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International Consortium on Government Financial Management

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"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 about and experiences in governmental financial management; and (2) promotes best practices and professional standards in governmental financial management and disseminates information about best practices and professional standards to our members and the public. ICGFM provides three options for membership:

1. Sustaining Members: organizations promoting professional development, training, research or technical assistance in financial management; willing to assume responsibility for and to actively participate in the affairs of the Consortium. Each Sustaining Member has a seat on the ICGFM Board of Directors. (Dues: $1,500)

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Foreword

Strengthening Public Financial Accountability in developing countries is one of the fundamental tools to enhance good governance and development. The new initiatives, especially the New Public Management (NPM), resulted in changing the accountability concept from accountability in terms of procedural compliance to accountability in terms of efficiency and results (effectiveness and cost effectiveness). Accountability for results depends on clear objectives stated in measurable terms and on budgets showing the minimum results to be achieved. This must also be based on expenditure limits and on accounting and auditing systems that measure and report on actual results. Therefore, the current issue focuses on public sector accounting reform and enhancing public financial accountability.

The first article of this issue deals with the necessity of improving the information support of the risk management system for financing educational services. In this article, Irina Chumakova and Nataliia Sushko analyze the possibilities of employing modern methods and best practices of accounting and control for these purposes and define the approaches to the introduction of national accounting standards, taking into account sector specificities; integration of the financial and budgetary reporting of the budget funds managers.

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. However, it was noted that most of such reform activities have failed. Besides, irrespective of recorded failure, Sri Lanka continues with the reform process. This postures the research problem of what factor(s) forces Sri Lanka to endure the reform. As a result, this study in general attempts to hoist the factors that determine the reform and precisely attempts to elevate the country specific factors of the phenomenon in Sri Lankan context based on qualitative methodology employing semi-structured interviews.

The third article deals with comparative evaluation of international public fund accounting and financial reporting practices in selected sovereign entities. In this paper, Christopher Alozie conducted comparative review of public fund accounting and assessed reported consolidated and capital fund balances in financial statements of five sovereign nations. The paper recommends that accounting and reporting standard on fund accounting is urgently needed.

The fourth article focuses on Adopting Medium Term Expenditure Framework (MTEF) in India. In this article, Pratap Jena makes a case for taking the institutional innovation forward to develop a structured medium-term framework to link policy, planning, and budgeting beyond a short horizon of annual budget.

In the last contribution, Samuel Pimpong has researched the role of public committees in enhancing the public financial accountability in Africa. The study reveals that generally there is an absence of a well-structured institutional framework to enhance proper coordination, monitoring, reporting and the implementation of the recommendations of the Public Accounts Committee report.

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!

Prof. Dr. Hassan Ouda	Jason Wynnycky	Jim Wright
Editor	*Vice President of Communications*	*President*

December 2018 Issue

Provision of the Information Support of the Risk Management System for the Educational Services' Financing within the State Order

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Abstract

The study is to explain the necessity of improving the information support of the risk management system for financing educational services. We analyze the possibilities of employing modern methods and best practices of accounting and control for these purposes and define the approaches to the introduction of national accounting standards, taking into account sector specificities; integration of the financial and budgetary reporting of the budget funds managers; the details of the internal control procedures at the level of the basic manager of budget funds and institutions within the system of its management, at all stages of the education services provision for risk management of the state financing of higher education institutions by the results of their activity.

Keywords: education services, risk, financing, information support, manager of budget funds, accounting, internal control.

Introduction

The research relevance is based on the practical need for the effective planning and provision of quality educational services by higher education institutions of Ukraine.

This issue becomes particularly important under the limited financial resources, in particular budget financing, as well as under the simultaneous increase in quality requirements for these services by their consumers, namely: by prospective higher qualification specialists, state and employers.

The current financing of educational services within the framework of the State order does not completely meet the existing needs and does not contribute to the effective functioning and improving of higher education institutions in Ukraine.

State order is regarded as a means of state regulation in order to meet the needs of the economy and society in qualified personnel, to improve the educational and scientific potential of the nation, to ensure the citizens' constitutional right to an education in accordance to their aptitudes, interests and abilities.

Therefore, provision of the educational services within the state order requires proper control in order to comply with all requirements of the educational process, starting from the formation of the proposal for the State order volumes for the relevant year and its allocation up to the provision of knowledge and awarding of the educational qualification and obtaining of competencies, supported by the corresponding diploma.

In practice, the main emphasis is put on the implementation of the educational process itself without paying due attention to such key components within the management of these processes as internal control and risk management.

Despite the improving of certain areas and stages of the external control over the usage of budget funds in the field of education and science, there is the unsatisfactory state of financial, budgetary discipline.

The amount of financial violations is not decreasing from year to year but, on the contrary, it has a constant tendency to annual growth.

According to the results of inspections provided by the State Audit Service of Ukraine, the main reason is the lack of an effective internal control system within the Ministry of Education and Science of Ukraine.

Due to this fact, illegal use and misuse of budget funds on higher educational institutions' financing has almost tripled over the past five years, while compensation for losses in budget has increased only 2.2 times.

The existing practice in the field of the internal control activity makes it impossible to prevent financial irregularities and does not guarantee top managers the correctness of internal control (The State Audit Service of Ukraine, 2014, pp. 36, 68).

The above mentioned aspects emphasize the topicality of the issues of the control and risk management system's implementation at the level of the Ministry and higher education institutions during the planning and fulfilling of the state order on higher education specialists' training.

The building up of such a system can be ensured through the collection and compilation of relevant and operational information on budget expenditures for risk management purposes.

All of this requires the development of innovative approaches to the organization and implementation of educational services' accounting and internal control.

The issue of providing educational services, financial support for the higher educational institutions' activities, assessing the effectiveness of the budgetary support of the educational and scientific sphere and compliance of public expenditures with the quality of educational services are within the modern research objects in Ukraine studied by many scholars, in particular T. Iefymenko, L. Lovins’ka, Yu. Vitrenko (Iefymenko, T., 2016, Lovins’ka, L., 2017, Vitrenko, Yu., 2017).

The need to improve the system of accounting and financial reporting of public sector institutions in accordance with the international requirements, inter alia on the basis of the sector specificity, is covered in the work of N. Sushko (Sushko, N. I., 2017).

In works of the Ukrainian authors, attention is focused on the new possibilities to generate good quality information because of the implementation of the international standards in the national accounting system, for preparing budget requests, budget programs passports and reports on their implementation, etc.

In the context of the application of best practices for monitoring the legality and efficiency in the use of budget funds for public educational institutions, the study of I. Chumakova and V. Korol (Korol, V. & Chumakova, I., 2016) is of interest.

It is concluded that the organization of the internal control as a holistic process on the basis of determining the direct relationship between objectives and parameters of control and components of risk management helps the budget institution to achieve its goals, which, under the conditions of budget financing of educational services, becomes particularly relevant.

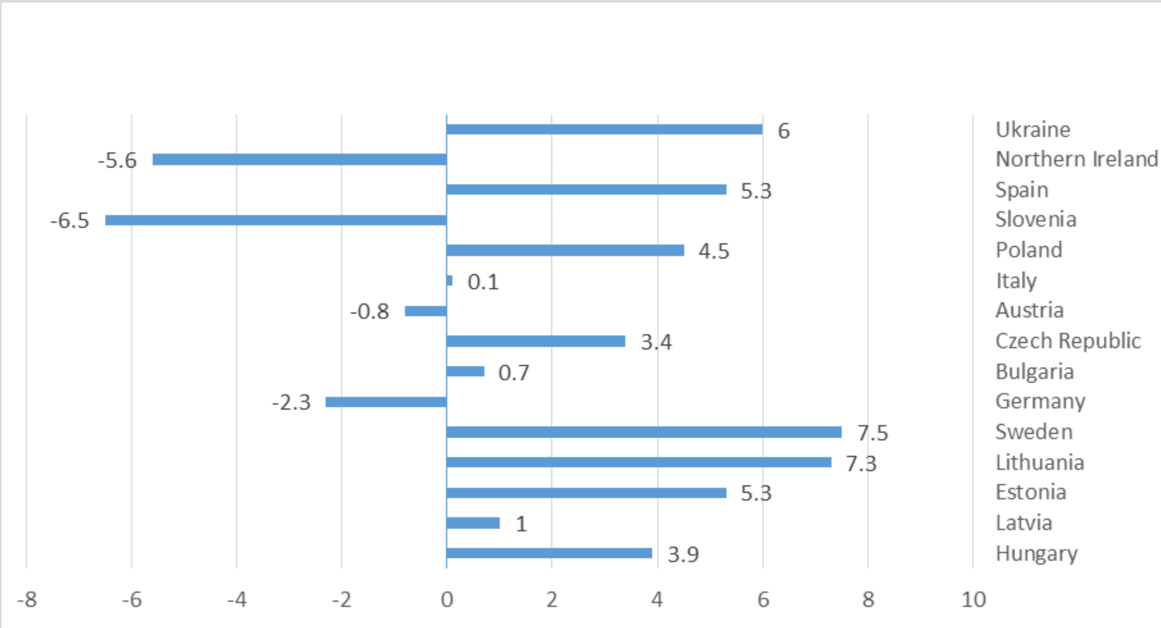
In the meantime, there is an objective need for further theory deepening in research and problem issues regarding the provision of information support of the risk management system for the educational services' financing within the state order. In particular, there is a need for a clear justification for the approaches concerning the possibilities of using modern methods and best practices in accounting and internal control, taking into account the sector specificity of higher education institutions.

