise of the reforms (Demetriadi et al., 2003). Sustenance refers to how long the social reality exists in a particular social domain. The longer the existence, the higher the possibility of the social reality becoming the culture. Therefore, sustenance is part of moving the reforms for long periods of time and making them the culture of that particular social domain.
Research Gaps

A research gap is a contradiction in the literature of a phenomenon which needs a scholarly inquiry (Dissanayake, 2013) and the following research gaps have been identified.

(a) The NPFM reforms were introduced and implemented in the absence of an empirically rooted conceptual framework which resulted in implementers adapting an accounting system suitable for the private sector. This is highly criticized as inappropriate owing to the heterogeneous nature of the services provided PEs.

(b) The common claim in PSAFR reforms is that cash-based accounting and accrual-based accounting are not appropriate for the public sector.

(c) The implementation of BLAP has not brought the expected results.

(d) Further, it is argued that the major focus of the PSAFR reforms is the adoption of international accounting practices regardless of the local context.

(e) In addition, the question of whether the constituents of PSAFR reforms become significant in deciding on pragmatic solutions for the issue rather than standing on either extreme of CAP is not sufficiently answered.

So, if policymakers do not succeed in building a more coherent body of knowledge about NPFM reforms rooted in empirical understanding, then the nation’s policy agenda of NPFM reforms will not be addressed adequately and therefore unable to influence the world (Guthrie, 2008).

Propositions and Concept Indicator Model

The authors assert that the research question could be well understood and explained in the light of Institutional Theory since the three pillars of institutions well support the institutionalization of PSAFR reforms. However, Tolbert and Zucker (1996) argue that the institutional approach has yet to become institutionalized. The additional concern for them is that there is very little consensus on the definition of key concepts, measures or methods within this theoretical tradition. Further, Institutional Theory has developed neither a central set of standard variables nor is associated with a standard research methodology or even a set of methods (Tolbert and Zucker, 1996). Moreover, there has been surprisingly little attention given to conceptualizing and specifying the process of institutionalization (Tolbert and Zucker, 1996).

The present study, therefore, tries to reduce the conflict in institutional approach customizing some of the relevant concepts of Institutional Theory: actors’ interplay, isomorphism, legitimacy, institutionalization, negotiation, incorporation, acceptance, sustenance and the logic of appropriateness to understand and explain the institutionalization process of the PSAFR reforms.

Constituents of Reforms and their Interplay

Scholars have already identified many constituents of PSAFR reforms, viz., accounting tradition and reformation culture, political culture, nature and type of activities of PEs, and the role played by senior management in change, external pressures, indigenous factors and self-initiative, and finally, information technology (Rayegan, Parveizi, Nazari & Emami, 2012; Soverchia, 2012; Buhr, 2012; Grossi and Soverchia, 2011; Oulasvirta, 2010; Grossi and Newberry, 2009; Al Husaini and Gowda, 2008; Brusca, Benito and Montesinos, 2006; Donaldson,2006; Newbury, 2006; Diamond and Khemani, 2006). As illustrated before, it is evident that even when many of the constituents of the PSAFR reforms are favorable, they may still fail. Therefore, one of the foci of this study is to find such factors that lead to PSAFR failure. Thus the first proposition of the study reads:
Proposition 1: The constituents of PSAFR reforms which have not yet been found may cause the reforms to fail or end up with unintended results.

Actors’ interplay generates three emergent properties: initial pressure, induced pressure and institutionalization. Hence, arguably, actors’ interplay would first generate the initial pressure for PSAFR reforms and the initial pressure is advocated by the Supra-National Organizations (Lindseth, 2015) (e.g., World Bank and International Monetary Fund, etc.), International Professional Accounting Organizations (e.g., IFAC, Confederation of Asia Pacific Accountants, South Asian Federation of Accountants, etc.), and the world’s best practices of accounting (International Accounting Standards, IFRS, IPSAS, etc.). The initial pressure, if it succeeds, would generate the induced pressure for PSAFR reforms. The induced pressure is brought into a country by the actions taken by the Government (laws, circulars, and instructions), accreditation and getting membership of accounting bodies and benchmarking the best practices in accounting. When the induced pressure is satisfactory, it will lead the members of the social domain (i.e., PEs) to accept the social reality (i.e., PSAFR reforms). Thus the second proposition would be:

Proposition 2: The stronger the interplay among actors, the stronger the initial pressure, and the stronger the induced pressure, then the stronger the PSAFR reforms.

Choice and Institutionalization of Accounting Practices

The status of success or failure of PSAFR reforms is still widely debated (Jacobs, 2012; Grossi and Soverchia, 2011). The authors argue that it is vital to witness the logic of the appropriateness of the chosen accounting practices. Further, the countries need to follow a pragmatic approach in selecting the point(s) on CAP rather than a blanket adoption of identical practices of accounting across the world. This leads to the third proposition:

Proposition 3: The higher the logic of appropriateness of the choice of accounting practices on CAP, the higher the success of the reforms.

The present study maintains that negotiation (actors’ interplay), incorporation (satisfactory level of initial pressure and induced pressure), acceptance (conscious institutionalization), and sustenance (continuing with the conscious institutionalization and turning it out as unconscious institutionalization and culture) are focal elements of the institutionalization of the PSAFR reforms in PEs. The conscious institutionalization is the process of legitimate reinforcement of the accounting practices and hence, it is the composite product of negotiation, incorporation, and acceptance of the reforms. As a result, the members of the PEs truly would be prepared to implement the BLAPs. Therefore, the ability to construct the acceptable level of the initial pressure, induced pressure and fashioning the PEs to accept the reforms is called the conscious institutionalization. This leads to the fourth proposition:

Proposition 4: Positive negotiation among the actors, effective incorporation of the change and strong acceptance of the reforms would lead to the conscious institutionalization of the accounting practices.

Moreover, unconscious institutionalization has a culturally supported effect on the PSAFR reforms, which is the composite product of conscious institutionalization and sustenance. That is when the conscious institutionalization is sustained for considerable periods of time it transforms into the PSAFR culture, which according to Scott (2014) is unconscious institutionalization. The fifth proposition would be:

Proposition 5: The sustained PSAFR practices turn out to be the PSAFR culture.
The Institutionalization Process

This study mainly focuses on the approach of institutionalization to understand and explain the failure of PSAFR reforms at PEs. The proposed institutionalization framework consists of successive rostrums and the logic of appropriateness as a common feature to be observed. The authors argue that the institutionalization process needs to be sequential and the logic of appropriateness needs to be observed at each rostrum to make institutionalization of BLAPs effective. This gives rise to the sixth proposition:

Proposition 6: When the implementation process is sequential, and the logic of appropriateness prevails at each rostrum, and throughout the institutionalization process then the reforms are likely to succeed.

Deinstitutionalization of Cash Accounting Practices

Brunsson and Olsen (1993) argue that the possibility of producing a successful transformation of the internal values of an institution will vary with the degree of institutionalization of the values of the previous regime (i.e., in the current case the cash-based accounting practices). The capacity to reform the organization is a function of the extent to which the environment of that institution is institutionalized. Hence, the argument is that the unconsciously already institutionalized institutions (i.e., in our case, the cash accounting practices) have to be unplugged from the system to ensure successful injection of the change (i.e., in our case, the BLAPs). If the environment is highly institutionalized, for example, if it has a strongly entrenched set of values and procedures then changing that institution to another mode of operation will be very difficult (Olsen and March 2009; Peters, 1998). This leads to our last proposition:

Proposition 7: Effective deinstitutionalization of the existing accounting practices would lead to successful implementation of the new accounting practices.

The relationships mentioned above are graphically shown in Figure 1.
Theoretical Implications

The present study tries to conjoin the concepts of CAP and institutionalization and thereby attempts to propose the institutionalization process of PSAFR reforms. Further, this study concentrates on how the variations in the actors’ interplay might affect the pressure in PSAFR reforms, viz., initial pressure and induced pressure. As a result, it tries to explain how it might affect the degree of similarity in institutionalizing the accounting practices in PEs. As a result, the current study attempts to understand and explain the structural arrangements of the institutionalization process of the accounting practices in PEs from the relativist point of view and thereby attempts to reduce the ambiguity as claimed by Tolbert and Zucker (1996). Moreover, the “a priori codes” were established in the very early stage of the study (i.e., at the concept paper level) and therefore, the authors argue that the development of the theoretical base in this study has appeared well in advance though it is expected to be derived, according to Chan et.al., (2013), only at the research proposal, data collection or analysis level.

Managerial Implications

The institutionalization process proposed in this study tries to provide public sector policy makers and standards setting organizations a guide vis-à-vis the what (i.e., the accounting practices) and the how (the implementation process) of reforms. The authors further point out that this institutionalization process is also applicable to reforms in other disciplines in the public sector too (e.g., marketing, human resources, and general public administration). Moreover, the authors are of the view that it applies to private sector reforms as well.

Conclusions

The logic of the appropriateness of accounting practice reforms is imperative throughout the institutionalization process, and PEs must strive to make the accounting practices reformed as the culture of PEs. Further, the study is highly focused on the implementation process of the reforms and argues that it should be appropriate to the context of international and country-specific constituents and should map sequential steps which should be logically appropriate for institutionalizing the reforms. The present study, therefore, proposes a pragmatic approach in choosing modified accounting practices on CAP for a given country, which is of paramount importance in PSAFR reforms in PEs. The authors maintain that the research question exists unanswered due to the absence of the logic of appropriateness, on the one side accounting practices and the other implementation process.
REFERENCES


Towards a Dynamic Model of Making Governmental Accrual Accounting More Practice-Relevant: Using Practice-Oriented Co-design Approach

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Abstract
The experience of earlier reformer countries has indicated that many users (especially, politicians) do not use the improved accounting information that resulting from revamping the public sector accounting, as they claim that this information is not practice-relevant information. The purpose of this paper is to explore a method for insight generation of practice-relevant public sector accrual accounting and financial reporting system. This method uses a Practice-oriented Co-design Approach aiming at conceptualizing a dynamic model for designing accrual accounting and financial reporting system that can produce the practice-relevant financial information which takes into account the diverging needs of different stakeholders and can be used and appreciated by politicians and other users. The practice-oriented co-design approach is considered important because designing an accounting system without a clear focus on the user context and creating a channel for communication among accounting researchers, practitioners, consultants, users and standard-setters often result in unintended and unsustainable outcomes. The Dynamic Model requires from the accounting researchers, consultants, practitioners and standard setter to co-operate together in order to co-discover the users, co-identify the users’ needs, co-determine the objectives of government accounting and financial reporting system and co-design the government accounting and financial reporting system. The practical relevance of government accounting requires the use the Practice-oriented Co-design approach and the suggested Dynamic Model to reconsider the users list and consider the politicians, top managers and policy makers as the principal users and hence consider their needs and to deal with them as experts and involving them in determining their needs. In addition, public sector accountants should be aware of the fact that a more practice-relevant approach requires a reorientation toward working within, rather than fighting against the dynamics of user needs.

1- Introduction
The movement towards the New Public Management (NPM) has required the reforming of public sector accounting through the adoption of accrual accounting and budgeting in the public sector (Hood, 1995; Ball and Grubnic, 2008). The NPM philosophy is based on the assumption that public sector entities regardless of prior orientation would be more efficient and effective if run like their private sector counterparts (Hooper and Kearins, 2005). However, while CIGAR (Comparative International Government Accounting Research ) scholars have exerted great efforts in the last three decades aiming at reforming and developing the public sector accounting, these efforts are still of little value to the public sector accounting practice. As the experience of earlier reforming countries, (e.g., UK) has indicated that many users do not use the improved information that resulting from revamping the public sector accounting. This has been proven by different studies such as Luder case study (2013) about the adoption of accrual budgeting and accounting in the German state of Hessen. One of his conclusions was that the politicians neither
appreciated nor used the improved accounting information resulting from the adoption of accrual accounting and budgeting in the state of Hessen. Other researchers such as Hyndman et al (2005) have also reached the same conclusion where they conclude that the politicians are not interested in the information provided by the accrual accounting and budgeting. These results have led Van Helden (CIGAR Newsletter, Jan, 2014) to pose the following two questions: 1) Is it mere stupidity or ignorance of politicians to underestimate the value of accrual accounting? Or 2) Do we, as accounting scholars, fail to understand what financial topics really matter top politicians? In addition, Yamamoto (CIGAR Newsletter, April, 2014) has reached similar results in Japan. In fact, Van Helden and Yamamoto have given some well-chosen examples of objectives that politicians are interested in: such as finding resources for new policy initiatives, trade-offs and financial cuts, avoiding overspending of budgets, resource allocation and avoiding depreciation costs. Basically, these objectives of politicians are mainly related to carrying out the budget functions and some of them can be served by accounting and some other the accounting plays no role. Moreover, many of the politicians financial information needs cannot be satisfied by general purpose financial reporting but it needs a specific context bounded accounting and financial reporting system that can provide the politicians financial information needs even though it contrasts with New Public Financial Management (NPFM) (Olson, 2001). Furthermore, Christiaens (CIGAR Newsletter, July, 2014) argues that in political arena the pros and the cons of cash accounting and accrual accounting are not the issue; the main questions are the different users' needs. And this leads us to the need of developing a conceptual framework approach, which tries to understand the diverging needs of different stakeholders regarding public sector financial information and which necessitates users' needs research efforts. Moreover, in order to satisfy the politicians and other users' needs Van Helden (2014) asked the CIGAR community to develop a practice-oriented research agenda on the use of accounting information by politicians. Current accounting literature has indicated that several highly respected accounting scholars have addressed the failure of accounting research to improve the accounting practices (Inanga and Schneider, 2005; Demski, 2001 and Widener, 2001). For example, Inanga and Schneider (2005) argue that accounting research is not significantly linked to accounting practice because the issues and methods of interest to academic researchers are of little or no consequences to practitioners and are not focused on fundamental questions. The goal of this paper is to explore a method for insight generation of practice-relevant public sector accrual accounting and financial reporting system. This method uses a Practice-oriented Co-design Approach aiming at conceptualizing a dynamic model for designing accrual accounting and financial reporting system that can produce the practice-relevant financial information which takes into account the diverging needs of different stakeholders and can be used and appreciated by politicians and other users. Accordingly, the research question is as follows:

*Can the Practice-Oriented Co-design Approach be used to develop a dynamic model aiming at designing a practice-relevant governmental accrual accounting and financial reporting system that satisfy the diverging needs of different users?*
The paper's contributions to the literature is twofold: First, to the best of my knowledge, there is no study using the practice-oriented co-design approach in accounting as it is mainly designed for engineering studies. Consequently, the paper is the first to develop a new version of the practice-oriented co-design approach that integrates the efforts of accounting researchers, practitioners, consultants and standard-setting bodies together with the users to produce a practice-relevant accounting and financial reporting system that considers the diverging needs of different users. This approach is developed for applying a user-centered orientation for sustainable design which blends emerging concepts of co-design and co-creation with a ‘practice-oriented’ approach. The practice-oriented co-design approach is considered important because designing an accounting system without a clear focus on the user context and creating a channel for communication among accounting researchers, practitioners, consultants, users and standard-setters often result in unintended and unsustainable outcomes. Second, the paper has conceptualized a dynamic model which is important for the adoption of public sector accrual accounting and budgeting, especially for the countries that are in their way to adopt them in their public sector, as this model can assist these countries to design a practice-relevant public sector accounting and financial reporting system from the outset and to make it more dynamic by taking into consideration the changes in social, political, economic, regulatory and technological environment and hence to provide the new information needs of the current and potential users. Thus, our study contributes to a deeper understanding of the dynamics of the user’s needs, and provides in-sight into the development of practice-relevant governmental accounting and financial reporting system. The remainder of the paper is structured as follows. The second section deals with critical analysis on the reasons of the failure of public sector accounting to be practice-relevant. Third section will develop a practice-oriented co-design approach to be applicable to the public sector accounting (as it is currently applied to engineering studies). Forth section will focus on the conceptualization of a dynamic model for making the public sector accounting more practice relevant. The paper is concluded in Section 5.