The purpose of the article is to explain the approaches and to formulate recommendations for the information support improvement of the risk management system for the state financing of educational services provided by higher educational institutions.

In the financing of higher education in Ukraine, the problem of the effective formation and use of resources for obtaining a specific educational service provided by higher education institutions becomes more and more important.

Historically, the main source of education financing in Ukraine is the state and local budgets. Moreover, the state financing of higher education prevails, and during the last 10 years the expenditures of the state budget of Ukraine on higher education have tripled. If we compare the share of the appropriate government expenditures in Ukraine and in other countries, it becomes obvious that its level is not low. (Figure 1)

Figure 1: The dynamics of public spending on education between 2014 and 2015, %



Source: National sheets on education budgets in Europe, 2015/ Eurydice, p. 7.

Over the past few years, Ukraine has experienced the largest decline in the real level of public spending on education among the European countries. However, in 2014 and 2015, the situation changed and nominally the level of expenditures on the state orders increased by 6%. In 2016, the consolidated budget expenditures on higher education in Ukraine amounted to UAH 30.6 billion, i.e. 4.4% of the total state budget expenditures, that equals 1.9% of GDP (State Service of Statistics of Ukraine, 2017). In comparison, in Italy, the share of expenditures on education in the total public spending is 0.3% of GDP, in France - 0.6% of GDP, in Germany - 0.8% of GDP (European statistics, 2017).

However, the general picture does not answer the question on the expediency and efficiency of the budgetary resources usage in the educational sphere, the compliance of public expenditures with the quality of education. In addition, in the developed countries of Europe and countries of the world, a substantial share within the structure of the higher education financing by the private resources, which are involved within the various innovative approaches covers aimed at obtaining concrete results from the higher education institutions activities. In Ukraine, the world experience of the multi-channel financing has not spread, and the principles of so-called state order remained the same as during the period of planned economy.

The activity of a higher education institution is strengthened through the usage of various financing sources under their proficient and reasonable pooling and efficient management. The effective management of the financial and economic activity of higher educational institutions is predetermined by the modern conditions of uncertainty and by the influence of factors of internal and external environment. Under the circumstances, the issue of the availability of detailed and reliable information on the budget funds' spending within the provider of educational services is extremely topical.

From the standpoint of the Ministry of Education and Science of Ukraine as the main public manager of budget funds, the information on the effectiveness of budget expenditures is important and necessary to assess the achievement of the strategic objectives of the lower level budget funds' managers and to analyze the results of the implementation of the respective budget programs. An effective system of the internal control will help to increase the reliability of the information used in the process of the managerial decision making.

In Ukraine, as in the other countries of the world, the introduction of such a system in the public sector was accompanied by the improvements in accounting and reporting in the public sector through the harmonization with the International Public Sector Accounting Standards (IPSAS).

Over the past years, the activities of public sector institutions in the Ukrainian economy are aimed at the consistent implementation of measures to improve the information support of the public finance management. Starting from January 1, 2015, the gradual introduction of the national provisions (standards) of accounting in the public sector (NP(S)APS)) has started. From January 1, 2018, all 20 adopted NP(S)APS (Table 1) were introduced into the practice of accounting of state entities.

Table 1: List of national standards regulating accounting and financial reporting in the public sector of Ukraine

No	Number and name of the NP(S)APS	Order of the Ministry of Finance of Ukraine, which approved the NP(S)APS	Year of implementation by spending units
1	101 «Presentation of Financial Statements»	from 24.12.2010 № 1629	01.01.2017
2	102 «Consolidated Financial Statements»		
3	103 «Financial statements by segments»		
4	105 «Financial Reporting in Hyperinflationary conditions»	from 25.01.2012 № 52	
5	121 «Property, Plant and Equipment»	from 12.10.2010 № 1202	01.01.2015
6	122 «Intangible assets»		
7	123 «Inventories»		
8	124 «Revenue»	from 24.12.2010 № 1629	01.01.2017
9	125 «Changes in accounting estimates and error correction»		01.01.2015
10	126 «Leases»		01.01.2017
11	127 «Impairment of Assets»		01.01.2015
12	128 «Liabilities»		
13	129 «Investment Property»		01.01.2017

Table 1: List of national standards regulating accounting and financial reporting in the public sector of Ukraine

No	Number and name of the NP(S)APS	Order of the Ministry of Finance of Ukraine, which approved the NP(S)APS	Year of implementation by spending units
14	130 «The Effects of Changes in Foreign Exchange Rates»	from 11.08.2011 № 1022	01.01.2015
15	131 «Construction Contracts»	from 29.11.2011 № 1798	01.01.2017
16	132 «Employee Benefits»	from 29.11.2011 № 1798	01.01.2015
17	133 «Financial investment»	from 18.05.2012 № 568	01.01.2015
18	134 «Financial instruments»	from 18.05.2012 № 568	01.01.2017
19	135 «Expenditures»	from 18.05.2012 № 568	01.01.2017
20	136 «Biological assets»	from 15.11.2017 № 943	01.01.2018

Source: The official site of the Ministry of Finance of Ukraine, 2018.

In order to increase the validity and effectiveness of the financial and non-financial managerial decisions made within the industry, accounting in higher education institutions should be carried out according to the certain rules. The set of the primary accounting rules should be aimed at ensuring the maximum economic benefits from the financial and state property management. The introduction of NP(S)APS together with the new public sector accounting plan, harmonized with GFS 2001, presupposes the application of new approaches to the accounting, namely the accrual basis of accounting.

At the same time, the existence of the sector specificities in accounting and financial reporting by the public sector entities predetermines the adoption of the appropriate methodological support for the application of national standards, which became apparent at the stage of their introduction. In Ukraine, ministries and other central public executive authorities are empowered to develop the methodological recommendations based on NP(S)APS concerning their application, which should be approved by the Ministry of Finance of Ukraine, which is the state regulator in this area. (Sushko, NI, 2017, p. 90)

The results of researches that have been carried out on the introduction of national standards NP(S)APS 121 "Property, Plant and Equipment", NP(S)APS 122 "Intangible assets", NP(S)APS 123 "Inventories" and NP(S)APS 128 "Liabilities" indicate the existing problems of recognizing, assessing/reassessing property, plant and equipment, fixed assets, intangible assets and inventories in accounting. In order to apply new approaches defined by the national standards, we propose to develop Methodological recommendations for the accounting of certain types of assets, liabilities of higher education institutions.

The existing differences in the incomes and expenses grouping according to the national accounting standards and the budget legislature, as well as the sector specificities concerning the recognition and accounting of revenues and expenditures from the exchange and non-exchange operations of higher education institutions, necessitate the development of the methodological support for the introduction of NP(S)APS 124 "Revenue" and NP(S)APS 135 "Expenditures".

That is, to develop Methodological recommendations on the accounting of revenues and expenditures of higher education institutions. The employment of the methodological recommendations by higher education institutions will contribute not only to the implementation of the NP(S)APS, but also will enable the reliability of the budget expenditures formation in general and of the actual expenditures of educational services in particular.

In the context of improving the information support of the risk management system for public financing of educational services provided by higher education institutions, attention should be paid to the objective need to harmonize indices of financial and budgetary reporting and reporting on the implementation of budget program passports within the introduction of NP(S)APS.

The need to address the problematic issues that exist in the area of medium-term planning in the results-based budget process concerning the application of the method of accrual basis accounting of the budget funds managers and on the basis of this method the compilation of high quality financial statements is confirmed by the World Bank in their recommendations on the results of the System Diagnostics (SCD). (World Bank Group, 2017, pp. 45-46)

The existence of such problems is also noted in the SIGMA publications, which, in particular, draw attention to the weakness of the internal audit functioning in most of the public authorities of Ukraine. SIGMA experts point out that there are separate elements of internal control in the public authorities; within these authorities there is not a single integrated system of internal control and / or it is not functioning as a holistic process that should be organized at the level of all structural units of the authority, actions and the processes taking place in it. (Association Implementation Report on Ukraine, 2016)

Instead, the world practices prove the expansion of the information capabilities of accounting at the level of budget managers as a result of the introduction of the accrual basis of accounting and the generation, on its basis, of substantial and high quality information to support the internal control system and risk management functioning. The implementation of the managerial accounting by the budget managers will contribute to the creation of an effective system of internal control, risk assessment and means of control.

The risks listing for the educational services' financing within the state order may be different for higher education institutions and for the state because of the fact of involvement of several subjects in the process of providing educational services. At the government level, the risk management system for financing educational services within the state order will fall within the sphere of competence of various entities: the Ministry of Finance of Ukraine, the Ministry of Economic Development and Trade of Ukraine, the Ministry of Education and Science of Ukraine. And, if the competence of the first two ministries encompasses the risks associated with financing higher education institutions and / or with the proposal's formation on projected needs for specialists in the medium term, then for the Ministry of Education and Science of Ukraine the risks occur at all stages of formation, allocation and execution of a state order for the training of higher education specialists.