2- A Critical analysis on the reasons of the failure of Public Sector Accounting to be Practice-Relevant

Van Helden and Northcott (2010) argue that the field of accounting is not alone in its critical reflections on practical relevance but there are recent debates within the Academy of Management that other business disciplines are failing to connect with and influence practice (e.g., Rynes et al., 2001; Abrahamson and Eisenman, 2001; Bazerman, 2005; and Shapiro et al., 2007). Notably, particular disquiet has been expressed about the limited practical orientation of research in the public sector domain, where academic findings have the potential to inform both managers and policy-makers (e.g., Hitt, 2005; Rynes and Shapiro, 2005; Shapiro and Rynes, 2005; and Coleman, 2007). In fact, the traditional accounting approach for designing a suitable government accounting and financial reporting system is based on the following basic hypothesis: “The decision to adopt a certain accounting and financial reporting system in the governmental entities depends heavily on what kind of financial information we want to be provided by this system. In order to determine this information we need to know: Who the users are of government accounting and financial reporting and what their needs are. Consequently,
the objectives of accounting and financial reporting can be determined. Once those objectives are determined, the accounting principles and practices or procedures should follow logically from those objectives, namely, the design of the suitable government accounting and reporting system can consequently be determined” (AICPA, 1973, Lüder, 1989, IFAC-1991 and Ouda, 2005). Accordingly, the suggested reference framework or the underlying basic hypothesis is as follows:

![Figure 1: Reference Framework (Ouda, 2005)](image)

However, the practical experiences of many countries with respect to the adoption of accrual accounting and budgeting have proven the failure of accounting to provide practice-relevant information for politicians and other users (Hyndman et al, 2005, Luder, 2013, and Van Helden and Northcott, 2010). In addition, many accounting scholars have also addressed the failure of accounting research to improve the accounting practices (Inanga and Schneider, 2005; Demski, 2001 and Widener, 2001). Moreover, the report of the American Institute of Certified Public Accountants’ (AICPA’) Special Committee on Financial Reporting (Jenkin’s Committee) entitled Improving Financial Reporting—A Customer Focus (AICPA, 1994) provided the first empirical evidence that financial reporting was not effectively meeting user needs. This is in addition to the lack of appropriate and structured research to identify the ongoing and emerging needs of users of accounting information and to develop products to meet those needs (Inanga and Schneider, 2005). Basically, there are several reasons underlying this failure:

**First**, the users themselves are in fact unable to determine their information needs. In an earlier study (Ouda, 2005) which aimed at determining the information needs in Dutch central government and Egyptian central government, in order to be able to identify the users’ needs, I have made some interviews with different users. For instance, I made interviews with some of higher level officials in the Dutch central government such as: the Dutch Court of Audit, Central Plan Bureau, Ministry of Finance and Central Bureau for Statistics and in Egypt with some of higher level officials in Ministry of Finance, Central Auditing Organization, and...
Ministry of Planning. When I asked them about their information needs, I found out that all of them are focusing on the information, which is currently provided in accordance with the applicable laws and regulations that specify the types and timing of financial information that they are entitled to receive. Besides, they are not able to identify the information that should be provided to them. This result is consistent with Sutcliffe (1985) when said, “One of the biggest problems in identifying users’ needs is their own inability to articulate what these are in any convincing way. They cannot assess the importance of information that has not previously been provided and, if asked, tend to ask for information that reflects the prevailing conventional wisdom”. Anthony (1978) has also argued that users (e.g. managers) can neither appreciate nor judge the importance of information that has not been furnished yet. In addition, Anthony stated that “in absence of hard evidence, therefore, one must rely on his or her own judgement as to what information a user should need. This is, of course, a highly subjective and speculative process, but there seems to be no alternative (Anthony, 1978). Consequently, the inability of the users to determine their financial information needs has resulted in that those needs are determined by others and this can explain why the information needs are not practice-relevant and are not used by politicians and other users.

Second, the accounting and financial reporting system in public sector does not effectively provide or take into account the financial information required for carrying out the budget functions. Unlike the private sector, there is a very close relationship between the budget and accounting system in the governmental sector. The budget is a financial plan and describes proposed expenditures and the means of financing them. The main task of the accounting system in the governmental sector is to execute the budget and to report on its results and performance. Jones (2003) argued that for the central government, the budgeting and accounting systems are inextricably bound up with one another. Hence, most of principles and practices of budgeting are the principles and practices of accounting or vice versa. In addition, Drebin (1981) stated that governmental financial reporting has a unique feature (in comparison with commercial financial reporting) which is the inclusion of budgetary information and comparisons (budgetary comparisons) in the financial reports and this information is important for the management. Furthermore, Drebin added that in a business corporation the stockholders, while technically the ownership group, do not get involved in day-to-day resources allocation decisions. On the other hand, such decisions in government frequently require approval of the voters or their representatives. Presumably those responsible for making these decisions need relevant financial information”. “Although a budget for commercial enterprise may be viewed as an internal management report, the budget for a governmental unit is a public document, a matter of law. The public has an interest in knowing, not only the planned allocation of financial resources, but also how these were actually utilized in comparison with the plan” (Drebin, 1981).

In fact, the relationship between the budget structure and the financial reporting structure has been recognized in the Dutch central government, as the VBTB (“From policy budget to accounting for policy) program focused on improving the structure of both budget and financial reporting. The new budget structure should give an answer to three questions: 1) what does government want to achieve? 2) what actions are government going to undertake to achieve it? 3) what may those actions cost? Logically, the new structure of financial reporting should follow the budget structure to give answer to: 1) did government reach its goals as set in the budget? 2) has government done what it was going to do? 3) did the cost of actions remain within the limits
previously set in the budget? Consequently, the lack of furnishing the required information for carrying out the budget functions that really matter the top politicians can also explain the failure of public sector accounting to be practice relevant for the top politicians and other users.

**Third**, the accounting literature has addressed the lack of effective communication among accounting researchers, practitioners, consultants, standard-setters and users (Inanga and Schneider, 2005; Demski, 2001 and Widener, 2001, Van Helden and Northcott, 2010 and Van Helden et al. 2010). The lack of communication between accounting researchers and practitioners due to the fact that the issues and methods of interest to accounting researchers are of little or no value to practitioners (Inanga and Schneider, 2005), in addition, are not focused on finding practical solutions for the accounting problems that the practitioners encounter into practice. Furthermore, accounting researchers have created what appears to be a highly advanced research context which, in effect, is an environment dominated by sophisticated methodology, rather than theory. The research basically imitates the hard sciences, which makes its pursuit academically acceptable, but it lacks substance. This explains the failure of accounting research to improve accounting practice. On the other hand, practitioners because of their training and lack of experience with and interest in research tend not to look to research findings to meet their professional needs. (Inanga and Schneider, 2005). In addition, the lack of communication between the accounting researchers and practitioners may also arise because both have different interests. Inanga and Schneider (2005) argue that most researchers are unconcerned with the immediate and short-term needs of the practitioners. While accounting practitioners are interested in short-term research results capable of providing an immediate solution to professional problems, the focus of researchers is on academic career advancement and a professional reputation built on a publications record. Status is determined by the quality of the journals in which their research findings are published, (Brinn et al., 1996) not necessarily by the quality of the problem or findings. Basically, the lack of effective communication is not only confined to the accounting researchers and accounting practitioners but also extended to include the users. Researchers and practitioners do not communicate with each other, and the financial statements resulting from the practitioners efforts do not communicate with users who do not effectively communicate their needs to either practitioners or academics (Inanga and Schneider, 2005). In addition, a recent research paper (Van Helden et. al., 2010) has also focused on the role that can be played by the consultants, for example, solving practical problems and creates applied knowledge that is of direct relevance to his/her clients. Accordingly, the situation is further exacerbated by neglecting the role of consultants and standard-setters in supporting the design of practice-relevant government accounting and financial reporting system. Consequently, this lack of communication among researchers, practitioners, consultants, standard-setters and users can explain the failure of public sector accounting in furnishing practice-relevant information.

**Fourth**, It is learned from the Norwegian, Dutch and Japanese experiences that a great part of the politicians financial information needs are not satisfied by tradition accounting regulations and policies. In other words, they need specific accounting information that cannot be provided by an accounting system that is constrained by GAAP. They mainly need information such as finding resources for new policy initiatives, trade-offs and financial cuts, avoiding overspending of budgets, resource allocation and avoiding depreciation costs (Olson, 2001, van Helden, 2014 and Yamamoto, 2014). Moreover, the main focus of the politicians is on the cash flows:
Financially, they focused on the cash flows. Simple, understandable and useful measures, but effective. The Norwegian experience has indicated that the specific information required by the politicians cannot be provided by the traditional accounting system that is constrained by GAAP, but it requires a context bounded accounting system (Olson, 2001). Olson (2001) further indicated that the context bounded accounting system does not require us to sacrifice the traditional form of accounting but it can be considered as an extra work and innovation from the accountants side to help the politicians in their decision making through designing accounting system where we translate the accounting information in a form that can be understandable by the politicians. So we cannot design a context bounded accounting system that can fit all governmental entities whether they are local or central entities (Olson, 2001).

**Fifth**, while the accounting is considered as one branch of social sciences which means that it is social and accordingly is dynamic, the design process of government accounting and financial reporting system considers the accounting system and hence the users and their needs as hermetic and static, so that behaviors and needs of users are assumed not to change or interact with the changes taking place in the social, political, economic, regulatory and technological environment. Basically, the traditional user-oriented approach fails to recognize the dynamic nature of the users and their needs (Ouda, 2005). Within fast changing socio-economic-political systems, design approaches that prescribe certain user needs should consider these changes. Therefore, public sector accountants should be aware of the fact that a more practice-relevant approach requires a reorientation toward working within, rather than fighting against the dynamics of user needs.

**Sixth:** Shapiro et al. (2007), writing on the perceived disconnect between research and practice in the management discipline, argue that the practical relevance of research can be lost either before or in translation. They explain that a ‘knowledge production’ problem arises where research fails to focus on phenomena that matter to practitioners. This leads to practical relevance being lost before translation. A different, ‘knowledge transfer’ problem arises where researchers fail to translate their research into publications, frameworks, and tools that managers can use in their work – i.e. the relevance of their academic work is lost in translation (van Helden and Northcott (2010). Similarly, practical relevance of government accounting can be lost either before or in translation. On the one hand, it can be lost before translation when the design of the government accounting and financial reporting system fails to focus on financial topics really matter the users (e.g., top politicians) and hence their needs are not taken into account and are not reflected into the objectives and design of accounting and financial reporting system. This can happen either because of the ignorance of public sector accountants by these topics and needs or because those needs are contrasted with the GAAP. On the other hand, when public sector accountants take the users’ needs into account but they fail to translate the financial accounting information in a form that can be understandable by users (e.g., politicians), the practical relevance of government accounting and financial reporting is lost in translation. So the Shapiro et al. approach can also explain the failure of government accounting and financial reporting to be practice-relevant.

The aforementioned gaps would not exist if accounting practice and specific politician's needs were to be broadly conceptualized as the primary objective of designing the government accounting and financial reporting system. Such broad conceptualization would view government accounting practice not just in terms of how accounting information is prepared, but
also in terms of the reaction of politicians, managers, investors, creditors and other users to whom such information is presented. In addition, to satisfy the diverging needs of users, public sector accountants are not required to sacrifice the traditional form of accrual accounting but they are requested to undertake an extra work and innovation to help the politicians in their decision making through designing accounting system where they translate the accounting information in a form that can be understandable by the politicians. This accounting system is called by Olson (2001) a Context Bounded Accounting System. In addition to traditional role of government accounting in providing traditional user's needs and the specific politician's needs, the government accounting is currently required to furnish information about the fiscal sustainability of governmental entities that indicates the ability of government to meet the current and future obligations when they came due and continue providing services to the public in current and future periods. Accordingly, the satisfaction of different users' needs requires from public sector accountants to keep the traditional accrual accounting system which produce cost-based financial statements that are basically constrained by GAAP and directed towards satisfying the decision making, accountability, compliance and stewardship objectives, in addition, to take the initiative and to think outside of the box and innovate additional accounting and financial reporting systems which may not be guided by the current accounting policies and regulations such as:

- Context bounded accounting and financial reporting system which is mainly directed to satisfying the specific accounting information needs of the politicians; and

- Economic-based accounting and financial reporting system that is basically directed to providing the accounting information needs of the fiscal sustainability.