Under conditions of budget planning in a medium-term framework, providing educational services within the state order obtains new features, associated with the strengthening of the role of the basic managers of budget funds in the budget process and the prioritization of the organization's requirements in the system of their management for proper internal control in order to make effective managerial decisions and to use effectively budget funds for financing higher education institutions.

According to the provisions of the Budget Code of Ukraine, the Ministry of Education and Science of Ukraine, as the chief manager of budget funds is obligated to organize and carry out internal control over the completeness of financing, taking budget commitments by budget funds managers of the lower level and recipients of budget funds and their budget funds spending within their institutions and within subordinate institutions in order to ensure the legality and efficiency of the usage of budget funds, achievement of the results according to the goal, tasks, plans and requirements for the activities of the budgetary institution and its subordinate entities. (Budget Code of Ukraine, 2010)

While organizing internal control by managers of budget funds within their institutions and subordinate budgetary institutions, the Ministry of Finance of Ukraine recommended to employ an integrated concept, which in the international practice has received the name of "COSO model". According to this model, internal control consists of five interconnected components (control environment, risk assessment, control activities, information and communication, monitoring) and should be organized as a holistic process that incorporates risk management and management accountability (responsibility), which should include mechanisms, processes, operations, integrated into the system of internal control. (Ministry of Finance of Ukraine, 2012)

The internal control system under COSO model needs to be tailored to the particularities of specific sectors. Consequently, the subjects of internal control are the Ministry of Education and Science of Ukraine as the chief manager of budget funds and simultaneously as the ordering customer for specialists' training as well as scientific, scientific & pedagogical and labor personnel training, skills development and staff retraining, and higher education institution as the manager of budget funds of the lower level - producer of educational services. The objects of internal control are the activities of the Ministry and the higher education institution that provides and produces educational services within the state order and the effectiveness of these services. The evaluation criteria are performance indicators (costs, product, efficiency, quality) of the budget program passport implementation for the personnel training by higher education institutions.

The process of the educational services provision within the state order as an object of internal control and risk management can be divided into three stages:

- The preparatory stage, within which a higher education institution forms and provides the Ministry, within a management system of which it is, bid proposals, the Ministry conducts a competitive selection process and concludes a public contract with the winning institution.

- The execute stage of the direct provision of educational services by the higher education institution employing the various forms of training within the various educational programs, certification and other control activities.

- The final stage that presupposes that the higher education institution awards the appropriate qualification and issues a corresponding state diploma. At this stage, the effectiveness of the educational service provided (produced) within the state order is established.

The process of the education services provision starts with the formation and submission of bids proposals by a higher education institution to the Ministry, which conducts a competitive selection process and concludes a public contract with the winners. Its implementation presupposes the education services provision by a higher education institution via lectures, seminars, workshops, consultations, etc. within the education program and certification of higher education students. As a result, a student is granted with the appropriate qualification and awarded with a diploma.

Therefore, risk management of the educational service delivery process as an integral component of internal control system should play a key role in the selection of the appropriate control activities and include the identification (definition) of the events, the assessment of relevant risks, the selection of possible responsive forms, and continuous monitoring of risks. (Korol, V. & Chumakova, I., 2016, pp. 90-91)

The national legislation of Ukraine lacks a unified definition of the basic notions of "risk management system" and "risks” that negatively affects both the effectiveness assessment of the current system of internal control in public sector institutions and the criteria determination for assessment of those operations and expenditures to be attributed to risk factor category. At the same time, the correctly determined criteria for internal control assessment will enable the automatic assessment of risky operations (the lower the level of internal control is, the higher the risks are) and to formulate on this basis a risk management strategy at the level of the relevant public sector institution.

On the basis of the best world practices and the main approaches in the foreign economic literature to the interpretation of internal control system and risk management, as well as taking into account sector specificities, we will define the control measures to be implemented in order to manage risks and promote the goals achievement at the level of the Ministry of Education and Science of Ukraine and higher education institutions.

Control measures, or control procedures, may be legislative, preventive, detective and corrective. Typical control measures for any budgetary institution, including the Ministry of Education and Science of Ukraine and higher education institutions within the sphere of its management, are recognized as follows: authorization (agreement, approval, permit); separation of duties (authority, accounting and review); standard operating procedures; control over the access to resources and records; audit; reconciliation (agreement); conformity verification of operations, processes and actions; activity verification; supervision (objectives formulation, verification and approval, instructions and training). Such control procedures are aimed at achieving different goals and are carried out within the institution, at all levels and within all functions.

Table 2 contains the types of control procedures and examples of their application proposed to be introduced at the level of the Ministry of Education and Science of Ukraine and higher education institutions for risk management at different stages of planning, formation and execution of the state order for higher education specialists training.

At the Ministry level, the internal control procedures are carried out mainly focusing on the preparatory and final stages of the provision (production) of educational services within the state order. In order to manage risks during the preparatory phase, it is proposed to apply preventive and directive control procedures, and during the final stage - the procedures for detective control.

At the level of higher education institutions, it is advisable to introduce procedures for detective, corrective and compensatory internal control, which are to be combined in order to simultaneously cover the institutions and allocate the risks within the different control measures.

Table 2. Types of Controls and examples of their application at the level of the Ministry of Education and Science of Ukraine and the institution of higher education

Types of Controls	Objectives of application of controls	Examples of application of types of Controls
At the level of the Ministry of Education and Science of Ukraine		
Preventive Controls	To prevent the occurrence of undesirable events.	• Policies and procedures are established within the parameters of control of the criteria of competitive selection. • Providing job descriptions for all categories of employees.
Directive Controls	To ensure the desired events.	• Such controls include measures taken to prevent cases of non-compliance with the law in the formation of the competition commission, its provisions and compliance by the commission with legislative requirements for the placement

Table 2. Types of Controls and examples of their application at the level of the Ministry of Education and Science of Ukraine and the institution of higher education

Types of Controls	Objectives of application of controls	Examples of application of types of Controls
At the level of the Ministry of Education and Science of Ukraine		
		of state orders on a competitive basis of the company's procedures, including: • delimitation of duties including double control, • proper authorization of operations, • physical control of the safety of assets.
At the level of the institution of higher education		
Detective Controls	To identify an undesired event before it causes harm to the organization	• Verification of the correctness of calculation of the approximate average cost of training of one qualified specialist, postgraduate student, and doctoral student. • Report on the implementation of the state order for the training of specialists with higher education.
Corrective Controls	To correct the event that has occurred, or to neutralize the occurrence of an undesired event.	• Controls aimed at establishing the legality and efficiency of labor costs, scholarships and other types of expenses in the process of providing educational services within the framework of a state order.
Compensating Controls	To fill in the weaknesses of available controls.	• Additional controls in situations where it is impossible to provide the necessary division of responsibilities.

Source: Author's work

The Ministry of Education and Science of Ukraine and higher education institutions should regularly check the compliance of the implemented measures with the standards currently in force (control guidelines and developed internal regulations) and effectiveness and efficiency requirements. The correction of the control measures is necessary while detecting deviations from the goals or standards.

Due to this approach, with proper organization of control procedures at the level of the Ministry of Education and Science of Ukraine and higher education institutions, internal control will help to apply a systematic risk management process and increase goals achievement of a high-quality training of higher education specialists within the state order.

Conclusion

The improvement of the information support for planning, determining the costs and internal control over the provision of educational services presupposes their introduction into the accounting and financial reporting of higher education institutions NP(S)APS.

The existing peculiarities of the accounting of certain assets, liabilities, incomes and expenses of higher education institutions and the lack of appropriate methodological support for the introduction of NP(S)APS stipulate their development and adoption by the Ministry of Science and Education as the basic budgetary funds manager. To this end, it is proposed to develop the Methodological Recommendations on the Accounting of Certain Types of Assets, Liabilities of Higher Education Institutions and Methodological Recommendations on Accounting of Income and Expenses of Higher Education Institutions and it was also defined their content and structure. It is proposed to implement a system of managerial accounting in the field of education that will enable the formation of an information environment to ensure the implementation of internal control over the educational services provision.

In order to increase transparency and accountability in the public finance management as well as to optimize the information flows for managerial decisions, it is necessary to review the legislation concerning the presentation of the financial and non-financial information on budget execution in financial and budgetary reporting. It is proposed to prepare a conceptual framework that should identify: 1) financial reporting indicators that require additional disclosure of information, necessary to ensure accountability and decision-making in public finance management, taking into account outcome-based medium-term budgeting; 2) the procedure for submitting the additional information on the budget funds usage by disclosing it in the notes to the financial statements, which complies with the recommendations of the Conceptual Framework.

It is proposed to consider internal control and risk management system during the formation and allocation of the state order on the educational services provision as a holistic process on the basis of determining the direct relationship between objectives and parameters of control and components of risk management. It is necessary to build such a system of control and risk management at the level of the Ministry of Education and Science of Ukraine and higher education institutions. Taking into account the sector specificities, it is proposed to introduce, at the level of the Ministry of Education and Science of Ukraine, procedures of internal control system, which include the implementation of preventive, directive and detective control, taking into account the list of risk operations, which are "red flags" of the process of formation, allocation and provision of educational services. The implementation of a risk-oriented approach for the introduction of an effective system of internal control at the level of higher education institutions will contribute to the simultaneous resolution of the tasks of detective, corrective and compensating control. The management of the institutions should regularly evaluate the effectiveness of the implemented control measures and their compliance with standards currently in force (control guidelines and developed internal regulations). Correcting control measures is appropriate in detecting deviations from the standards and the identified objectives. In this respect, the prospects for further research are within the substantiation and development of a list of risky operations for the Ministry of Education and Science of Ukraine and higher education institutions, as well as the justification on this basis of indicators of the state of internal control and effective methods for its evaluation during the formation, allocation and provision of education services within the state order.

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Country Specific Factors: Public Sector Accounting and Financial Reporting Reforms in Sri Lanka

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Abstract

New Public Management led the world of the public sector - including Sri Lanka - to switch on to the accrual-based accounting which is referred to as Public Sector Accounting and Financial Reporting reforms. However, it was noted that most of such reform activities have failed. Besides, irrespective of failure recorded Sri Lanka continues with the reform process. This postures the research problem of what factor(s) forces Sri Lanka to endure the reform. As a result, this study in general attempts to hoist the factors that determine the reform and precisely attempts to elevate the country specific factors of the phenomenon in Sri Lankan context based on qualitative methodology employing semi-structured interviews. The data were analyzed using thematic analysis method. The study found that though most of the universal and country-specific factors are negatively influence the reform in Sri Lanka it is compelled to reform since ‘change of country status’ dictates.

Keywords: Country Specific Factors; Public Sector Accounting; Financial Reporting Reforms; Accrual Accounting; Sri Lanka

1. Introduction

New Public Management (NPM), which was initiated in the latter part of the 1970s in the world involves in the introduction and incorporation of the private sector management practices to the public sector (Buhr, 2012; Hood, 1995). Thus, NPM sets the background for New Public Financial Management (NPFM) by incorporating private sector financial management practices to the public sector (Buhr, 2012; Soverchia, 2012). One of such NPFM reforms is the injection of private sector accrual accounting practices to the public sector, which is referred to as Public Sector Accounting and Financial Reporting (PSAFR) reforms (Nagendrakumar, 2017a). As a result, NPM has become a powerful platform for PSAFR reforms including Sri Lanka (Nagendrakumar, 2017b; Abeysinghe and Samanthi, 2016).

It is observed that the implementation of the accrual accounting practices to the public entities in Sri Lanka has not been successful (Nagendrakumar, 2017b; Abeysinghe and Samanthi, 2016). Further, the like reforms are not successful in less developed countries as well (Abeysinghe and Samanthi, 2016). Besides, it is also noted that reform activities world over - in general – are not successful (Ouda; 2015; Soverchia, 2012). Many factors are attributable to this phenomenon. In that line, the universal and country-specific factors have a significant impact on the PSAFR reforms (Brusca *et al.*, 2013; Buhr, 2012). The universal factors are applicable worldwide which had already been found in the literature, whereas the country-specific factors are related to a specific country context. However, the impact of the universal and country-specific factors with respect to the PSAFR reforms in Sri Lankan context is not known.

This study therefore attempts to elevate the impact of universal factors on the PSAFR reforms, identify the country-specific factors which affect the PSAFR reforms and explore the more dictating factor of PSAFR reform in Sri Lanka.

Sri Lanka faces the rapid growth environment in economic term. However, it is observed that the accounting system in reporting the growth to the nation and the universe has been based on cash-based accounting mechanism. Besides, the Institute of Chartered Accountants of Sri Lanka (ICASL) has initiated the accrual accounting practices to the public sector. However, it was observed that the Government institutions have not yet opted for the reformed accounting practices. This study, therefore, becomes significant since it explains the nature of compulsion in implementing the reforms initiatives introduced by ICASL.

The rest of paper is organised under the broad headings of literature review, methodology, discussion, findings, and conclusion.

2. Literature Review

The critique- inefficiency and ineffectiveness of public sector- resulted in public sector transformation in the 1980s and 1990s, ranging from decentralisation and privatisation to the development of goal-driven and client-oriented organisations (Osborne & Gaebler, 1992 cited in Broadbent & Guthrie, 2008). Thus, NPM led the public sector to lean towards private-sector management practices and especially, pressure has been mounting to adapt Business Like Accounting Practices[1] (BLAPs) in the public sector (Hood, 1995; Lapsley, 2008). This fact has been clearly evidenced in the public-sector standards released by the International Public Sector Accounting Standards Board (IPSASB) (Oulasvirta, 2010) and CA Sri Lanka (Nagendrakumar, Fonseka, & Dissanayake, 2015a). Thus, NPFM reforms became fundamental for NPM reforms where there has been considerable change in funding, governance, and accountability for control and operation of the public services and as a result, the accounting and auditing came into the spotlight for the reforms (Broadbent & Guthrie, 2008). These techniques mainly relate to the financial management of these organisations and have been labelled by Guthrie, Olson, and Humphrey (1999) and Helden (2005) as NPFM reforms.

Australia, New Zealand, and the United Kingdom have applied accrual accounting and accrual based professional accounting standards to the public sector as the major aspects of the PSAFR reforms. However, several tensions arose in the countries which engaged in PSAFR reforms since the adoption of accrual accounting practices (Buhr, 2012). Initially, in Australia, business-based accounting system was adopted, with a few modest extensions covering the public sector. However, there was much controversy over the displacement of cash accounting practices and budgeting systems by accrual accounting practices and further, the appropriateness of the Australian Accounting Standards (AAS) to the public sector (Barton, 2011). Though the PSAFR reforms are in operation in many countries, accounting for Government debt, usage of matching concept and many other unique aspects such as Government pensions, heritage assets, matching the revenue and expenses, and others have not been adequately resolved (Ouda, 2015; Oulasvirta, 2014; Wynne, 2003). Accordingly, for many countries, especially transitional and underdeveloped countries the adoption of the accruals accounting practices to the Public Entities (PEs) may not be appropriate and certainly should not be considered to be a high priority (Wynne, 2003).

The PSAFR reforms can bring many benefits regarding the quantity and the quality of services provided to the citizens of many countries across the world. However, these reforms should be approached carefully, especially aspects such as the choice of accounting practices, be decided in the context of the overall priorities of the reform process and not just by the perceived superiority of one basis of accounting over another. Therefore, Wynne (2003) argues that though the NPFM reforms have facilitated the PSAFR reforms it is not an end in itself.

Moreover, the PSAFR reforms have the potential to alter not only the way in which the public sector and its services are viewed but also the way in which it is operated. The issue of assets, particularly capital assets, can no longer be avoided, as it is an element of this NPM (Chrisiaens, 2004). Governmental capital assets are, in contrast to business enterprises, often held for other

[1] When accounting practices in the private sector is brought into the public sector it is referred to as BLAPs for the public sector.

reasons than maximising the economic objectives (Chrisiaens, 2004). Many Governments are used to budgetary accounting approach, which is an authorization system in which the recording of capital assets is concentrated on authorising the acquisition, rather than on the economic value or the annual depreciation (Chrisiaens, 2004). Budgetary accounting practices are also a tradition for Governments and serve managerial goals different from those of the reformed business-like capital asset accounting practices. Even when the former budgetary system has been significantly reformed, communication problems and contradictory budgetary principles often still occur (Christiaens, 2010). It prevents PSAFR reforms from being adopted smoothly and consistently and implies many problems in respect to the recognition and valuation of those assets (Chrisiaens, 2004).

Thus, even after some years of NPFM reforms, Governments are still waiting for solutions to some unresolved questions and problems regarding capital assets (Ouda, 2015; Chrisiaens, 2004). Decisions tend to revolve around whether or not to buy new capital assets instead of managing the capital assets in hand (Buhr, 2012). Also, a failure to recognise an allocated cost of capital assets makes it more difficult to understand the on-going financial implications of maintaining a given level of service (Buhr, 2012). Thus, a lack of information on depreciation and amortisation makes it more difficult to make decisions about expanding or contracting public programs (Buhr, 2012). There are also issues on the liability side, and before the implementation of accrual accounting, many Governments were building up pension liabilities and liabilities for other social benefits that went unrecorded in the financial statements (Buhr, 2012).

In addition to the NPM led neo-liberal thinking, the financial crisis, during the latter part of the 19th century, resulted in various Governments to offer rescue packages. For example, United States of America 700 billion US dollars, Canada 40 billion Canadian dollars, France 26 billion euros, Briton 94 billion pounds and India 8 billion US dollars. It led the question of how the rescue measures presented in the governmental financial statements. Further, the sovereign debt crisis (e.g., Greece and Dubai) also resulted in questioning whether the financial reporting of Government interventions is sufficient to achieve accountability and transparency. As a result, IMF and the IPSASB jointly tried to answer the question and came out with the accrual based IPSASs (Abanyam & Angahar, 2015).