Moreover, the discussion above leads to a number of conclusions. One of these is that the designing of accounting and financial reporting system which is constrained by GAAP inhibits, rather than encourage meaningful designing of practice-relevant government accounting and financial reporting system. Therefore, the context within which government accounting is perceived as a discipline worthy of research must be reconceptualized to provide the extra required financial information even though the provision of this information may contrasts with the GAAP. Furthermore, the institutional context within which the design of practice-relevant government accounting and financial reporting system is conducted must be understood and operationalized in a new way. Because of the cost-based accounting regulations and policies and hence cost-based financial statements, this is in addition to accounting algebraic structure and legalistic preoccupation, both in terms of what and how to report, government accounting has imposed intellectual straight-jacket on accounting researchers, practitioners, consultants and standard-setters. Moreover, the production of practice-relevant government accounting and financial reporting system is no longer confined to the efforts of accounting researchers only or practitioners only but it is the product of communication and co-operation among different parties such as: accounting researchers, practitioners, consultants, users, and standard-setters. This of course requires from the public sector accountants/scholars to develop a new approach which blends emerging concepts of co-design and co-creation with a practice-oriented approach used in sociological studies of consumption and design. This approach is called a Practice-oriented Co-design approach which will be discussed in the following section.
3- Practice-Oriented Co-design Approach

3.1 A Conceptual Framework

A practice-oriented co-design approach was proposed by Kakee Scott (2008) and used in engineering studies especially in the field of Design for Sustainability (DfS). Researchers in DfS and related fields are arguing that to reach sustainability, radical innovation is required (Brezet, and van Hemel, 1997). To achieve the radical innovation required to shift society in a more sustainable direction, designers need to take a more systemic approach to DfS that looks beyond single products and individual users (Kuijer and de Jong, 2009). In fact, this is what we, as public sector accountants, need to do. We need to look beyond the traditional role of accounting which is constrained by GAAP and to make extra work to provide the required information by politicians and other users even though it may contrasts with accounting regulations and policies. Wever et.al, (2008) argue that experience has learned that when aiming for a specific (radical) effect of products during the use phase, like reduced resource consumption, involving a use perspective in the design process is essential. When aiming to achieve practice level innovation, it is therefore particularly important to integrate a user's perspective and researchers' perspectives in the design process. Similarly, when aiming to produce a practice-relevant government accounting and financial reporting system, it is important to integrate the user's, researcher's, practitioner's, standard-setter's and consultant's perspective in the identification of users and their needs, objectives of and design process of government accounting and financial reporting system.

Based on these considerations, the practice-oriented co-design approach was developed by Scott (2008) and is given for applying a user-centered orientation for sustainable design which blends emerging concepts of co-design and co-creation with a 'practice-oriented' approach. Notions like co-creation and co-design are beginning to turn design on its head by increasingly putting the tools of design into the hands of end-users. Co-creation appears already in emerging trends of social innovation, user generated content, and open-source design, providing real-life examples from which the design profession is beginning to learn some valuable lessons (Sanders & Stappers, 2008). Co-design can be defined as a cooperative, continuous process bringing everyday people together with design professionals to find new and better ideas for daily life. Scott further argued that the idea of a practice-oriented approach in design comes from a discussion happening about the conceptual and practical relevance between practice theory, studies of consumption and product design (Julier, 2007; Shove et al, 2008; Ingram et al, 2007; Fisher & Hielscher, 2008). The argument is that practice theory can provide a better framework for understanding issues of consumption (including both purchase and use), and this learning can be applied in design approaches in order to establish more sustainable and effective modes of consumption. A practice-oriented approach is intended to guide the design process to look more broadly, beyond individual products and users, to the integrated routines, materials, bodies, meanings, functions, and abilities that make up everyday practices. In fact, in order to make the practice-oriented co-design approach applicable to accounting, I will rely on the core concept developed by Scott (2008) and develop a new version that will be suitable for designing a practice-relevant government accounting and financial reporting system. This will start with developing the principles that frame the new version of the practice-oriented co-design approach.
3.2 Developing the Principles of Practice-oriented Co-design Approach that make it applicable to Accounting

While the traditional accounting approach for designing a suitable government accounting and financial reporting system is based on a basic hypothesis that attempts to fit users and their needs into the design process, both co-design and practice-orientation challenge the design process to better fit into users' practice. In order to achieve this, according to the recommendation of the American Institute of Certified Public Accountants’ (AICPA’) Special Committee on Financial Reporting (Jenkin’s Committee) entitled Improving Financial Reporting—A Customer Focus (AICPA, 1994), the design process should see the users including the politicians as a customer and the focus must move away from the final product of accounting which is the financial statements that are constrained by GAAP to thinking about the design of government accounting and financial reporting as a starting point or tool and should take into account the information needs of the politicians whether this information is consistent with GAAP or contrasted to it. Basically, the merging of co-design with a practice orientation approach is meant to explore how the politicians, internal managers and other users, accounting researchers, practitioners, consultants and standard-setters can be co-operatively engaged in formation of more practice-relevant government accounting and financial reporting and how the design of accounting and financial reporting system can be re-oriented toward enabling these changes. So this paper is driven by the following research question: how the practice-oriented co-design approach could lead to designing of a practice-relevant government accounting and financial reporting system? For this to happen, I see that the following principles are essential:

1- **Intervention**: Relying only on the users in determining their needs has proven to be insufficient in itself as the users are unable to articulate what their needs are in any convincing way (Sutcliffe, 1985). This has resulted in that those needs are determined by others and hence leading to designing a government accounting and financial reporting system which does not provide their information needs, accordingly it is not practice-relevant. So the intervention of accounting researchers, practitioners, consultants and standard-setters with the users can assist in and facilitate of determining of practice-relevant information needs. Scapens (2008) also notes that accounting researchers can seek to make their research relevant by ‘intervening’ in various ways that range from direct intervention within individual organizations to the production of critical writings that draw out ‘the social and political consequences of accounting in modern organizations, and in society more generally.

2- **Communication and combination**: users + researchers + practitioners + consultants + standard-setters. The communications among those parties and combination of their efforts reflect a common format in co-design and practice-orientation approach. Accounting researchers can assist in developing new methods or approaches and could formulate theoretically informed answers to questions raised by other parties (van Helden et al, 2010); this is in addition to providing analytical skills to guide the parties in designing the accounting and financial reporting system. Practitioners are the producers of the financial statements and working on the ground which makes them to be well-known with the practical problems. Therefore, they can play a significant and positive role in helping the other parties in determining the practical users’ needs and designing practice-relevant government accounting and financial reporting system. Consultants...
create knowledge that is initiated by problems stemming from practice that has to be customized for application in practice (van Helden et.al. 2010). Therefore, they help in solving the practical problem and providing solutions for the users’ needs and demands that stem from the practice. Finally, the accounting standard-setting bodies can play a significant role in tackling specific accounting issues and designing the practice-relevant accounting and financial reporting system. Consequently, the communication among those participants and combination of their efforts will assist in determining practice-relevant objectives of government accounting and financial reporting and hence designing a practice-relevant government accounting and financial reporting system.

3- **Dynamic**: Within fast changing socio-economic-political and technological systems, design approaches that prescribe certain user needs should consider these changes and do not treat these systems as being somewhat hermetic and static. This reflects the idea of co-creation as a continuous process of discovery and invention, and the dynamic nature of practices in terms of persistence and change over time. In addition, there should be appropriate and structured research to identify the ongoing and emerging needs of users of accounting information and to develop products to meet those needs (Inanga and Schneider, 2005). Therefore, public sector accountants should be aware of the fact that a more practice-relevant approach requires a reorientation toward working within, rather than fighting against the dynamics of user needs and of accounting as a social science.

4- **Do not sacrifice the traditional form and role of accounting but consider extra work and innovation**: the traditional role of accounting of only serving the traditional users’ needs that are constrained by GAAP is no longer sufficient to provide the specific needs of politicians as it requires a context bounded accounting system (Olson, 2001), which requires an extra work and innovation from the accountants side to provide these specific information needs of the politicians. Furthermore, nowadays, the users' needs are extended beyond the traditional users' needs and specific politician's needs to include information about the long-term fiscal sustainability where the users need to know information about the ability of a governmental entity to meet service delivery and financial commitments both now and in the future. Accordingly, government accounting should also serve the fiscal sustainability information needs although it may be contrasted with the accounting regulations and policies. So in order for government accounting to serve different users' needs, the objectives of government accounting and financial reporting should be broadened to include the specific information needs of the politicians and the fiscal sustainability information needs this without sacrificing the traditional form of accounting and traditional information needs.

5- **Budget functions and their needs**: Based on the specific relationship between the budgeting and accounting system in the governmental entities, in addition to the users and their needs, the budget functions and their information needs are important to the point that can be taken into consideration in designing the governmental accounting and financial reporting system. Basically, government accounting and financial reporting are valid only to the extent that they reflect the users’ information needs and the required
information for carrying out the budget functions efficiently and effectively. It is assumed that provision of information required for carrying out the budget functions which really matter top politicians can assist in making the government accounting more practice-relevant.

6- Creativity in doing + innovations in practice: These are two overlapping and complementary ideas from co-design and practice-orientation (Scott et al, 2009). If the government accounting and financial reporting system exist primarily to enable practices, then innovative practice-relevant accounting system should be designed to enable innovative practices. The goal is to help accounting researchers, practitioners, consultants and standard-setters reinvent ordinary practices to be more practice-relevant and effective.

7- Blurring of roles: This reflects an effort toward the ‘democratization’ of co-design and to reduce the distance between participants (Scott et al, 2009). Users are treated as equal participants rather than as mere ‘subjects’ (Sanders & Stappers, 2008), and are involved in both determining their needs and budget functions needs. Researchers, consultants, standard-setters and practitioners take part in the user roles in their personal practices and to get recognition of practical consciousness at work in real life.

3.3 Co-Design Framework and Conceptualization of Dynamic Model

In addition to the previously developed principles, the conceptualization of the dynamic model should be based on the following co-design framework where the accounting researchers, practitioners, consultants and standard-setters are working together to co-discover the users. After that they can together with the users co-define the users’ needs. In addition, the accounting researchers, practitioners, consultants and standard-setters should co-determine the objectives and co-design of the government accounting and financial reporting system.

Together with the co-design framework, the following eight elements derived from the principles of practice-oriented co-design approach are essential for the conceptualization of the Dynamic Model:

1- 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 by using the practice-oriented co-design approach.
2- Users and budget functions and their needs are both the driving forces behind the design of a practice-relevant government accounting and financial reporting.

3- 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.

4- Intervention of and communication among accounting researchers, practitioners, consultants and standard-setters at all phases are essential.

5- Not all information needs can be provided by accounting system that is constrained by GAAP and hence the public sector accountants are required to consider extra work and innovation to provide the specific needs of politicians and fiscal sustainability needs.

6- Users and their needs are not hermetic and static but dynamic. Therefore, there should be appropriate and structured research to identify the ongoing and emerging needs of users of accounting information and to develop products to meet those needs.

7- Government accounting is required to broaden its objectives to satisfy the emerging users needs and hence developing a new set of government accounting and financial reporting systems.

8- Producing of a practice-relevant government accounting and financial reporting system does not automatically guarantee that politicians and other users will use it, therefore we should add to the dynamic model the determinants of accounting information use as a machinery that makes the politicians and other users to use the new information.
Fig. 3: A Suggested Dynamic Model for Making Governmental Accrual Accounting and Financial Reporting More Practice-Relevant

- Accountability, Decision-making, Compliance and Stewardship objectives (cost-based objectives);
- Specific needs of politicians and other internal users (context bounded accounting system); and
- Fiscal sustainability (Economic-based objective)

Determinants of Accounting Information Use (e.g., Transparency, Accountability, Internal and External Pressure)

Using and appreciation of improved accounting information by different users

Design of the Practice-relevant triple set of Government accounting and financial reporting systems (Cost-based, context bounded and Economic-based accounting and financial reporting systems required for meeting the three broad objectives)

Practice-relevant objectives of Government accounting and financial reporting

Determine

Practice-Relevant Users' Needs and budget Functions Needs

Determine

Users and Budget functions: with intervention of accounting researchers, consultants, standard-setters and practitioners

Determine

Accounting Researchers

Consultants

Accounting Practitioners

Accounting Standard-setters

Changes in Social, Political, Economic, Regulatory and Technological Environment

Complementary factors

Basic factors


4- A Suggested Dynamic Model of Making Governmental Accrual Accounting and Financial Reporting More Practice-Relevant

4.1 Description of the model

This section deals with the suggested dynamic model from two perspectives: Basic factors and Complementary factors. Basic factors that are considered important for co-designing the practice-relevant government and financial reporting system. Complementary factors that are required to increase the using and appreciation of the improved financial information provided by the practice-relevant government accounting and financial reporting system.

4.1.1 Dynamic Model: Basic Factors

4.1.1.1 Users and budget functions: With the intervention of accounting researchers, consultants, standard-setters and practitioners

We, as public sector accounting scholars, should admit that the identification of users and budget functions is the corner stone and starting point for designing a practice-relevant government accounting and financial reporting system. In the second half of the last century, various studies were undertaken to identify the users of the government financial information (e.g., NCGA, 1968; AICPA, 1973; Drebin, 1981; CICA, 1977; Anthony, 1978; MFOA, 1980; Drebin, 1981; Ferguson, 1981; and IFAC, 1991). After a deliberate study of the above-mentioned studies it was concluded (Ouda, 2005) that there is no unanimity about who the users of governmental financial information are. Some studies have found that some users are important enough to be included on the users list of financial information and other studies found that it does not seem necessary to include some users as principal users of financial information. It is also noticed that most of these studies focused more on the external users of governmental financial reporting than the internal users. Their opinion was based on the fact that those users have limited authority, ability, or resources to obtain the information they want. On the other hand, there are among the external users mentioned by these studies some users who have the authority and ability to obtain whatever financial information they need such as the legislative bodies, oversight bodies and higher levels government. Accordingly, Chan (1981) argues that the identification of user groups of the governmental financial information should be approached 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. One of the primary characteristics of the government environment is that the government is a representative of its citizens. This also means that the citizens delegate the power to the government in order to be able to make decisions about allocation and management of public resources. This delegation of powers is usually accompanied by “separation of power” between executive, legislative and judicial bodies of government. This, in turn, means that legislative, executive and oversight bodies are responsible to the citizens for the financial management of governmental entity resources. Thus, those who argue that legislative, executive (governing) and oversight bodies are external users, their argument cannot be justified. This is because it is not logic that bodies that have the power (delegated to them by the citizens) and are accountable to the citizens for the management of the public resources can be considered as external users (Ouda, 2005). These bodies cannot wait until the financial reporting is promulgated at the end of fiscal year to carry out their responsibilities efficiently and effectively. In addition, these bodies have the power, ability and authority to obtain whatever financial information they want and they can be considered as semi-external/internal users.
Therefore, the use of the practice-oriented co-design approach through the intervention and collaboration of accounting researchers, consultants, standard-setters and practitioners can assist in co-discovering and identifying the right users and the right classification of the user groups. This intervention can be based on the Practical-differential approach (Ouda, 2005). This approach is not going to limit the users groups to the extent that emphasizes the commonalties or to expand the users groups to the extent that makes the number of user groups not manageable. This approach also emphasizes the complexity of government accounting, but it produces manageable users groups. Consequently, the identification of the users should be reconsidered in a way that takes into account the unique nature of the government as well as the significant characteristics of its environment within which it operates. This means that we should not only give more weight to the external users as the principal users of governmental financial information but also to the politicians, internal managers, policy makers and administrators as the primary users of government accounting financial information.