The PSAFR reforms motivates the PEs to conform in presenting their General Purpose Financial Statements (GPFSs) and budget outturn statements with International Public Sector Accounting Standards (IPSASs) (Oulasvirta, 2010). Before reforms, the presentation modes and ways were totally the matters to be decided entirely by the national Governments (Oulasvirta, 2010). The key factors (macro and micro) in the reform process have varied between countries (Grossi & Soverchia, 2011). For instance, Government Accounting in Europe diverges between countries and within countries. This diversity ranges from fundamental differences in recording systems to different measurement rules and disclosure requirements (Luder 2002).

3. Methodology

The study is related to the recent developments in PSAFR reforms in Sri Lanka. Therefore, the collecting rich and updated data is possible from the top level financial management in the public sector. As a result, the purposive sampling method was adopted. The sample comprised three types of agencies; one was the initiators: The Institute of Chartered Accountants of Sri Lanka and the Association of Public Finance Accountants of Sri Lanka, the second was the public entities: Provincial Councils, Local Governments (LGs) and the third was the controlling agency: Treasury. Further, a typical case to ensure the rival voice was also selected: Chartered Institute of Management Accountants (CIMA) attached to the public entities. Accordingly, the data for this study was gathered through 30 semi-structured interviews. The interviews lasted

45 minutes on average. The field data were coded using the NVivo data management system and then thematic analysis was carried out (Braun and Clarke, 2006). Themes were found by familiarizing with the data set, transcribing verbatim, generating initial codes, searching for themes, reviewing the themes, and defining and naming the themes.

4. Discussion

The discussion has been based on the two themes *viz.* impact of universal factors in Sri Lankan context and country-specific factors.

4.1 Impact of universal factors in Sri Lankan context

This theme refers to whether the universal factors found in the literature have influenced the PSAFR reforms in Sri Lankan context. This theme has been analyzed using ten higher order codes and 341codes.

4.1.1 Information technology

It was pointed out that the Government Accounting System (GAS) must have the support of well - articulated computer-assisted accounting packages. The respondents pointed out that this aspect has been the major weakness that the Sri Lankan public sector has been facing from its good olden days. Further, they highlighted that the implementation of the accrual accounting practices also had not been supported by proper accrual based computer package in Sri Lanka. The initiators of the reform pointed out that, though the accounting departments of the public sector organizations have been already practising the Computer Integrated Government Accounting System (CIGAS), when it comes to a rendition of documents for the external audit still the accounting staffs are used to prepare them manually. Accordingly, on the one hand, the public entities send the soft copy of financial statements online through CIGAS to the Treasury, and on the other hand, they send the manually prepared identical documents to the audit. Thus, the incorporation of the CIGAS has led to the duplication of works in the public entities. Further, the CIGAS has many features of the accrual accounting practices, but the public entities had not implemented them. The reason they pointed out for non - adoption of the accrual facility available in the CIGAS to prepare the accrual-based financial statements was that it was not made mandatory by the Treasury. The Treasury confirmed that the CIGAS had been the common system for accounting in the public sector and further, they pointed out that the Treasury has initiated measures to introduce a new accounting package called Integrated Treasury Management Information System (ITMIS) that would certainly enhance the applicability of the accrual accounting practices to the public entities.

From the discussion thus far it has been evidenced that the CIGAS has been used only to prepare the subsidiary financial statements of the public entities and not the accrual-based full set of financial statements as expected. Apart from that, the important problem that the Provincial Councils (PCs) faced during the implementation of the contemporary PSAFR reforms was that the CIGAS is MS-DOS based (old version) whereas other central ministries and departments had upgraded that to windows. Therefore, they pointed out that the PCs have not upgraded the systems equally in line with the Central Government (CG).

4.1.2 Political culture

Informants recorded that the support and the commitment by the ruling political party would be an essential prerequisite for the PSAFR reforms. Similarly, Luder (2002) argues that any sorts of administrative reforms need the support from the 'political reforms promoters.' Luder's argument was that whoever may initiate the administrative reforms in the country yet those reforms may not be successful if the political reform promoters are not fully backing the change. Luder further says that the Prime Minister, the Minister of Finance and the Chief Administrative Officer (CAO) in charge of the finance (*i.e.*, Secretary of the Treasury in Sri Lankan context) are the major political reform promoters. Other members of Parliament are also the supporters of reforms. The strong Parliament with the ability to enforce the change even against the resistance of the executive would lead the reform to succeed. In line with the argument of Luder, the initiators informed that New Zealand as an example and they pointed out that the Prime Minister was instrumental in initiating the NPFM reforms. Contrary to the New Zealand's phenomenon, in Sri Lankan context, the PSAFR reforms were first initiated by the Institute of Chartered Accountants of Sri Lanka (ICASL) consolidating the Association of Public Finance Accountants of Sri Lanka (APFASL) as its public sector arm. There was no involvement what so ever by the political reforms promoters in this connection in Sri Lanka. As a result, the initiators pointed out that they were not successful and struggling in securing the support from the political reform promoters from the most outset.

Another point to be noted is that the Public Sector Accountants tried many times to bring the change to the Public Sector Accounting in Sri Lanka. However, they could not accede since they could not secure the political reform promoters support. As a result, PSAFR reforms efforts were in wane in the last moment and even further noted that the senior Public Sector Accountants had gone up to the level of drafting the Act of Parliament but at the last minute it was washed away by the pressure groups. Treasury confirmed the above claim, and it also pointed out the failure of securing the political reform promoters support pinpointing that the Government has not made the policy decision to adopt accrual accounting practices to the public entities.

Furthermore, initiators argued that it has become a bad culture that when a new Government comes to power, they used to forget whatever the good things that are done by the previous Government completely and sometimes, they discontinue the earlier projects. This ignorance was because each Government comes out with their set of policy statements forgetting or ignoring the previous Government operations and their policies. As a result, all the Governments tend to lose the significance of having a 'state policy' for the development giving more priority for 'individual party policies.' Rival voice added more to the argument and said that Sri Lanka's political culture has been such that the politicians have been used to command the Chief Accounting Officers (CAOs) to commence certain projects but, all of a sudden, unexpectedly, in the halfway through, direct them to stop the project. For example, Government departments have been practising the CIGAS package, but again Treasury tries to introduce ITMIS package. As a result, rival voice highlighted that the Treasury would certainly have taken action to stop the application of CIGAS in the public sector organizations. As a result, the respondents upheld that why the Government has not interested in upgrading the CIGAS to suit to the present context rather than moving entirely to a new system which would save the cost and energy.

4.1.3 Role played by senior management

Unless otherwise the top financial officers in the CG, PCs and the LGs give the important priority for the implementation of accrual accounting practices to the public entities the PSAFR reforms will not succeed. This support is significant because the top accounting officers - CAOs and Accounting Officers (AOs) in the Government - have not been very much conversant with the BLAPs. However, Luder's (2002) view is that the Public Sector Accounting staffs must be familiar with private sector accounting concepts and practices then only the implementation of private sector accounting practices could be made easy to the public entities.

Moreover, the initiators upheld that especially the old generation of Public Sector Accountants has felt the PSAFR reforms as an additional burden to their duty list. Also, the initiators brought to the light that whenever problems in accrual accounting practices arise they never had the mechanism to solve them. The senior management of the public entities also was unaware of the

PSAFR reforms, and similarly, Senior Accountants in the public entities were not familiar with the accrual accounting practices. Under these circumstances, the initiators argued that though the younger generation of Public Sector Accountants supports implementing the PSAFR reforms, the old generation purposely delays or ignores.

To cite an example, in the private sector ICASL has formed nearly 30 committees to deal with the matters about the formulation and implementation of the accounting and auditing standards. All committee members are volunteers, and they have been used to attend the committee meetings regularly, and even they are used to work after office hours. But, the APFASL which is the public sector arm of the ICASL has been struggling to set up a single committee. As a result, the initiators argued that the commitment that the public sector top management rendered in promoting the sector was highly not appreciable compared to the private sector. Accordingly, they further argued that the top management in the public sector has not perceived the real value of the PSAFR reforms and as a result, the lower level financial officers of the Government institutions also have inherited the same attitude and used to keep themselves away from the reform process.

Another problem that the PSAFR reforms encountered was that the inability of the public sector senior Accountants to think out of the box and coming out with the new innovative ideas in promoting the public sector financial reporting practices. Inability to think out of the box was because they have always been used to the traditional way of public management practices. Public entities further noted that the members of Sri Lanka Accountants Service (SLAcS) usually not interested in the teamwork because of the structural arrangements of the accounting service (analysed under country-specific factors) and as a result, the top management has not transferred the seriousness and significance of the PSAFR reforms to the bottom. Therefore, the accounting staffs - as a whole - have not committedly involved in the change process.

In addition, it was made clear by the public entities that the Sri Lanka Book Keeper Service and Sri Lanka Store Keeper Service supported the SLAcS in the past. However, the Senior Management in the public sector has abolished those Para - accounting services and further, some departments brought to the light that the senior management has abolished some of the Accountants' cadres as well. These types of decisions by the top management made the accounting system of the said departments entirely disabled. As a result, they argued that the organizational set up concerning the GAS must have to be first re-engineered then only there would be a positive environment for the change. Thus, they informed that the improved background in the GAS would certainly enable the proper and easy implementation of the PSAFR reforms in the public entities.