In addition to the identification of the users, the identification of budget functions is essential, on the one hand, for the politicians, internal managers and policy makers and on the other hand because some functions can be served by government accounting and some others the government accounting plays no role. Therefore, it is important to determine which functions can be served by government accounting system and which cannot. Bac (1994 and 2003) has mentioned the following budget functions and relationship of accounting role with these functions:

- Allocation function: this function is concerned with allocation of resources to different purposes and choosing or determining the plans that should or not be executed. Herein, Bac (2003) argued that the allocation function is not applicable to accounting and reporting, because the allocation plays a role in the budget preparation phase, with the exception of choices that have to be made after windfalls have delivered unexpected resources during the year of budget execution.
- Authorization function: once the amounts have been allocated in the budget then this provides the authorization to incur expenditure or levy the charges that have been agreed. In fact, there is relationship between the role of accounting and reporting and the authorization function, as the accounting plays a continuous role during the year of budget execution in order to prevent the budget overruns (Bac, 2003).
- Management function: this function is concerned with execution of tasks related to the decision making process and carrying out the management responsibility efficiently and effectively. Herein, the accounting and reporting play an essential role in supporting of day-to-day management.
- Control function: control functions can be exercised by comparing budgeted results with actual results to ensure that expenditure levels are not exceeded and that planned activities are achieved. Bac (1994) mentioned that this function is concerned with discharging the accountability. He also added that accounting does have a real role in the control function (Bac, 2003).
- Macro-economic function: this function indicates the degree to which budget process has affected the economic variables such as: purchase power, work opportunities, development of the interest. With respect to the macro-economic function no direct role for the accounting and reporting can be identified (Bac, 2003).

Consequently, the identification of users, taking into consideration the unique nature of the government and the significant characteristics of its environment within which it operates, and the budget functions that government accounting can play role in carrying out them, are
essential in facilitating the design of a practice-relevant government accounting and financial reporting system.

4.1.1.2 Practice-relevant users' needs and budget functions' needs

Due to the fact that users are, on the one hand, not precisely able to determine their needs and on the other hand, they did not communicate effectively their needs to either accounting researchers or practitioners because the needs are assumed to be known, the use of practice-oriented co-design approach is fundamental. The practice-oriented co-design approach firstly makes users act as experts of their own experience by actively involving them in generating their needs and secondly requires the intervention of and communication among the accounting researchers, practitioners, consultants and standard-setters with the users as this can assist in and facilitate of the identification of the practice-relevant information needs. Both the intervention and communication should consider the users' needs that are constrained by accounting regulations and policies as well as the specific needs of politicians which need an extra work from the accountants' side; this is in addition to the users' needs that are related to the fiscal sustainability and carrying out the budget functions. The original idea underlying the intervention of the participants and communication with the users is to solve problems that users face and the users are consulted and their input is seriously taken into account.

Based on an earlier study (Ouda, 2005) regarding the identification of users' needs, it has been concluded that the users’ needs are no longer confined to information constrained by GAAP and to compliance with legislation, rules and regulations. On the contrary, those needs are extended to comprise more significant and valuable information where some of this information is related to the specific needs of politicians as well as the carrying out the budget functions; and some other is related to serving the fiscal sustainability. For example, reporting long-term fiscal sustainability information provides information on the impact of current policies and decisions made at the reporting date on future inflows and outflows and financial statements. The long-term fiscal sustainability is broader than information derived from financial statements; therefore, it takes into account the future outflows which do not meet the recognition criteria of liabilities; and the future inflows which do not meet the criteria of recognition of an asset.

Another example, the politicians need specific information related to finding resources for new policy initiatives; trade-offs and financial cuts; and avoiding overspending of budgets; resource allocation and avoiding depreciation costs; the cost of governmental programs and activities. In addition, based on the specific relationship between the budgeting and accounting system in the public sector the budget functions and their information needs are important to the point that can be taken into consideration when designing a practice-relevant governmental accounting and financial reporting system. The Budget functions and their information needs are:

- **Planning and allocation functions:** In order for the resources to be efficiently and effectively planned and allocated, the policy makers require information on the programs assumed to be implemented, their costs and costs of the alternatives and on whether these resources have been directed towards current expenditure or capital expenditure. In case these resources have been directed towards capital expenditure, they need information about whether it will be used to maintain the existing structure or to carry out new constructions. They need information on whether these resources will be used to redeem short- or long-term liabilities; hence, they need information about commitments, short- and long term liabilities.

- **Authorization function:** Before the legislative bodies provide authorization to incur expenditure or to levy charges, they need information on how resources will be obtained, how they will be used, and whether the sources and uses conform to budget requirements. They need
information of whether services and costs are distributed equitably and whether physical resources are properly maintained. They also need to assess the extent to which revenues were sufficient to cover costs of operations. They need information to help them assess the government’s stewardship of resources, and information on whether the current and long-term liabilities are met.

- Management function: After the resources have been allocated and authorized, the management function of the budget starts, namely, the carrying out of the management responsibility concerning the execution of the budget. This includes translating the objectives into certain projects and activities; designing of the management units that will embark on the implementation of programs; employing the staff that is required to implement these programs. In short, it involves organizing, staffing and directing necessary to carry out the selected programs. Herein, the management function requires necessary information about the government programs and activities that have to be carried out. Also the management needs information to help in predicting the relationship between units of input and units of output. In order to improve efficiency, the management may require information of existing costs per unit of output; information helpful in predicting the cost of alternative programs would also be useful to management in making implementation decisions. In general, management needs information for managing the allocated and authorized resources.

- Control function: Control is the process by which activity is compared with expected results and deviations from intended results are located and corrected. The function of control implies measuring performance to see whether objectives are being achieved and constraints are being observed. It involves detecting departure from the budgeted position and taking actions to correct deviations. Thus, relevant, accurate and timely information of actual and budgeted positions need to be provided to all levels of management to enable performance to be monitored against budget (Jones and Pendlebury, 1984). Thus, the control function of the budget requires information regarding regularity, efficiency and effectiveness in order to be able to confront it with realized figures in the financial report (Bac, 2001).

- Macro-economic functions: In fact, this function has been considered in the literature as a consequence of the Keynesian notion that fiscal policy can be planned and utilized to achieve economic objectives. Many believed that macroeconomics could transform the budget process into a vehicle for attaining both efficient and effective policy ends (Guess, 1992). Thus, the budget process could be directed towards reducing inflation rates, improving the standard of living, increasing the work opportunities, decreasing the interest rates and redemption of external debts. Herein, the fiscal policy makers require information to evaluate the economic impact of the government on the economy as a whole and to evaluate government spending options and priorities. Thus, they need information that assists them to understand the full nature, scope and extent of government financial activities to the overall economy.

4.1.1.3 Broadening the objectives of government accounting and financial reporting

Having identified the users and budget functions and their needs, the objectives of accounting and financial reporting should support those users’ needs and budget functions needs. Namely, the objectives should reflect the information needs of those users, otherwise, they are deemed to be useless. IFAC (1991) stated that “as a general principle, financial reports should communicate information that is relevant to the decision-making and accountability needs of users”. The NCGA in April 1982 promulgated its statement No. 1: Objectives of Accounting and Financial Reporting for Governmental Units. The statement has identified the overall objective of governmental accounting and financial reporting as follows:
The overall goal of accounting and financial reporting for governmental units is to provide:

1- Financial information useful for making economic, political, and social decisions, and demonstrating accountability and stewardship; and
2- Information useful for evaluating managerial and organizational performance.

However, the overall objective of the governmental accounting and financial reporting focused on the external and semi-external users' needs which are constrained by GAAP and did not focus on the specific needs of the politicians, policy makers, top management and fiscal sustainability information needs. In fact, government accounting system does not only exist to serve the external and semi-external users’ needs, but presumably its basic function is to facilitate the work of the politicians, management planning and control and day-to-day decision making process, and policy makers, this is in addition to fiscal sustainability, hence, a complement to the overall objective could be:

3- Information useful for the specific needs of politicians and carrying out the budget functions; and
4- Information useful for serving the fiscal sustainability.

Accordingly, the objectives of government accounting and financial reporting should be broadened to serve the following three objectives:

![Figure 4: Broadening the objectives of government accounting and financial reporting system](image)

Similar to the identification of users' needs, the practice-relevant objectives of government accounting and financial reporting requires the intervention of and communication of accounting researchers, practitioners, consultants and accounting standard-setting bodies. Basically, the broadening of government accounting and financial reporting objectives and the intervention of and communications among all participants are essential for determining practice-relevant objectives of government accounting and financial reporting. So it can be concluded that objectives of the government accounting and financial reporting are valid only to the extent that they reflect the traditional users' information needs that are constrained by GAAP, specific needs of the politicians, fiscal sustainability and the required information for carrying out the budget functions efficiently and effectively.
4.1.1.4 Design of practice-relevant government accounting and financial reporting

Similarly, the accounting system in the governmental entities is valid only to the extent that it reflects the objectives of governmental accounting and financial reporting system. Thus, the accounting standards and procedures or practices have to follow logically from those objectives and to design the governmental accounting and financial reporting system that has to reflect those objectives. Herein, the main benefit of using the practice-oriented co-design approach is that the accounting researchers, practitioners, consultants and accounting standard-setting bodies should challenge the design process to better fit into users' practice. The design process should see the users including the politicians as a customer and the focus must move away from the final product of accounting which is the financial statements that are constrained by GAAP to thinking about the design of government accounting and financial reporting as a starting point or tool and should take into account the information needs of the politicians whether this information is consistent with or contrasted to GAAP. Basically, the merging of co-design with a practice orientation approach is meant to explore how the politicians, internal managers, other users, and accounting researchers, practitioners, consultants and accounting standard-setting bodies can be co-operatively engaged in formation of more practice-relevant government accounting and financial reporting and how the design of accounting and financial reporting system can be reoriented toward enabling these changes. Consequently, serving of the broadened objectives stated above will require a triple set of government accounting and financial reporting systems as follows:

a- Cost-based government accounting and financial reporting which will serve the users' needs that are constrained by accounting regulations and policies (GAAP). Such as how the financial and economic resources have been obtained and used; whether these resources have been used in an efficient and effective way and in the interest of both current and future generations; information about assets, liabilities, revenues and expenses; information about cost of services provided, cost effectiveness and performance in terms of efficiency and effectiveness; information about the relationship between revenues, expenses and changes in net worth; the performance of the management; the tradeoff between the burdens of current and future taxpayers; the cost of governmental programs and activities. However, there are significant limits to what public sector cost-based balance sheets alone can tell us about fiscal sustainability or the specific needs of the politicians. In particular, balance sheet measures look only at the impact of past government activity. They do not include the present value of future spending, for example on health, education and pension provision. And, just as importantly, they exclude the public sector's most valuable financial assets – its ability to levy future taxes. Accordingly, the cost-based balance sheet indicates absolutely nothing about fiscal sustainability (Robinson, 1995) as the cost of fixed assets bears no necessary relationship to the future returns (either in use or through sale) from that asset. In addition, it does not provide the specific needs of politicians which are mainly related to carrying out the budget functions. Therefore, the public sector accountants should do an extra work to cover these deficiencies through developing another two set of government accounting and financial reporting systems as follows:

b- Context bounded accounting and financial reporting system which can serve the specific needs of the top politicians and top-managers and carrying out the budget functions. Olson (2001) argues that a context bounded accounting system was defined as
a system, which is constructed upon the ideas of the actors in the organization and their discourses related to the organization. This should be viewed in contrast to a situation when an accounting system is based on general discourses of external actors, i.e. a contextual discourse. If we, as public sector accountants, provide the needed information by politicians we shall not follow NPFM but we are going to follow the political discourse which is not guided by existing accounting theories and contrasts with the NPFM. The main focus of the politicians is on the cash flows: Financially, they focused on the cash flows. Simple, understandable and useful measures, but effective. Olson further notes that existing accounting theories are not guidelines in construction of context bounded accounting practice. This is also a very sharp contrast to NPFM, which almost totally has existing accounting procedures and control arrangements as a point of departure. This means that context bounded give the politicians information they want to include in their political discourses, while NPFM give the politicians information they have to adapt their political discourses to.

c- Economic-based accounting and financial reporting system which can serve the fiscal sustainability information needs. In fact, the cost-based balance sheet (GAAP-based balance sheet) is mainly backward looking and not including the future liabilities and contingent liabilities arising out of past activity such as: future pension payments to past and existing public sector workers. To serve the fiscal sustainability objectives, economic-based balance sheet should estimate the present value of future public service pension payments. So, the economic-based balance sheet is forward looking and including the economic valuation of fixed assets and the present value of future revenues and future expenditures and it is used only for serving the fiscal sustainability purposes.

In conclusion, we can say:

- **Different information needs for different users**;
- **Different financial reporting objectives for different information needs**; and
- **Different accounting systems for different financial reporting objectives**.

4.1.1.5 Recognizing the changes in social, political, economic, regulatory and technological environment

Basically, practice-relevant government accounting and financial reporting system must be considered in complex environments (social, economic, political, etc.) of many constituencies with diverse interest and information needs. Each has its unique cognitive sets and world contexts. Accounting system, if it is to be practice-relevant, must be tailored to a specific context, but not excluding appropriate interrelationships and interdependencies. As a result of the fact that accounting is a social science and hence is dynamic, the users and their needs are also dynamic. Accordingly, the triple set of the government accounting and financial reporting systems should reflect the changes in social, political, economic, regulatory, and technological environment because these changes would result in changing the users' needs. Of course, if the public sector accountants need to keep the practice-relevant government accounting and financial reporting to continue practice-relevant then the government accounting must reflect those changes. The notion of considering the accounting system and the users' needs as hermetic and static is no longer valid in the
context of dynamic social world. On the contrary, the design decision of a practice-relevant accounting system should be taken within the context of the users, changes in their needs and their environment.