They further added that the top management in the Central Treasury in the general and provincial Treasury, in particular, has not placed a high priority for the PSAFR reforms. For example, Treasury has not issued the proper instructions and the guidelines concerning the implementation of the accrual accounting practices to the public entities. In some cases, Treasury has issued the circular instructions, but the contents are not clear. Most of the departments pointed out that since the ambiguities in the circular instructions they were unable to adopt the accrual accounting practices in their respective departments. As a result, they argued that improper instructions and guidelines also became another major reason for the failure in implementation of PSAFR reforms.

4.1.4 Nature and types of activities

Though the initiators were interested in implementing the accrual accounting practices to the public entities, they admitted that the nature of the public sector differs entirely from the private sector. The motive of the public sector is to serve the general public where the private sector is to earn a profit. As a result, the public sector aims the social welfare of the people and the development of the country whereas the private sector aims at increasing the owner's wealth. As a result, public entities argued that the implementation of accrual accounting practices will lead the financial statements to end up with the deficit (*i.e.*, loss).

The public entities highlighted that the meaning of the 'loss' in the public sector is different from that of the private sector. They pointed out that most of the private sector organizations and Government Business Enterprises (GBEs) which have adopted the Sri Lanka Accounting Standards (SLAS) in financial reporting also end up with the loss. But they never perceive the loss incurred as the benefits accrued to the general public. As a result, the continuous loss of a private sector organization would lead to the liquidation of the entire organization or discontinuation of the part of the organization. But, it would not happen in the public sector organizations. That is, even though the public sector organizations report the loss consecutively Government would not take steps to liquidate them. Instead, they would be rescued to continue the provision of service to the general public (*e.g.*, Sri Lanka Transport Board, Sri Lanka Railway, Ceylon Petroleum Corporation, Ceylon Electricity Board, and the like).

Adding more to the argument, the public entities recorded that the objective of the Government spending is to achieve the outcome of 'improvement in the societal wellbeing.' However, the Government cannot expect the outcome of the money spent within one financial year. It may take several years to realize the outcome in the public sector. As a result, the reported expenses occur in one year, and the expected outcome occurs in some other year(s). Therefore, the timing of the matching concept under accrual principle also loses its significance. Also, the outcome of the Government spending does not necessarily mean the monetary results and it may sometimes non - monetary. Then, matching loses its significance since most of the benefits accrue to the public entities are non - monetary. Of course, this is also not possible even in the private sector. Therefore, public entities pointed out that, evaluating the Government organizations and their achievements become difficult when they implement the private sector accrual accounting practices.

Further, the adoption of private sector principles would lead to the negligence of the 'service mind' of the Government staff which would be a great threat to the purpose of the existence of a Government, that is, equality and social well-being of the citizens. For example, as discussed earlier many loss-making organizations are rescued and made to continue their operation because of their social prominence. It is palpable that even though the private sector organizations usually claim that they serve the people; if the particular enterprise does not earn sufficient profit, it ends up with discontinuation. Thus, the private sector's main attitude is the profit, and the consequence attitude of loss is the closing down the business. As a result, the business attitude towards the profit would lead to negligence of service to the people in the public entities. Thus, the infusion of private sector principles would certainly lead to loss of 'service mind' in the public sector. As a result, the public entities and rival voice criticized that, the initiators have not conducted the proper and complete study, and accordingly, they have not identified clearly the differences among the two sectors before introducing the BLAPs.

4.1.5 External pressure

The Supra National Organizations (SNOs) play a major role in implanting private sector management practices in the public sector. Respondents highlighted that Sri Lanka has been mostly the member of all the SNOs and thereby it is obliged to adhere to the norms and practices adopted by them. They further brought to the light that all the SNOs have adopted the accrual accounting practices. Dissimilarly, Sri Lanka, since it has been practising the cash accounting practices, is far behind the reporting requirement compared to the SNOs reporting system. So considering that aspect, the adoption of accrual accounting practices needs to get due treatment as a significant requisite for Sri Lanka. This situation further gets aggravated when

SNOs recommend adoption of the accrual accounting practices when Sri Lanka approaches them for loans.

Apart from that, the initiators are the member of the International Federation of Accountants (IFAC). The IFAC, in turn, is backed and funded by the SNOs. As a result, initiators have been highly obliged to obey the recommendations made by the SNOs and IFAC. The initiators highlighted that the Public Sector Accounting Standard Committee established by the initiators, at the most outset, was also comprised of representatives from SNOs. Thus, the initiators admitted that the idea to incorporate the accrual accounting practices is - a borrowed idea - under the obligatory requirement from abroad.

Contrary to the all above claims, the Treasury explicitly pointed out that the external sources did not directly pressure in any manner about the adoption of accrual accounting practices to the public entities. However, the Treasury implicitly claimed that the Government has been under pressure in accepting and incorporating the modern accrual accounting practices in the public sector to improve the financial reporting in line with other countries and the international organizations.

4.1.6 Self-initiatives

Often it is said that the duties of the Government Accountants could be carried out by simply a clerk. Sometimes, the Government Accountants are referred to as the ‘FR Accountants’ since they are always performing their duties based on the rules stipulated in the FR. As a result, the accounting field does not consider the Government Accountants as the professionally qualified experts. Nonetheless, almost all the Accountants in the public sector felt that the above phenomenon, some or other, needed to be changed and they also should be treated as the epistemic community in the field of accounting. Though Public Sector Accountants have been discussing the professionalization of the Public Sector Accounting service for many years, the attempt failed due to several reasons as discussed earlier.

Further, they argued that even though the ICASL has taken a keen interest in the professionalization of the Public Sector Accountants, it has no official responsibility in the public sector, and rather, it is the responsibility of the Treasury to take the necessary steps to professionalize the Government Accountants. However, Government has not taken steps to professionalise the Government Accountants. That was one of the reasons for the failure of the PSAFR reforms.

Besides, it was noted that a few Public Sector Accountants enrolled for Chartered Public Accountants examination because they argued that ICASL has moved on to professionalize the Government Accountants before getting the authority to professionalize the public sector accounting practices in the country. This move by the ICASL, from the Public Sector Accountants’ point of view, is a ‘waste attempt.' They argued that they have already studied the accrual accounting practices in university level, but nothing was applied in the public sector accounting practices and as a result, they forgot all that they learned during the university education. Thus, they argued that first, the PSAFR reforms must have to be officially authorized by the Government then only individual-level professionalization attempt would succeed and benefiting the Accountants.

Next, the Institute of Public Finance and Development Accountancy (IPFDA) endeavoured to professionalize the Public Sector Accountants during the 1990s, but the effort failed. The rival voice brought to the light that the IPFDA was trying to get it incorporated by an Act of Parliament during the 1990s, but that attempt also failed at the last moment. The initiators and rival voice pointed out that the accrual accounting practices were felt long ago by IPFDA, but unfortunately, International Public Sector Accounting Standards (IPSASs) were not famous those days, and nobody knew about it. However, that was the period in which the adoption of accrual accounting practices in the public sector was intensifying. Likewise, the IPSASs were slowly becoming well - known in the rest of the world. Accordingly, IPFDA tried to incorporate those accounting practices in the public sector during the 1990s, but the efforts waned. Though the IPFDA failed to secure the Parliament recognition, it was the first institution that came forward with national interest and had the idea of the professionalization of the Public Sector Accounting in the country. Accordingly, the rival voice criticised that the present attempt by the initiators is to satisfy the IFAC.

The initiators confirmed that the Public Sector Accountants already had the intention of introducing the accrual accounting practices to the public sector. Also, the public entities pointed out that it could not blindly be acceptable that the accrual accounting practices have been borrowed from abroad since it was already in operation in some part of the financial reporting system for the Sri Lankan public sector. Thus, they argued the problem is not the accrual accounting practices but whether they can understand the modern complex accounting practices such as International Financial Reporting Standards (IFRS) and IPSAS.

Therefore, respondents argued that the idea for PSAFR reforms initially bloomed within Sri Lanka though they mimic the IPSASs for SLPSASs (Nagendrakumar, et al. 2015). Further, they noted that the local idea supported the SNOs, IFAC, and ICASL in implanting the neo-liberal agenda into the island.

4.1.7 Cost of conversion

The initiators claimed that the PSAFR reforms had involved the huge cost of converting the existing cash accounting practices to accrual accounting practices. Further, Blondal (2004) also argues that the accrual budgeting which is the pre-requisite for the BLAPs would again involve significant costs in training the staff and the computer-based system upgrades. However, the benefits that accrue would not simply worth the spending (Wynne, 2003). The initiators also argued that it is a general phenomenon that the developing countries face the difficulties in meeting the cost of conversion since they have other priorities in the policy agenda such as health, education, and the like. They further pointed out that, rather than the direct cost, the opportunity cost of introducing the PSAFR reforms to the developing country would always be high. As a result, the PSAFR reforms get delayed in those countries.

4.1.8 Accounting tradition and reformation culture

The accounting tradition in the public sector has been rule-based. Thus, the Public Sector Accountants were expected to be accountable for the fund entrusted to them. The present attempt of PSAFR reforms has been based on the principles (*i.e.,* GAAPs). Under the rule-based tradition, the CAOs and AOs are accountable to the legislature whereas under the principle-based tradition the CAOs and AOs are expected not only to report to the legislature but also to the other users of the Governmental financial information. As a result, under the first tradition - to which Sri Lanka is used to - the GAS is more or less internal and expected to prepare the Specific Purpose Financial Statements (SPFS), but under the second tradition - to which public sector is hopefully moving - the GAS is more or less external and expected to prepare the General Purpose Financial Statements (GPFS). However, it is noted that the Government of Sri Lanka has yet not taken any policy decision to move its tradition of PSAFR from SPFS to GPFS.

4.1.9 Need for change in budgeting practices

The implementation of PSAFR reforms requires certain basic changes to be introduced in the budgeting practices as well. The rival voice was of the opinion that the reform should start from the budgeting practices not from the accrual accounting practices. Thus, they argued this mismatch also led to the failure. The initiators, therefore, maintained that the fundamental changes that should occur in the public sector are: Change in budgeting practices; change in recruitment practices; system upgrades; and the like. These reforms are essential because the PSAFR reforms are part of the NPFM reforms. The NPFM reforms are again one of the areas coming under the NPM reforms. Therefore, if the PSAFR reforms are to be made effective, the fundamentals of the NPFM and NPM must support the change. Therefore, since the country's public management activities are interrelated the entire NPM principles must be incorporated and incorporating a portion of the NPM such as PSAFR reforms will not stand on its own and produce the positive results to the country.

In this day and age, the Government of Sri Lanka is used to prepare a zero-based budget. As a result, the Annual Appropriation Act does not allow the public entities to carry forward the balances to the subsequent years. Accordingly, the annual financial plan of the Government is for only one year. Hence, the annual appropriation account must have to be submitted by the Government organizations without carrying forwarding any amount for the next year, because, they do not legally know the amount that is available for next year. Thus, the significant and fundamental aspect that must be made available for the accrual accounting practices is the facility of accruing the commitments for the ensuing years which could only be possible through the accrual budgeting practices.

4.1.10 Need for reflection

Initiators argued that according to the present cash accounting system, the Government institutions are not in a position to correctly measure the cost of the service rendered to the general public. All the resources deployed in the public sector have not been reported in the financial statements because under the cash-based accounting, once the assets are acquired, they are treated as expenditure and not as assets. It was the major reason why the Government organizations are not in a position to measure their efficiency, and as a result, the country has not been in a position to measure the correct economic growth and development.

The respondents pointed out that the private sector has been more efficient than the public sector because they have a proper accounting and financial reporting system in place. It is good to notice that the Government organizations also have an accounting and financial reporting system which could only measure the amount they spent during the year, not exactly the financial position as at a point of time. As a result, the ascertaining the strength of a Government organization is very difficult. This factor leads to the question of whether the public entities prepare and present the financial statement which reflects true and fair view.

The cash accounting practices do not show the real state of affair of the Government organizations. The very important limitation is that it would not reflect the actual expenditure. At the same time, it does not properly and fairly show the assets of the organization. Further, there is no policy of tallying the assets and liabilities in the Government sector. As discussed earlier, very often financial statements show the lower financial progress than the real physical progress achieved by the institutions. Thus, the departments always face contradicting progress with respect to one and the same project. The difference is the payables not shown in the annual appropriation account. Further, the assets purchased or also constructed not shown in the annual appropriation account. These deficiencies in the financial reporting lead to inefficiencies in evaluating the public sector.

4.2 Country-specific factors

This theme refers to the local factors that influenced the PSAFR reforms in Sri Lanka in addition to the universal factors discussed above. The analysis has been carried out under the six higher order codes and 115 codes.

4.2.1 Need for change in staff attitude

The initiators claimed that the staff attitude in the Government sector must have to be changed. The Government staffs always tend not to take any responsibility but to pass the responsibility over to somebody else. As a result, they are not committed to the organization and further, they do not like to accept any additional work. Vorderer (1996) as cited in Henning and Vorderer (2001) explains it as the escapism, and it is in its core, escapism means that most people have due to unsatisfying life circumstances, again and again, cause to 'leave' the reality in which they live in a cognitive and emotional way. The reasons why the Government employees escape from the responsibility are threefold. First is their job has been made permanent by the Government. Next is the reward that they get for the work they perform less compared to the private sector. The final one is the state is the sole owner of the public entities. As a result, there is no real competition and pressure for them to become more efficient and effective. Moreover, the rival voice observed that the annual performance of the employees decides the promotions and the salary increments, and they are not evaluated based on the achievements of competitive targets. Almost all the informants agreed that most of the public sector staffs are not creative and innovative, and most of the staff in the public sector come to work simply to get the salary not to meet the targets. Also, the strength of the labour unions in Sri Lanka also positively influences the escaping behaviour of the Government employees because they do not have any fear of getting fired for not meeting the targets.

Correspondingly, the escapism behaviour was apparent in the PSAFR reforms as well. Though the ICASL has taken initiatives to improve the financial reporting practices of the Government sector, the top management in the sector has not perceived its seriousness and the significance. Initiators and rival voice argued that no one core stakeholders in the public sector had taken necessary steps at least to study the suitability of the accrual accounting practices to the public entities. When the researcher raised the question about why the failure occurred in implementing the PSAFR reforms, none of the Accountants accepted it was their responsibility instead passed it over to the other levels. This phenomenon was noticed even at the Treasury level. Treasury rolled the responsibility first to the Government saying that *"Government has not taken the policy decision about it"* and next, to the lower level Accountants blaming that *"lower level accountants do not come forward with their proposals. Instead, they permanently expect the instructions from the top."* However, it is noticeable that, the Treasury is the top executive in the financial management structure in the country and also belong to the category of 'political reform promoters.'

Another important factor which influences the attitude of Government accounting staff is the perception towards FR. The Public Sector Accountants' mind has firmly fixed on the FR. As a result, they are used to the rule-based accounting tradition. Hence, without changing the mindset of the Public Sector Accountants, it is rather difficult to move to the principle-based accounting and financial reporting practices. Therefore, the attitude towards the FR was also one of the major reasons for the failure of PSAFR reforms in the public sector.

In the Government, when something is made mandatory everyone will have to adopt them even without questioning. So in the end, the question of whether the Government staffs are satisfied or not with the change becomes insignificant since they are legally bound to adopt the changes. This compulsion again positively impacts the stress. As a result, the Government staffs are always under the web of stress. Accordingly, they pointed out that all levels involved in the PSAFR reforms must develop the positive concerns over the concept and the outcome of the PSAFR reforms to make the implementation effective.

It was noted that all happen due to the mentality that the Accountants possess. That is, all perceive that it is the public money, not their own. As a result, it is argued that the ultimate reform needed in the public sector is the ‘reform in attitude’ without which the reforms of any sort would become meaningless. Alternatively, the reforms must be inbuilt with the ‘attitude change’ as one of the major outcomes. Despite the claims above, the rival voice recorded that the ‘attitude’ and ‘attitude change’ does not matter in public sector claiming that if anything is made mandatory, then Government staffs must follow.

4.2.2 Change of country status

Economic growth in Sri Lanka has been among the fastest in South Asia averaging 6.3 present during the years of 2002-2013 with the gross domestic product per capita increasing from US$859 in 2000 to US$ 3744 in 2015 (Central Bank of Sri Lanka, 2016). As a result, the initiators claimed that Sri Lanka would be no more a developing country, but then, a lower middle - income country. Hence, they argued that Sri Lanka is not eligible to apply for grants from the foreign countries and SNOs and rather, they are entitled to apply for loans in the international money and the capital markets. Therefore, due to the change in the country’s status Sri Lanka is compelled to compete in the open international financial market for loans. Initiators and Treasury argued that the traditional mode of cash accounting practices would not support the competition of this nature. Furthermore, the initiators argued that the country status would be further improved to upper middle - income country status during next few years (2016-2020). Hence, Sri Lanka has been focusing on long-term development goals and challenges to reach the upper middle-income country status. As a result, one of the key challenges that Sri Lanka faces at present due to the status change is that the realigning the public sector spending and policies with the needs of the middle-income country status. Thus, the adoption of international best accounting and financial reporting practices become an obligation for international comparisons and credit ratings. The Treasury also confirmed the above claim and pointed out that the incorporation of accrual accounting practices has become a must in coping up with the new environment.

4.2.3 Need for change in government recruitment practices

The initiators were of the view that the major problem in implementing the PSAFR reforms was the non - availability of qualified Accountants in the public sector. The public entities also maintained that the Government’s pattern of recruitment must also change to suit the latest developments in the field of Public Sector Accounting. Further, they pointed out that the existing recruitment practices are suitable only for the traditional accounting system (Gazette, 2010). The rival voice also confirmed that the present recruitment practices do not necessarily mean to select ‘accounting professionals’ to the SLAcS. Further, they argued that a person who has the part qualification in the professional accounting programmes could also become the Government Accountants (*e.g.*, intermediate qualification in the ICASL examination). Further, they admitted that it would be much more sufficient to handle the traditional accounting practices, but they cautioned that it is not sufficient to handle the new change. As a result, the rival voice argued that the Government must change the whole system of recruitment practices, then only, there would be a match among the PSAFR reforms and then and then only, the accrual accounting practices would be effectively implemented in the country.