4.1.2 Dynamic Model: Complementary Factors

4.1.2.1 Determinants of accounting information use

However, the experiences of earlier reformer countries have approved that producing practice-relevant government accounting and financial reporting system does not automatically mean that the politicians and other users will use and appreciate the information provided by this system (Luder, 2013 and Hyndman et al, 2005). Therefore, there should be machinery that makes the politicians and other users to use the practice-relevant information. Thus, to complement the dynamic model, we should add to the model the determinants of accounting information use. In fact, several studies have been conducted on the determinants of accounting information use such as Kurunmaki, Melia, & Lapsley, 2003; Mkasiwa, 2011; Vyas and Souchon, 2003; Assad and Goddard, 2006; Mzenzi, 2013). Some of these studies have been focused on the external environment and consider it as a crucial element in the emergence of legitimizing behaviour of using accounting information and activities in public sector budgeting decision-making that does not necessarily increase efficiency (Kurunmaki, Melia, & Lapsley, 2003). Hogye, (2002) argues that the use of accounting information is fundamental for increasing the efficiency of governmental entities whereas Mkasiwa, (2011) argues that the co-existence of internal institutional pressure for efficiency along with external institutional pressure, which are not necessarily contradictory, can result in accounting information use that has a more instrumental rather than symbolical role; otherwise it can lead to a struggle for conformance, or symbolic legitimating use of accounting information. On the other hand, previous studies in developing countries public sector have demonstrated that legitimating use of accounting information and practice is conducted for gaining external financial legitimacy (Assad and Goddard, 2006; Mkasiwa, 2011; Mzenzi, 2013). This is because accounting information has power to legitimate access of fund from external sources by demonstrating transparency and accountability as the main issues for good governance (Assad, 2001; Assad and Goddard, 2006).

In addition, the findings of an empirical study (Mbelwa, 2014) has approved that the legal pressure was the main factor for the use of accounting information in the budgeting process as this study argued that issued budget guidelines, financial management guidelines, financial acts and by-laws put pressure on administrators and counselors to use accounting information in the budget decision-making processes because their compliance is a pre-condition for accessing Local Government Development Grants (LGDGs). So the internal and external institutional pressures, demonstrating transparency and accountability and the legal pressure can make the politicians and other users to be committed to use the improved accounting information resulting from the practice-relevant government accounting and information system. Consequently, the inclusion of determinants of accounting information use in the dynamic model is essential to complement the intervention of and communication among the accounting researchers, consultants, practitioners and standard-setters.

5. Conclusion

This study examines how the public sector scholars/accountants can make the governmental accounting and financial reporting more practice-relevant. Accordingly, it has attempted to
adopt a new approach that has already been used in engineering studies but it needs to be developed in order to be applicable to the governmental accounting. This is the practice-oriented co-design approach. Unlike the traditional accounting approach which focuses on attempting to fit users and their needs into the design process, the new developed practice-oriented co-design approach focuses on challenging the design process to better fit into users' practice. The new developed approach is used in this paper to suggest a dynamic model that aims at making the governmental accounting and financial reporting more practice-relevant. The Dynamic Model requires from the accounting researchers, consultants, practitioners and standard setter to co-operate together in order to co-discover the users, co-identify the users’ needs, co-determine the objectives of government accounting and financial reporting system and co-design the government accounting and financial reporting system. The practical relevance of government accounting requires the use the Practice-oriented Co-design approach and the suggested Dynamic Model to reconsider the users list and consider the politicians, top managers and policy makers as the principal users and hence consider their needs and to deal with them as experts and involving them in determining their needs. If the accounting system that is constrained by GAAP does not provide their needs the public sector accountants should do an extra work and innovation to help politicians and other users in their decision making through designing an accounting system where they translate the accounting information in a form that can be understandable by the politicians. In addition, the dynamic model has also considered the information required for serving the fiscal sustainability purposes. The dynamic model has also dealt with increasing the usability of improved information provided by the government accounting and information system through adding a complementary factor which is the determinants of accounting information use. It may be useful for future research to extend the work of this paper by testing the plausibility and workability of the suggested dynamic model.

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The Experience and Issues of IPSAS Implementation in Ukraine in the Context of Cooperation with the United Nations

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Abstract

The authors analyzed the main directions of reforming the preparation of accounting information by public sector entities: introduction of the national provisions (standards) of accounting in the public sector, the training for preparers of financial statements, the oversight on efficiency of implementation of innovations.

The role of international organizations in implementation of the reform in accounting and reporting is defined. Authors provided the survey in chronological order on certain aspects of cooperation between Ukraine and the United Nations (Conference on Trade and Development), in particular, the creation and improvement of the Guidance in the field of monitoring of compliance and enforcement for high-quality corporate reporting (MC & E).

The necessity of monitoring of the implementation and compliance with international accounting standards in the public sector, the development and consolidation of its basic principles at the international level and appropriate methodological support for its implementation are substantiated. Recommendations regarding the scope of the MC&E are presented.

Key words: the UN, Conference on Trade and Development, reform in the field of accounting in Ukraine, the International Public Sector Accounting Standards (IPSAS), the International Financial Reporting Standards (IFRS), Monitoring of compliance and enforcement.

Introduction

Since 1945 Ukraine has been one of the founding members of the United Nations. This obliges us to actively support the actions for implementation of the tasks set up by the UN Sustainable Development Goals (2015) and other solutions (The United Nations, 2015).

Cooperation with intergovernmental and international professional organizations in the field of developing the strategy and tactics of reforms is crucial.

The Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting of the United Nations Conference on Trade and Development (ISAR-UNCTAD) (Geneva, Switzerland) is one of the most authoritative international organizations.

Given the importance of reforming the national accounting and reporting systems based on international standards to attract investments and provide the development of the national economy, Ukraine participates in the activities of ISAR-UNCTAD UN.

Active cooperation with ISAR-UNCTAD started with the discussion in 2006 about the ways for implementation of international financial reporting standards (IFRS). Significant changes in the field of financial reporting in Ukraine were the result of the execution of the Cabinet of
Ministers Resolution “On Approval of the Strategy of application of International Financial Reporting Standards in Ukraine” (Strategy) (Cabinet of Ministers of Ukraine, 2007). The strategy was the result of Ukrainian cooperation with UNCTAD. In 2007 it was presented and approved at the 24th session of ISAR-UNCTAD.

In Ukraine the transition to the direct application of IFRS was held according to the Strategy on 1 January 2012. As of today The Strategy is almost accomplished.

The next step of cooperation with ISAR-UNCTAD was the capacity assessment for high-quality corporate reporting in Ukraine (from April to October, 2013) in accordance with UNCTAD-ISAR methodology, Accounting Development Tool (ADT). The assessment was carried out by the Ministry of Finance of Ukraine (the MOF). The obtained results of capacity assessment helped to determine actions for further development strategy.

In general, the following three strategic directions have been defined. The first is the development of the accounting system, the second is the development of independent audit and audit services market, and the third is training accountants, auditors, heads of departments of state authorities and other experts. In the context of development the accounting system it is necessary to admit the reforming in the public sector. It should be noted that great preparatory work is under way, providing major changes in the Governmental Financial Management. The integrated informational system of the Governmental Financial Management is being developed. Against this background, since 1st January 2015, public sector entities have been in transition to national provisions (standards) of accounting in the public sector (NP(S)APS), based on international accounting standards in the public sector (IPSAS).

Currently, 19 NP(S)APS and a new chart of accounts in the public sector were approved and designed in accordance with the requirements of IPSAS. However, the ideology of accrual basis of accounting (put into the new chart of accounts) is new to our system. Thus, the transition to it is accompanied by a number of methodological and technical complexities. To overcome them it is necessary to take some measures, in particular:

1) to design the methodological framework for the application of national standards:
   - methodology for the application of NP(S)APS:
     - order on how to fill in forms of financial reporting in the public sector;
     - improvement of the methods of preparing and consolidating financial reporting;
     - harmonization of chart of accounts with budget classification;
   - to develop new software. It should be introduced firstly in the treasury system, and then in budget entities system. Currently, the experts are working on the realization of this task;

2) to provide staff training:
   - organizing of training for specialists of the MOF, the Treasury, high and low level administrators of budgeted funds (or spending units);
   - holding seminars, conferences, consultations for employees of financial and accounting services of budget entities and funds of obligatory state social and pension insurance;
   - training workforce for public sector entities that provide public services (especially for experts in the field of finance and accounting of budget entities);
   - providing recommendations for improving the system of training, retraining and upgrading of experts in the field of finance and accounting.
The expected results of the reform:

- adaptation of Ukrainian legislation in the field of accounting and reporting to international standards (IPSAS);
- improvement of public financial management system;
- transparency of financial reporting data in the public sector and its comparability with the similar data of other countries;
- modernization of information and communication technologies;
- improvement in training and retraining of personnel in the field of accounting in the public sector.

Thus, in the field of accounting there are active reform processes. The considerable results have been achieved. However, there will be a lot of further work and it is necessary to provide constant monitoring of these processes in order to find out weaknesses.

At the same time, accounting reforming in the public sector can be considered as a "shock therapy." In order to smooth this transition it is necessary to provide serious consultative support and explanatory work.

Any reforming and administration will not give the desired effect without control and monitoring of the process. Therefore it is necessary to strengthen the control of the State Treasury Service in compliance with the common rules of accounting and preparation of reporting by spending units and other public sector entities.

At the same time we made some suggestions for further improvement of ADT questionnaires and the report layout as an evaluation tool. Overall scoring elements should be restructured with the inclusion of the Public Sector as a separate Pillar, not only as an addendum.

After reviewing the summary report and questionnaire, the summary report was updated in accordance with the changes that occurred in legislation on accounting, reporting and auditing, and new trends of reforming (on 1 January, 2016).

A new stage of cooperation between Ukraine and UNCTAD-ISAR started with the participation of Ukrainian experts in the development of the draft Guidance «Monitoring of compliance and enforcement for high-quality corporate reporting: guidance on good practices» (MC&E).

IFRS summarizes the world’s best accounting practices. At the same time, as rightly mentioned in the Introduction to Guidance developed by UNCTAD, the benefits of their application cannot be realized unless the standards are properly implemented in a specific national environment. Therefore, monitoring of compliance with standards and their enforcement in corporate reporting are crucial for the achievement of economic and social effects from their implementation.

The MCE system is especially important for emerging market economies entering the global economy as new, independent countries. Ukraine is one of them. Reviewing the draft Guidance showed that it contains information on key elements of monitoring and control. The objective of the document is to provide relevant policy makers and other stakeholders in the area of accounting and reporting of a specific country with a reliable guidance on creating an effective national system of monitoring of compliance and enforcement and on identifying major changes to be addressed in establishing such a system.

As stated in the Draft Guidance, to build an efficient MCE system, it is important to define its scope and objective, design a set of MCE-related benchmarks, activities and methodologies for
both the prevention of bad practices and correction of errors, if necessary. In defining the scope of an MCE system, a decision should be made as to whom MCE-related actions will apply and what kind of information will be assessed.

Good practices of Monitoring compliance & enforcement in the Guidance are shown in the example of countries, which can be classified according to the UN into three groups:

- countries with developed economies (16 countries);
- countries with economies in transition (1 country);
- countries with developing economies (7 countries) (The United Nations, 2014).

Among mentioned 24 countries, most examples demonstrate practices of countries with developed economies. This is reasonable because the Guidance provides the best practices of monitoring of compliance & enforcement system (table 1).

| Table 1: Countries with developed economies mentioned in the Guidance |
|-------------------------------------------------|-----------------|-----------------|-----------------|
| Europe                                        | Other countries | Major developed |
| European Union                                | New EU member   | Other Europe    | economies (G7)  |
| Austria                                       | Bulgaria        | Iceland         | Australia       |
| Belgium                                       | Croatia         | Norway          | Canada          |
| Denmark                                       | Cyprus          | Switzerland     | Japan           |
| Finland                                       | Czech Republic  |                | New Zealand     |
| France                                        | Estonia         | United States   | Germany         |
| Germany                                       | Hungary         | United States   | United Kingdom  |
| Greece                                        | Latvia          |                 | United States   |
| Ireland                                       | Lithuania       |                 |                |
| Italy                                         | Malta           |                 |                |
| Luxembourg                                    | Poland          |                 |                |
| Netherlands                                   | Romania         |                 |                |
| Portugal                                      | Slovakia        |                 |                |
| Spain                                         | Slovenia        |                 |                |
| Sweden                                        |                 |                 |                |
| United Kingdom                                |                 |                 |                |

Source: The United Nations, 2014

However, sometimes it is impossible to apply best practices of developed countries in countries with economies in transition or developing countries due to lack of appropriate institutional and legal settings for such implementation.

This is stated in the Guidance, but recommendations are not specified according to the stage of development of the country. The Guidance indicates that effects of recommended procedures of Monitoring of compliance & enforcement can vary depending on the type of the country and such effects can be different for countries with economies in transition and countries with developing economies.

For example, it is noted that “…developing countries (where the credibility of new laws may need to be demonstrated through enforcement) show measurable improvements in market outcomes after enforcement cases, while this effect is harder to observe in developed countries that already have a credible regime”, different stages of development (countries with economies in transition and countries with developing economies). Since there are no conditions for the implementation of Monitoring of compliance & enforcement system elements in such countries, which is necessary according to the Guidance, direct implementation of good practices of developed countries can bring the opposite effect or be ineffective.
It is appropriate to supplement the Guidance regarding countries with economies in transition and countries with developing economies, in particular:

- specification of recommendations contained in the Guidelines by examples of different options for countries with economies in transition and countries with developing economies;

- best practices and examples of Monitoring of compliance & enforcement system elements in countries with economies in transition and countries with developing economies.

A separate issue is the scope of MCE application, i.e. which elements within a reporting chain should fall under the scope of an MCE system. We share the point of view, reflected in the Guidance, that the following attributes of institutional functions are essential for promoting a higher quality of financial reporting: rule of law; regulatory quality; control of corruption; government effectiveness; political stability; voice and accountability.

The experience of post-Soviet countries suggests that these factors can be assessed and included in the scope of the MCE system. Political instability, violation of law, corruption and governmental non-transparent activities could be an obstacle for the development of national economies. The implementation of IFRS and International Standards on Auditing will significantly disrupt these negative factors. That is especially applicable to the public sector of the economy. In managing this sector, special consideration should be given to the strengthening of accountability, transparency and performance risk assessment. Therefore, we propose to include the public sector into the scope of the MCE system: the central and local government budgets (treasury system), high and low level of budgeted funds administrators (or spending units). The following arguments can be given in favor of this proposal.

First, the public sector has a significant share in the institutional structure of economy in general and Ukraine in particular. This is demonstrated by figures that describe the share of the Gross National Disposable Income (GNDI) of the state governance sector in Gross Domestic Product (Lovins’ka, L. H. & D’yachenko, Ya. Ya., 2016, Lovins’ka, L. H. & Yastrems’ky’j, O. I., 2016)

Second, the shadow economy is one of the manifestations of corruption in the country. Corruption and the shadow economy are two interconnected phenomena that take place in almost all countries. The “shadow” economy, meaning economic activities not included in statistics and not reported in accounting, exists everywhere. In developed countries, the size of the shadow economy ranges from 8 to 28% of the official GDP, in economies in transition – from 10 to 45%, in developing countries – from 60 to 75% (Schneider, F., 2015, Ministry of Economic Development and Trade of Ukraine, 2016).

Obviously, the problem of the shadow economy is very pressing for Ukraine in the transition period. Without its resolution, it is impossible to achieve the economic growth, realize a broad external and internal investment potential, and stabilize the financial and economic system. Therefore, monitoring of compliance and enforcement of accounting and audit standards and requirements in the public sector is a protective device against corruption and the shadow economy.

The third argument in favor of including the public sector in the MCE scope is the existence of high risks for the development of national economies in the area of public sector governance. This is especially relevant to economies in transition.

The public sector governance in these countries increasingly faces uncertainty as a result of transition to market relations and their further development. The crisis situation of the last decade exacerbates the general instability of the economy, the widening of gaps between the growth of financial deficit, and public expectations concerning the public sector performance.
The government’s room for maneuver is becoming increasingly limited amid accelerated growth of government expenditures compared to increased GDP indicators. Under these conditions, it is even more difficult to forecast and understand what actions should be taken into consideration in making management decisions in the public finance management system. When making reasonable management decisions, it is necessary to consider the complication of cause-and-effect, or functional relations between the elements of a modern market mechanism. This factor causes difficulties in estimates and projections, in the understanding of relations between actions and their result, and in ensuring the reliability of accounting records and financial statements.

The public finance management sector has a number of risk factors, such as inefficient, irrational use of budgeted funds as a result of abuse of office or commitment of any other violations or corruption actions. Therefore, the risk to be considered in exercising control and verifying the reliability and fairness of reporting information is a risk contingent upon the probability of making inefficient management decisions and irrational use of budgeted funds. This risk causes an increase in the state budget deficit and a failure of the public sector to perform its core functions, such as a social function. For society, the social function of the State is essential, since it aims to ensure social security of citizens, create an environment conducive for the full exercise of their constitutional rights and freedoms, and maintain adequate living standards.

External risks are generally uncontrolled forces outside the public sector that have a significant impact on the informational support of the public finance management system (in particular, through state regulation and requirements for the accountability system; organizational and institutional circumstances and conditions of the preparation of financial statements). These risks include fiscal risks related to ensuring inflows to the state and local budgets and servicing them. Internal risks arise within the framework of budget-funded entities and institutions of the treasury system. These risks are mainly associated with an imperfect management system and weak internal control system. These risks constitute a significant part of the informational risk – one of the most serious and pressing issues of current management in the Public Finance System.

A number of risks have a significant impact on the informational support to the state governance sector. That is why it is necessary to modify key elements and MCE benchmarks of the Guidance document to create efficient national MCE mechanisms for public sector entities and professional accountants and auditors who work in this sector, and, by their actions, contribute to the development and enforcement of requirements for financial reporting.

To implement such an initiative, we have offered a number of additions to the text of the Draft Guidance in almost all of its sections. Additional factors that improve the quality of financial reporting and create a favorable investment and business climate, as stated in the Guidance, include: audit quality, corporate governance level, institutional supervision systems, public disclosure, and participation of the public in MCE.

Going forward, the work related to changes proposed by us to the Draft Guidance should cover the following issues:

1) coordination of the work on issues of strengthening corporate and public transparency and accounting. The Framework for building the MCE system should describe the issues of ensuring:

- quality of accounting records and financial statements in the public sector in defining the scope of the MCE system;
- monitoring of compliance of public sector entities with reporting standards;
2) coordination of the work on monitoring of compliance and enforcement of requirements for corporate reporting. Expand the Scope and Objectives Section of MCE to cover public sector entities: general government, government-owned corporations, and budget-funded entities;

3) coordination of the work on monitoring of compliance and enforcement of requirements for audit and quality assurance:

- expand the Scope and Objectives Section by specifying the Oversight Bodies that supervise and control compliance with accounting standards by public sector entities;

- to disclose institutional mechanisms of internal monitoring, it is necessary to consider the appointment of internal auditors in the public sector, their organizational and financial independence, official subordination and accountability, professional and social protection, etc.;

- in the context of improving procedures and methodology, it is advisable to disclose the criteria applied by national regulators to reforms of national accounting and audit systems, in particular, the best global and EU standards;

- in order to add new institutional mechanisms, it is necessary to state the need for post-audit support services – auditors should present their auditor’s report at the meetings of audit committees, supervisory boards and similar corporate governing bodies and provide relevant recommendations as well as initiate the inclusion of a separate item on the increasing the responsibility of the management of a government-owned corporation for the use of the auditor’s report and implementation of recommendations made by the auditor;

4) coordination of work on monitoring of compliance and enforcement of requirements for professional accountants. A potential area of human resources supervision is the training of workforce for public sector entities that provide public services. The issues related to such training should be added to the MCE Guidance. These issues include: replacing/training the personnel, tender-based selection of a professional accountant/state auditor on a new basis (requirements for the competence and qualification of candidates), mandatory professional certification of those responsible for financial statements/auditor’s report. The scope of the impact assessment should be changed to include requirements for public disclosure in the area of disciplinary proceedings and implementing differentiated (violation-based) sanctions against auditors, audit companies and professional accountants.

The revised text of the draft Guidance MC&E was considered at the 33rd session of UNCTAD-ISAR. This document is relevant for economies at different stages of development; however. It is necessary to emphasize that in transition economies, such as Ukraine, the implementation of provisions of this document is especially important. First, to pursue European integration, we are committed to achieving the UN Sustainable Development Goals adapted to the national environment. The reform processes require the implementation of the state-of-art governance technologies, including monitoring. It is also important in the context of the tasks announced by the G20 leaders at the Hangzhou Summit in September 2016 (China). In particular, building the stable and resilient international financial architecture under the conditions of global economic recovery and the emergence of new sources for growth that carry downside risks (G20, 2016).

Second, considering the high vulnerability of transition economies to external risks inherent to the global economic environment, it is necessary to perform the continuous monitoring to check the advisability of goals set and, where appropriate, correct the tactics of reform. It is important to focus on the result, which requires the Government to monitor the implementation of tasks, to assess the current status of reform, in order to identify problems and aspects that need improvement.
Despite an unprecedented burden on the Ukrainian budget because of foreign aggression, our economy shows the signs of stabilization and economic recovery. In particular, there is growth in investment activity – in the first half of this year, gross fixed capital accumulation increased by 11.7% compared to the same period of last year and the growth of foreign investment in Ukraine reached 154%. The rate of real GDP in the 2nd quarter of 2016 compared to the relevant quarter of the previous year was 1.4% (in the first half - an increase of 0.8%) (Official website of State Statistics Service of Ukraine, 2016).

This economic growth is primarily associated with the factors of recovery in domestic investment and consumer demand. Under these conditions it is critical to perform continuous monitoring. Joint efforts of our country, international organizations and the European Union to improve transparency, together with other factors, contribute to the gradual improvement of the investment and business climate.

**Conclusion**

For such countries as Ukraine, it is vital to implement the international best practices presented in the Guidance, but the implementation of these practices should be adapted to the actual economic conditions.

International organizations involved in issues relating to monitoring play an important role in this process, and cooperation of transition economies with such organizations makes reforms more efficient.

A prerequisite for any reform is the gathering of relevant and complete information about the best current practices, for instance, it is necessary to form a clear view of all the MCE elements and their interaction in order to establish the MCE system. These facts led to changes in the structure of the MCE Guidance. The approaches to introduction of the information about the three basic elements of the MCE system (corporate reporting, audit, requirements for professional accountants) were unified and brought into line with the structure of the MCE conceptual framework (definitions, objective and scope, institutional arrangements, activities and methodologies, monitoring arrangements and impact assessment mechanisms).

Also, it should be noted that the changes in the terminology used in the MCE Guidance, in particular, the transition from the “oversight” of auditing to “monitoring”.

In September, we made a number of proposals to further improve the perception of the Guidance and classification of information in light of the above; it was proposed to expand information about the regulation and presentation of reports on payments to governments and the MCE best practices for such reports.

The information indicated above proves the advisability of the proposal on presenting the data about the best practices not only by the MCE element, but also by the country. It will be useful to present the information about the best practices in the developed countries in annexes to the Guidance. This will allow countries that are embarking on the task of implementing such models to choose the most suitable MCE model for the size and structure of their economies.

There is a clear need to unify the requirements for classification of different groups of undertakings in order to enforce the transparency, market efficiency, and comparability of financial and non-financial information. It is critical because the requirements for classification may vary at both national and regional levels. In implementing MCE, the methodology for assessing the initial conditions and capacity of the country in the field of accounting and audit is the Accounting Development Tool designed by UNCTAD-ISAR.
A survey by this method allows for the detection of gaps in corporate reporting and aspects of oversight that need improvement.

The assessments of various elements of accounting, corporate reporting and auditing can be tracked in dynamics, which is important for determining the success of reform.

Therefore, we proposed to carry out such assessments of accounting and auditing, as well as the effectiveness of the MCE system in countries that pursue corporate reporting reform by using ADT on an annual basis.

The results of this annual monitoring will contribute to the development of the MCE system in countries conducting such assessments. Regular meetings for the discussion of these results will be the foundation for improving the theoretical and methodological pillars of the MCE system and the relevant amendments to the Guidance.

The proposed recommendations will help promote the best practices of monitoring of compliance and enforcement for high-quality corporate reporting, especially for the transition economies that face the abovementioned risks and problems. In Ukraine, with the full support and assistance of the IMF (International Monetary Fund), we are trying to overcome the crisis and carry out reforms designed to ensure financial stability in the country. Corporate reporting reform also takes place in our country as in other countries and our participation in the UNCTAD-ISAR Intergovernmental Working Group is of great importance in this process.

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A Structured Approach to Modernising Government Financial Reporting

Michael Parry and Jesse Hughes
ICGFM Ad Hoc Committee on International Accounting Standards

Introduction
Many countries have embarked on the modernisation of their government financial reporting; few have yet been able to publish financial reports that comply with the accrual International Public Sector Reporting Standards (IPSAS). For most countries, the process of modernising financial reporting presents multiple issues, including:

- Whether to start with the Cash Basis IPSAS or move directly to accrual IPSAS?
- Which entities to consolidate within the Government financial reports?
- Timing and sequencing of reforms?
- How to address legal and compliance issues during the transition?
- How to comply with both IPSAS and GFS reporting requirements?
- How to plan, manage and resource the transition process?

The IPSAS Board Website (www.ipsasb.org) contains valuable resources to help this process including Study 14 “Transition to the Accrual Basis of Accounting” and reports on the experience of several countries on reforming financial reporting. Also, the IPSAS Board has issued IPSAS 33 “First-time Adoption of Accrual Basis International Public Sector Accounting Standards” ¹. The IMF has also published “Implementing Accrual Accounting in the Public Sector” ².

The above resources should be studied by anyone involved in modernising government financial reporting. However, as their title indicates, all the above publications focus primarily on the move to accrual accounting. The issues of consolidation and the reporting entity is not addressed, nor are many of the practical problems of a modernising financial reporting.

The International Consortium on Government Financial Management (ICGFM) recognised the challenges facing countries modernising financial reporting and developed an “IPSAS Compilation Guide” and Certification Programme in 2013 ³. This had some success, but has been overtaken by changes to IPSAS and the Compilation Guide has now been withdrawn.

This Paper is the successor to the Compilation Guide. It describes a structured but flexible approach to sequencing the modernisation of government financial reporting. The paper recognises the dual issues of moving to accrual accounting and expanding the reporting entity.

¹ All IPSAS are published in the “Handbook of International Public Sector Pronouncements 2016” published by the IPSAS Board and available from the website www.ipsasb.org. The other referenced IPSASB publications are available from the same website.

² “Transition to Accrual Accounting”, Abdul Khan and Stephen Mayes, IMF, Washington 2009

(consolidation), and the fact that such modernisation of financial reporting is likely to extend over many years.

Therefore, this paper provides a general framework from which each country can select the most appropriate modernisation path and timescale. Combining this framework with the platform approach to Public Financial Management (PFM) reforms enables a monitorable modernisation strategy for each country.

The paper also describes the updated support and certification programme available from ICGFM to help countries through the process of modernising financial reporting.

**A two-dimensional approach to modernising government financial reporting**

Our approach is based on the premise that although the situation of each country is different, there is a general direction of travel in modernising government financial reporting along two dimensions:

**Dimension 1**  
Phased expansion of the reporting entity (i.e. consolidation) to meet the GFS and IPSAS reporting entity requirements.

**Dimension 2**  
Phased adoption of accrual reporting

These two dimensions and the general direction of travel are summarised in Figure 1 below.

**Figure 1: Two-dimensional sequence of government financial reporting**

<table>
<thead>
<tr>
<th>Platforms</th>
<th>Reporting Entity</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Government budget entities</td>
<td>B. Government budget entities + extra budget entities within GFS</td>
</tr>
<tr>
<td>1. Cash Basis</td>
<td>X</td>
</tr>
<tr>
<td>2. Cash + Financial Assets &amp; Liabilities</td>
<td></td>
</tr>
<tr>
<td>3. As 2 including tangible assets except historic &amp; infrastructure</td>
<td></td>
</tr>
<tr>
<td>4. Full IPSAS and GFS accrual</td>
<td></td>
</tr>
</tbody>
</table>

**Note:** the shaded areas indicate combinations of accounting base and reporting entity that are not feasible.

Thus, under this approach there is a general direction of reform and a clear end, but each country can select the stages representing combinations of the reporting entity and the stage of accrual (the cells in the diagram) that will represent the reform stages.

**Timescale and the platform approach**

Whilst there is widespread agreement that whilst a move to full IPSAS and GFS compliant accrual reporting of reporting entities that comply, respectively, with GFS and IPSAS requirements should be the long-term goal, the timescale is likely to vary considerably between countries. Some wealthy countries may be able to manage the transition in a few years, as suggested in the above referenced IMF publication. But for some countries the timescale may be measured in decades, with lengthy pauses at different stages.
The combination of specific accrual stages and reporting entity stages, represented by the cells in the matrix, can be envisaged as “platforms” in the financial reporting modernisation process. Such platforms may be identified in terms of (i) the scope of the reporting entity and (ii) the progress towards full accrual.

The platform approach to PFM reforms envisages a series of realistic step changes, referred to as platforms, defined in terms of government financial reporting outcomes. Each platform establishes a clear basis for moving to the next platform. Sequencing can be addressed by articulating the goals for each platform.

Combining the matrix as described in Figure 1 with the platform approach as described above, it is possible for each country to identify a series of platforms within the process of modernising government financial reporting. The exact sequence and combination of the two dimensions for each platform will vary between countries. The matrix allows individual governments to identify their own platforms in terms of both dimensions appropriate to each country.

Before explaining how these dimensions can be combined to identify the reform platforms for a specific country, the different reform stages of each dimension are explained in more detail below.

**Dimension 1 - the government reporting entity**

The scope of the government reporting entity must be progressively expanded until it meets the requirements of both GFS and IPSAS. This involves consolidating the different entities within government that maintain their own accounting records.

The complication is that IPSAS and GFS require consolidation of different reporting entities:

- **IPSAS** requires government financial reports to consolidate all controlled entities – this will include public corporations (IPSAS terminology is Commercial Public Sector Entities) that meet the definition of controlled entities. Entities that are not controlled by central government are not consolidated in the IPSAS Government financial reports, even though such entities are part of the general government sector. Examples of entities not consolidated with central government under IPSAS would include state and local governments.

- **GFS** requires consolidation of the entities within the general government sector, whether or not they are controlled by central government. Thus, state and local governments must be consolidated for GFS whether or not they are controlled by central government. However, none of the GFS reports require consolidation of Public Corporations with the general government sector.

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5 “Commercial Public Sector Entities” replaces the previous IPSAS terminology “Government Business Enterprises” - see “The Applicability of IPSASs”, 2016 IPSASB [www.ipsasb.org](http://www.ipsasb.org). For practical purposes the GFS “Public Corporations and the IPSAS “Commercial Public Sector Entity” are synonymous. An alternative commonly used term is State Owned Enterprise (SOE), although some SOEs are so heavily subsidised that they do not meet the definition of a commercial public sector enterprise.

6 IPSAS 22 optionally allows a separate consolidation of all entities in the general government sector, see below

From the above, GFS and IPSAS require the consolidation of two separate groups of entities, though with considerable overlap of the requirements. This can be envisaged as illustrated in the Venn diagram in Figure 2 below.

**Figure 2: Venn diagram illustrating different reporting entities for GFS and IPSAS**

![Venn Diagram](https://via.placeholder.com/150)

Therefore, two separate consolidations are required for Government financial reporting:

- All entities within the general government sector for GFS reports (and IPSAS 22 reports if this option is adopted, see below)
- All controlled Government entities for IPSAS reporting

Preparing these two separate consolidations should not be a major problem. It simply requires that at the final stage of defining the reporting entities, there will be two sets of consolidated reports in accordance with, respectively, the requirements of GFS and IPSAS. This is further explained below.

Taking the above IPSAS and GFS requirements into account, the stages in expanding the government financial reporting entity are summarised below. Within a country there may be more than one government reporting entity, reflecting the levels of government. The explanations below are in terms of the central government of a country, but would be equally applicable to consolidated financial reporting at sub-national levels, e.g. state and/or local levels.

**Reporting Entity Stage A - central government budget entities**

The minimum government reporting entity is defined by the scope of the government budget, i.e. it includes all entities directly funded through the government budget. This would not
include entities funded by budget transfers or grants. All budget revenues and expenditures will be included in the reporting entity.

This is the most basic scope of the reporting entity and should only be regarded as the first Reporting Entity Stage. Using the budget to define the reporting entity enables preparation of the Statement of Budget Comparison, as required under IPSAS 24 and the Cash Basis IPSAS.

**Reporting Entity Stage B - including extra budgetary entities**

In many countries, extra-budgetary entities exist which are properly regarded as part of central or sub-national government. Extra-budgetary entities operate under the authority of a central, state or local government and carry out certain functions of government. Such extra-budgetary entities may have their own revenue sources, which may be supplemented by grants (transfers) from the general budget or from other sources. Even though their budgets may be subject to approval by the legislature, extra-budgetary entities have discretion over the volume and composition of their spending.

There are many examples of extra budgetary entities, and many reasons for forming such entities. Some examples are as follows:

1. Entities established to carry out specific government functions, such as road construction, the provision of health or education services, registration of land rights.
2. In some countries military and intelligence spending is kept secret and outside the general budget
3. In some countries so-called “Trust Funds” with their own bank accounts are established to carry out government functions. The budget simply records transfers to such funds as grants and there is no further accounting for the expenditure.

Budgetary arrangements vary widely across countries, and various terms are used to describe these extra-budgetary entities, often referred to as “extra-budgetary funds” or “decentralised agencies.”

The consolidation of extra-budgetary entities in government financial reporting is required by both IPSAS and GFS. This consolidation is an important stage in enabling transparency and control of government activities. Consideration will need to be given to the budget comparison, since IPSAS 24 requires a budget comparison where the entity is “required or elect to make their approved budget(s) publicly available”\(^8\). At Stage 2 (and later reporting entity stages) by definition the reporting entity is broader than the published government budget, though separate budgets may be available for the different component entities. A decision will have to be made as to how to address this issue in the Statement of Budget Comparison, e.g. by a consolidated budget to coincide with the reporting entity even though such a consolidated budget is not published.

**Reporting Entity Stage C - General government sector at national level**

At Stage C the reporting entity will be further expanded to include social security funds and any other entities controlled by central government that are part of the general government sector not already included in Stage B. Revenues will reflect all central government revenues including any flowing directly to the entities within the overall Stage C reporting entity.

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\(^8\) IPSAS 24, paragraph 3.
The same comments about the budget comparison report apply as under Reporting Entity Stage B.

**Reporting Entity Stage D - GFS reporting - General government sector at all levels of government (also IPSAS 22)**

Stage D meets the GFS consolidation requirements to consolidate all entities within the general government sector at national and sub-national level. GFS reporting requires consolidation of all entities within the general government sector, irrespective of whether such entities are controlled by central government.

As indicated above, there is no IPSAS requirement for consolidated reporting of entities within the general government sector. However, such consolidation is allowed under IPSAS 22. IPSAS 22 is an optional, not mandatory, IPSAS. Any reports provided in accordance with IPSAS 22 are in addition to, not instead of, consolidated financial reports under IPSAS 35. However, most counties will wish to implement Stage D to enable GFS reporting and in doing so will also facilitate the optional reports under IPSAS 22.

The concept of the general government sector reporting entity is illustrated in Figure 3 below.

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**Figure 3: The Public Sector and sub-sectors**

![Diagram](image)

**Notes:**

- Deposit taking institutions - a term defined in GFS to mean financial corporations controlled by general government units or other public corporations whose principal activity is financial intermediation and who have liabilities in the form of deposits or financial instruments that are close substitutes for deposits. Examples include state owned banks, savings and loan associations, pension funds.

Under Stage D, and in accordance with both GFS and IPSAS 22, the reporting entity is defined as the general government sector, enclosed within the dotted rectangle. This includes all general government sector entities at central, state and local government levels, but does not include any public corporations (Commercial Public Sector Entities).

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IPSAS 22 is an “optional” Standard that allows, but does not require, publication of consolidated financial reports for the general government sector, as defined in GFS.
To enable this top level consolidated reporting entity, a series of consolidation sub-entities must be defined at each level of government as under Stage C above. Under Stage D these separate sub-national government entities will be consolidated with central government to include the whole of the general government sector. This consolidation may present problems of obtaining information, since sub-national levels of government may not be under the direct control of central government. National level legislation may be required to ensure sub-national levels provide the required information in time for the national level consolidated reporting.

Similar issues as above apply to developing a consolidated general government sector budget to enable budget comparison.

**Reporting Entity Stage E - reporting entity as required by IPSAS**

Stage E is mandatory for IPSAS reporting according to IPSAS10, but is not required under GFS. As indicated above, the IPSAS definition of the reporting entity is based on control. Thus, the consolidation will include controlled Public Corporations (Commercial Public Sector Entities). On the other hand, state and local levels of government that are not controlled by central government will not be included in the IPSAS reporting entity. Instead, sub-national levels of government will be required to publish their own consolidated reports, including any entities under their control.

This reporting structure is illustrated in Figure 44 below. Under the IPSAS requirements, there will be a consolidated reporting entity for central government; this will not include state and local governments that are not controlled by central government. There will be a separate reporting entity for each state and local government.

**Figure 4: IPSAS government reporting entities**

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10 Under IPSAS certain other entities, e.g. associate entities, must also be included according to the procedures in IPSAS 36 through 38. These requirements are not addressed in the paper.
Dimension 2 - Basis of accounting

Accrual Stage 1 - Cash Basis

Under Stage 1, reporting is performed according to the mandatory component of the Cash Basis IPSAS. There is at present an Exposure Draft (61) containing various amendments to the Cash Basis IPSAS. When these amendments are adopted, the Cash Basis IPSAS should be feasible for implementation by all countries not implementing the accrual IPSAS.

Where countries are initiating modernisation of government financial reporting, there is a strong argument for commencing with the Cash Basis IPSAS even where existing reporting contains elements of accrual reporting, for the reasons explained below.

Under accrual accounting, financial reports will still require cash information for:

1. The Cash Flow Statement, and
2. The Comparison of Budget and Actual (IPSAS 24 requires presentation of budget and actual information on a comparable basis, i.e. cash or accrual; it is unlikely that a country that has not implemented full accrual financial reporting would budget on an accrual basis).

Therefore, the Cash Basis IPSAS can be viewed as a sub-set of full accrual financial reporting, as illustrated in Figure 5 below.

Figure 5: Cash Basis reports as a sub-set of accrual reports

Accrual IPSAS
- Statement of Financial Position
- Statement of Financial Performance
- Statement of Changes in Net Assets/Equity
- Cash Flow Statement
- Budget Comparison
- Notes & Accounting Policies

Cash Basis IPSAS
- Statement of Receipts and Payments
- Budget Comparison
- Notes & Accounting Policies

Note:
- The Cash Basis IPSAS specifically encourages the Statement of Receipts and Payments to be in the form of the IPSAS 2 Cash Flow Statement where the entity is intending to migrate to the accrual basis of accounting (Para. 2.2.1).
- The linkage between “Notes and Accounting Policies” is shown as a dotted line because the Notes and Accounting Policies will expand and require some changes when accrual accounting is implemented.

Thus, compliance with the Cash Basis IPSAS generates three of the six Reports that will eventually be required under accrual accounting. In doing so, the entity can immediately also report that it is compliant with the Cash Basis IPSAS.

From the above analysis, it follows that if a government has some elements of accrual financial reporting, but is not fully compliant with the accrual IPSAS, that government should plan (as a first stage in moving to IPSAS compliance) to publish a Cash Flow Statement and a Budget Comparison, together with Notes and Accounting Policies. This publication will mean that the government financial reports comply with the mandatory requirements (Part 1) of the Cash Basis IPSAS. The Financial Report can also include in additional statements such accrual information as is available in a format of that country’s choosing, as encouraged in Part 2 of the Cash Basis Standard.

Therefore, all countries which have not published financial reports of the government fully compliant with accrual IPSAS should commence the process of modernisation of financial reporting by ensuring compliance with the Cash Basis IPSAS because this:

1. Ensures two of the six Statements required for IPSAS Accrual Reporting are IPSAS compliant,
2. Enables the government to state, and the auditor to confirm, that the Financial Reports comply with the Cash Basis IPSAS, and
3. Allows additional accrual information (e.g. a schedule of loans) to be published with the Financial reports in accordance with Part 2 of the Cash Basis IPSAS.

In our experience, countries often find reporting in compliance with the Cash Basis IPSAS much more difficult than anticipated. Typical problems include accounting systems that confuse accrual and cash flows, basic problems with cash recording, reconciliation and the definition of cash and cash flows. Resolving these issues is an important discipline and should be a precursor to the introduction of accrual reporting.

**Accrual Stage 2 - incorporating financial assets and liabilities**

Incorporating financial assets and liabilities is sometimes referred to as the modified cash or modified accrual basis of accounting. All governments should have information on financial assets and liabilities, but such information is either not published, or published as separate statements not combined with the financial report. Stage 2 as described above incorporates this information into a Statement of Financial Position (i.e. a financial balance sheet) and a Statement of Changes in Net Financial Assets. This latter Statement is not specified in IPSAS, but is necessary at this stage to explain financial flows other than cash flows.

The Statements published at this stage can be related to accrual IPSAS financial reports as illustrated in Figure 6 below.
Note:

- The Statement of Financial Position at this stage only reports financial assets and liabilities,
- Therefore, it is almost inevitable that the Statement of Financial Position will indicate negative net equity, since the non-financial assets of the entity are not included,
- The Statement of Receipts and Payments can be in the IPSAS 2 cash flow format (see above), and
- The Statement of Changes in Net Financial Flows records flows in financial assets and liabilities other than cash.

Under Accrual Stage 2 all financial assets and liabilities, other than intergenerational\(^\text{12}\), should be reported. These include:

- Financial assets (investments, taxes, and other receivables), recognised as soon as the entity has a contractual right to that asset.
- Liabilities (accounts payable, long-term debt, etc.), recognised as soon as the entity becomes legally responsible for paying the obligation.
- Contingent liabilities will be reported in the notes to the accounts in accordance with IPSAS 19.

At Stage 2, any relevant rules of the accrual IPSAS should be followed in identifying, valuing and reporting financial assets and liabilities, e.g. IPSAS 28-30 on financial instruments.

Most governments will maintain records of loans, but some other financial assets and liabilities may not be recorded in any formal system:

- **Taxes** – information will be available on tax receipts, but not tax receivable. It may be necessary to develop a statistical model to estimate tax receivable at the aggregate level.
- **Bills payable** – unless there is an accounting system that records bills payable when the invoice is received, information on bills payable will have to be obtained outside the accounting system and incorporated at the aggregate level.
- **Accruals and prepayments** – unless these vary significantly from year to year, these could be ignored. This approach is not of course strictly correct, but may be a practical interim solution.
- **Investments in controlled and associate entities** – this is linked to the issue of the reporting entity in the next section. Where such entities are not consolidated, then they should be reported as a financial asset. Valuation should be in accordance with the IPSAS rules for such investments.
- **Provisions for anticipated losses** - should only be reported for financial assets, since it would be meaningless to provide for losses on assets not included in the Statement of Financial Position.

There are two approaches to be compliant with IPSAS whilst reporting under Accrual Stage 2.

\(^{12}\) For example, unfunded pension liabilities would not be reported at Stage 2
Either:

1. Continue to report Cash Flow and Budget Comparison in compliance with Part 1 of the Cash Basis Standard. All other reports and information will be disclosed as additional voluntary disclosures under Part 2 of the Cash Basis Standard – this is the simplest solution.

Or

2. Develop national standards which incorporate those elements of the IPSAS required and appropriate for reporting in accordance with Platform 2. The Financial Reports can then be stated to be compliant with adopted national public sector accounting standards. This approach requires a detailed understanding of the IPSAS and their incorporation into national standards.

It is apparent that Accrual Stage 2 is much more complex than Stage 1 and presents multiple challenges. However, achieving Accrual Stage 2 provides significantly enhanced information for fiscal control and transparency.

**Accrual Stage 3 - simplified accrual accounting**

Under Platform 3, all the “straightforward” tangible assets are included in the financial reports, i.e.

- **Fixed assets** – property, plant, equipment, etc.
- **Current assets** – stock of goods held for use by the government

However, Platform 3 avoids the more challenging issues relating to assets and liabilities. The following are excluded at Stage 3:

- Heritage assets,
- Infrastructure assets for which there is no readily available market, e.g. roads, parks and open spaces,
- Intangible assets, and
- Inter-generational assets and liabilities, e.g. pension liabilities.

At Stage 3 it is possible to publish a full set of financial statements as in Figure 7 below.

**Figure 7: Financial Statements under simplified accrual**

|--------------------|---------------------------------|-----------------------------------|------------------------------------------|---------------------|-------------------|---------------------------|

**Note:**

- Although all of the financial reports are present, they will not comply with full accrual IPSAS reporting because of the omission of some assets and liabilities.

As with Accrual Stage 2 where assets or liabilities are included, they should be identified, valued and reported in accordance with the relevant IPSAS. There will of course be many detailed problems on which assets and liabilities to include and exclude at this stage. But the principle is clear – include tangible assets and liabilities that can be identified and easily valued.
Accrual Stage 4 - accrual IPSAS compliant financial reports for the government

Accrual Stage 4 is full IPSAS compliant financial reporting for the government of the country. This may be achieved by either:

- Incorporating the IPSAS within the reporting requirements of the country, or
- Implementing national standards that are consistent with the requirement of IPSAS.

Most countries which have reached this stage have adopted the second of these two approaches.

Accrual Stages 1 through 3 have applied to the government reporting entity, defined in accordance with the reporting entity dimension above. In order to complete the process of modernising government financial reporting, it is necessary that all entities within the public sector report in accordance with the applicable accounting standards:

- IPSAS for public sector entities that meet the requirements of Paragraph 10 of the Preface to IPSAS \(^{13}\) – in practice this will usually be all entities within the general government sector, and
- IFRS for all other entities in the public sector – in general this will apply to entities within the public corporations sector (referred to in IPSAS as Commercial Public Sector Entities).

This reporting compliance must be achieved for all entities within the public sector so that such entities may be consolidated. IPSAS/IFRS reporting compliance should be indicated in the financial reports of each entity and confirmed by the audit report.

There are a number of differences in the measurement of flows and valuation of assets and liabilities between IPSAS and GFS. The detail of these differences is beyond the scope of this paper \(^{14}\). However, if accounting systems enable IPSAS compliant reporting, and with careful design of the chart of accounts, it will be feasible to make such adjustments as are required to provide the reports required by GFS.

Developed sequenced platforms in modernising government financial reporting

From the above description, a government may select a series of combinations of (i) reporting entity stage and (ii) accrual stage from the matrix in Figure 1 to define platforms in the reporting modernisation process. These platforms are defined by the cells in the matrix.

There is no single sequence of the accrual and reporting entity stages appropriate for all governments, only a general direction of travel. Within the matrix in Figure 1 above, each government can identify the sequence most appropriate for their country.

Thus, there are multiple feasible reform paths through the matrix. The following provides an explanation and some general rules on the direction of travel.

- It is not a requirement to start at matrix cell A1 (Cash Basis Reporting under Stage 1 for the budget entity stage A). The first platform could instead be some level of accrual

\(^{13}\) See “Handbook of International Public Sector Pronouncements 2016” published by the IPSAS Board available from www.ipsasb.org

\(^{14}\) See for example “International Public Sector Accounting Standards (IPSASs) and Statistical Bases of Financial Reporting: An Analysis of Differences and Recommendations for Convergence “, IPSASB, 2004 www.ipsasb.org
(though there must still be a cash flow statement and a comparison with the budget) and/or some broader reporting entity,

- The only rule for each new Platform is that it must move from the previous Platform either left to right, or down the matrix, or both,
- Each platform must be completed before starting the move to the next platform, and
- More than five platforms in a modernisation plan become unmanageable.

Figure 8 below suggests a possible sequence, but it is emphasised that this is only for illustrative purposes.

**Figure 8: Examples of possible reform sequence for Country X**

<table>
<thead>
<tr>
<th>Platforms</th>
<th>Reporting Entity</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>A. Government budget entities</td>
</tr>
<tr>
<td>1 Cash Basis</td>
<td>Platform 1</td>
</tr>
<tr>
<td>2 Cash + Financial Assets &amp; liabilities</td>
<td></td>
</tr>
<tr>
<td>3 As 2 including tangible assets except historic &amp; infrastructure</td>
<td></td>
</tr>
<tr>
<td>4 Full IPSAS and GFS accrual</td>
<td></td>
</tr>
</tbody>
</table>

Thus, under the above sequence there are four platforms in the reform plan defined as follows:

- **Platform 1** Reporting entity Stage A + basis of accounting Stage 1
- **Platform 2** Reporting entity Stage C + Basis of accounting Stage 2
- **Platform 3** Reporting entity Stage D + Basis of accounting Stage 3
- **Platform 4** Reporting entities Stages C and D (GFS and IPSAS compliant) + Basis of accounting Stage 4 (full accrual)

The reform platforms and sequence for the Government of Country X in Figure 8 can then be represented using the platform approach in Figure 9 below.
The timescale will define the target for the completion of each platform. The overall timeline may be years, or even decades. The timings should be decided by each government based on feasibility and resources available.

Thus, the matrix model as described in Figure 1 enables the development of a unique reform sequence for each country and government. This approach recognises the parallel reforms relating to the reporting entity and accrual as well as the GFS and IPSAS reporting requirements.

There are of course further issues to be considered in planning reforms to the financial reporting, some of which are indicated below.

Financial Reporting reform considerations

The following sub-sections indicate some of the other issues that need to be addressed as part of the modernisation of financial reporting. This is not intended to be an exhaustive guide, rather an indication of issues to be considered.

Broader PFM reforms

It is probable that modernising financial reporting will form part of a broader PFM reform process, e.g. reforms to fiscal forecasting and management, budget reforms and more general reforms to governance within a country. Sequencing and timing may be dependent on other reforms, e.g. moves to a treasury single account and new budget classifications will impact on the modernisation of financial reporting.

During the reform process the opportunity of enhanced reporting should also be used to enhance the information for management control and decisions. For example, a form of commitment accounting where the cost and timing of cash flows resulting from existing obligations (e.g. long term contracts) is recorded and reported.
**Accounting systems and process**

A major element of PFM reforms will probably include updating or replacing the IT systems used for budget and accounting. Very often technical changes will both enable and drive accounting reforms. For example, implementing a new Financial Management Information System (FMIS) based on Commercial Off the Shelf (COTS) software will fit very well with the implementation of accrual accounting (since most COTS packages assume accrual accounting) and will encourage the recording of transactions at an earlier stage, e.g. when goods or invoices are received by subsidiary accounting units.

Under the above scenario modernised financial reporting becomes a component within the reform of accounting processes. However, in such a scenario it is important to ensure that the goal of improved finance reporting is not subsumed to other technical reforms.

The use of accounting software enables frequent financial reporting, both internally and externally, during the course of the financial year. It is essential that all financial reports consistently apply the same consolidation, measurement and valuation rules and the same approaches to presentation of information. If this is not the case, evaluations (and even decisions) may be based on interim information which is not consistent with agreed reporting policies.

**Budget classification and the chart of accounts**

It is important to develop a budget classification and chart of accounts for the accounting system consistent with requirements specified in both IPSAS and GFS Manual. The IMF has developed a model budget classification compliant with GFS,\(^{15}\) but this does not meet all of the requirements of IPSAS, and will also need to be adapted to the requirements of an individual country. A unified core\(^ {16}\) chart of accounts for all entities reporting according to IPSAS/GFS rules is fundamental to being able to consolidate information. The unified chart of accounts should be designed to meet the requirements of full accrual accounting even if this is not to be immediately implemented.

If a new computer system is being implemented, it is essential that this is based on the chart of accounts designed as above to enable reporting in accordance with IPSAS and GFS, as well as other requirements of government. An initial task will be translating existing assets and liabilities into the new chart of accounts to provide opening balances, and also to provide previous years’ comparative information in a consistent format.

**Developing inventories of assets and liabilities**

A major challenge is to identify and value government assets and liabilities, including contingent liabilities. Even identifying all cash balances of the government can sometimes be difficult when these are spread over different agencies and institutions. There will normally be a register of central government loans, but this may not include all loans by or to agencies, explicit or implicit loan guarantees, bills payable and so on. The problems become greater as the range of assets and liabilities included expands. For example, long term contracts, pension liabilities, intellectual property rights and infrastructure assets all present problems of valuation even when identified.

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\(^{16}\) It may be necessary to have additional special codes for the analysis required by different types of entities, e.g. hospitals. Furthermore, Public Corporations will require charts of accounts appropriate to IFRS reporting as well as the entities specific operational situation.
**Legal and institutional reforms**

There should be a legal and institutional framework for the adoption of IPSAS compliant financial reporting. This may take the form of legislation to establish national public sector accounting standards, or simply a legislative requirement to report in accordance with international standards.

There must also be an institutional base for the reforms to the financial reporting. It is desirable that a body is established which includes representatives of government, the accounting profession, academia and civil society to manage public sector accounting standards. This body would be responsible for overseeing the reform process and dealing with technical issues as they arise and updating the standards in accordance with IPSAS.

**Communication and building support for the reforms**

It is important to build broad support for and understanding of the reforms to financial reporting. This involves communication both within and outside government:

- Explaining why the reforms are being undertaken,
- The sequence and impact on individuals and organisations, and
- The benefits that will flow from improved financial reporting.

Building support may involve awareness training of external users in using and interpreting the expanded financial information.

**Audit and audit reports**

The Supreme Audit Institution (SAI) of the country will need to express an opinion on the fair presentation of financial information in the financial statements of the government. This means the SAI must have the technical expertise and resources to report on consolidated accrual financial reports. Auditors must be familiar with both IPSAS and GFS in order to report on compliance. The auditor will require new tools to report on new accounting systems and processes.

There is a balance to be struck on the involvement of the SAI in the reform progress. On the one hand the SAI must retain its independence, and therefore cannot define or control the new systems and reports. On the other hand, the SAI should have the opportunity to review proposed reforms in advance so as to be able to comment on the changes and indicate areas that will give problems to the auditor.

**Resource requirements and training**

Technical expertise is required to modernise government financial reporting, which will involve some training:

- A small group with technical IPSAS and GFS expertise (probably qualified accountants) to lead the process and provide technical guidance,
- Capability to ensure IT systems, e.g. an FMIS, enables IPSAS and GFS compliant reporting
- One or more individuals within each reporting entity with sufficient expertise to be able to manage the reforms and take responsibility for reporting within that entity,
- All staff involved in accounting functions trained in new procedures, and
As indicated above, a wider programme of awareness training in the reforms and utilisation of the modernised reports.

Managing the training requires planning so that it is linked to the implementation of the reforms. This should form part of the project management discussed below.

**Management of the reform process**

From the above, it is apparent that modernising government financial reporting is a project that must be managed. It is very likely that this will be a top-down process initiated by central government, so project management must be at the same level.

Project planning and management are subjects in their own right and outside the scope of this paper, but should include:

- Planning the reform project,
- Identifying reform platforms,
- Identifying resource requirements – financial, human and other,
- Planning training,
- Identifying required legal and institutional reforms,
- Identifying stakeholders inside and outside government and plan how to communicate with and build support of stakeholders,
- Identify risks and develop a risk management strategy, and
- Implement effective project management, monitoring and reporting.

**How ICGFM can help**

ICGFM can support countries through the process of modernising government financial reporting in a number of areas, as indicated below:

- Advice and support through our network of members and through the ICGFM Innovation Lab,
- A “toolbox” of detailed advice and guidance for each stage with the financial reporting modernisation process,
- In-country and/or remote training and guidance – ICGFM does not itself provide training but works with a network of training providers that are able to design specific advice and training programmes for individual countries or groups of countries. Advice and training can be delivered in-country or remotely using web based conference and training tools, and
- Certification of the completion of Platforms – once a country has established the reform platforms as described in this paper, ICGFM can carry out a desk based assessment to certify that the country has completed a particular platform.

Anyone interested in obtaining further information is invited to contact ICGFM via the website at www.icgfm.org or by e-mail to icgfm@icgfm.org.
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