It was also noted that the discontinuation of the Para - accounting services compelled the GAS to operate with management assistants recruited from all the streams in A/L Education (Maths, BioScience, Commerce, and Arts). Accountants argued that the accounting work in the GAS does not have any relationship with the recruitment of the management assistants. One advantage of having the management assistants from the commerce stream is that they know the basics of accounting, but for others, it was vice versa. Thus, the management assistants from the other streams found it very difficult to understand the accounting terms, posting the transactions, and accounting workflows. As a result, all the management assistants needed the training in

PSAFR. They were given on the job training to familiarise them with the GAS. The public entities pointed out that, in general, the respective Accountants of the departments are the trainers who voluntarily train them. However, when they become fully conversant in the GAS, they get their annual transfer. The annual transfer also has not been made systematically, and as a result, the staffs from an accounting section get transferred to non - accounting section. Then, the Accountants happened to train again the new management assistants transferred newly to the accounting division. Therefore, the respondents argued that they always lose their time in training the staff rather than concentrating on other developments works of the department such as PSAFR reforms.

4.2.4 Globalization effect

Globalization is simply the integration of the people, Governments, and institutions of different countries. Globalization has, in general, created opportunities and insecurities as well. In that direction, it has, on the one hand, created the opportunity of upgrading the Public Sector Accounting system globally comparable and on the other hand, it has created the insecurity and threatening to the traditional cash accounting system and the traditional Public Sector Accountants. Further, the informants argued that the accounting profession itself is not the local phenomenon, but then, it is the global phenomenon. Thus, the accounting profession and the practices need to be in line with the international best practices.

Since Sri Lanka: is an open economy; is a member of many SNOs; has been recognized as the lower middle - income country; and has been networking with several international institutions (*e.g.,* stock markets), it is highly prone to the international environment. Thus, the implementation of the accrual accounting practices becomes a must to accompany the networking protocols globally.

4.2.5 Need for lower level support

It is the supervisory level Accountants who work at the ground level in making the reforms a success, and accordingly, they are expected to play five important roles in PSAFR reforms *viz.* communicator, advocate, coach, liaison, and resistance manager. If the PSAFR reforms to be materialized in public entities in Sri Lanka then, the middle and the lower level staff must actively engage in the change process. However, it is noticeable that the supervisory level Accountants in the public entity have not been properly educated to supervise effectively the accounting staff coming under their purview. In contrast, Treasury criticized that the lower level staffs have not proposed new ideas concerning the implementation of the PSAFR reforms, and they had not come out with the suggestions when they encountered the problems about the accrual accounting practices. Treasury argued that this was the major drawback in the country in implementing any sorts of reforms.

Further, the lower level Accountants are trained to maintain the records of the cash accounting practices. It is worthy to note the problems faced by the Accountants in turning the system to accrual depends on the recruitment and transfer practices of the Government. That also plays a major role in creating the lower level support for the PSAFR reforms. As a result, the support that the Accountants get from the lower level accounting staff in introducing the new system is less and sometimes; some staffs go against the Accountants who try to introduce the new system in the department.

4.2.6 Structure of the accounting service

The Sri Lanka Administrative Service upholds superior administrative positions in the public entities *viz.* CAOs and AOs. They are responsible not only for the administrative function but also for the financial operations of the public entities and as a result, they are the officers who are accountable for the final outcomes. Thus, Accountants argued that they are ‘nowhere’ in the administrative structure, and they are only the staff officers who are expected to assist the CAOs and AOs. In that direction, the Accountants argued that it was the CAOs and AOs who are the responsible officers in implementing the PSAFR reforms. Often, the CAOs and AOs are non - finance experts. They do not understand the subject matter, and as a result, there was no adequate support from the administrative officers, and hence they were reluctant to go for the reforms. The public entities also agreed with the stand of the initiators and added that CAOs and AOs always will have contradicting views on the works norms of the Accountants. They, further, argued that this sort of conflicts has been inevitable in the system since of the structural arrangements of the accounting service in the country.

There are twelve 'all islands public services' in Sri Lanka (Gazzette, 2011). All are relatively equally scaled. However, the Sri Lanka Administrative Service gets the prominent role in the Government administrative mechanism. As a result, all other services - especially the Accountants - feel that they are second to them and tend not to participate even in the social activities of the organisation. The informants argued that it is unethical to delegate the financial authority to the CAOs and AOs while delegating the responsibility of managing the finance to the Accountants. Hence, often the Accountants are always under stress; whether to work according to the FR or according to the CAOs/ AOs unethical instructions. Thus, the Accountants argued that there has always been a barricade for the independent work of the GAS, and thus, the conflict has become the common phenomenon between Sri Lanka Administrative Service and SLAcS. Thus, both tend not to support each other. It has been made clear that Accountants are not the decision-makers in the GAS. Therefore, all the reforms related to accounting and finance depends on the decisions of the CAOs and AOs who belong to Sri Lanka Administration Service. Thus, the Accountants argued that SLAcS have to be made fully authoritative and responsible for accounting and financial matters if the PSAFR reforms to become successful.

5. Findings

The study found that the universal factors have the impact on the PSAFR reforms in Sri Lankan context. The study also found that there are six country-specific factors that have influenced the PSAFR reforms in Sri Lanka.

Seven out of ten universal factors and four out of the six country-specific factors are negatively associated with the PSAFR reforms. Accordingly, five out of sixteen had positively influenced the PSAFR reforms. However, it was also found that the magnitude of the pressure by the positively associated factors had played differently as far as the PSAFR reforms in Sri Lankan context are concerned (*e.g.,* change in country status). In other words, the positive interaction of the five factors has not exerted the acceptable level of pressure to Sri Lankan Government.

The change in country status is expected to achieve the upper middle-income country status in 2020. The economic impact of this change is that Sri Lanka is no more entitled to the grant from WB, IMF, ADB, etc. (external pressure) and therefore, it needs to go to the international financial and money market and compete for the short and the long-term capital requirements (Globalization effect). The present-day system of PSAFR in Sri Lanka does not match with the international standards of financial reporting (need for reflection). Therefore, Sri Lanka is compelled to benchmark the international best accounting practices (Globalization effect). Also, the need for modernization of the PSAFR emerged during the 1960s in Sri Lanka (self-initiatives) but it never led Sri Lanka to compete in the global market for its funding requirements.

6. Conclusion

Most of the factors have negatively impacted on PSAFR reforms in Sri Lanka. However, three universal factors and two country-specific factors have a positive impact on the PSAFR reforms.

Importantly, the change in country status has become the dictating factor for PSAFR reforms in Sri Lanka. However, it was also found that Sri Lanka has not yet realised the significance of the dictating factor and therefore, has not given prominence to the change. Thus, though Sri Lanka has not breath the graveness of the change in country status and the resultant economic coupled with the PSAFR impact, it would be compelled to realize very soon.

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Comparative Evaluation of International Public Fund Accounting and Financial Reporting Practices in Selected Sovereign Entities

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Abstract

The paper conducted comparative review of public fund accounting and assessed reported consolidated and capital fund balances in financial statements of five sovereign nations. Ex-post 'facto' analysis of data extracted from published financial statements using archival information retrieval method. "Absolute percentage margin" of difference between "imputed / "expected" accounting events technique used. Data used came from Nigeria's federal treasury. Model one results show that consolidated fund were authorised by laws. Test two indicates slight variations in composition of consolidated fund in financial reports, especially for Nigeria. Model three result show fairly uniform representation of consolidated fund balances of all the entities. Only Nigeria presented capital fund in the financial statements in compliance. Test four yields yield significant negative values. Consolidated fund accounting was uniform among the entities. While Nigeria's pattern of capital development fund appear defective. The paper recommends that accounting and reporting standard on fund accounting is urgently needed.

Keywords: comparison of public funds accounting, Consolidated fund, Development fund, Legislative instruments, Authorisation, fund balances, sovereign financial reporting.

Introduction

This paper conducted comparative review of public fund accounting and analytically investigated the reported consolidated and capital development fund balances in annual financial statements of five sovereign nations. It aimed to determine the relevance and usefulness for financial accountability / stewardship reporting of these two public funds in treasury management and government financial reporting in the selected entities. Furthermore, the study sets out to provide research outcomes that may guide the relevant international regulatory bodies to streamline public fund (equity fund) accounting in government sector; with a view to establishing standards for tax-payers equity funds and possible harmonization of its presentation in financial reporting. These phenomena have rendered financial analysis, interpretation of financial statements government entities and evaluation / ascertainment of the financial position (true and reliable health status) of different countries and comparison of public fund balances and the net financial position of different sovereign extremely difficult, presently.

The reason for comparative review on consolidated and capital development fund accounting system and representation of these major of public funds in financial reporting system is to determine information utility of public fund balance in financial position of government entities. The study involved a pilot study of five sovereign entities, namely Nigeria, South Africa, Australia, United Kingdom and the United States of America. Federal Government of Nigeria was chosen because it has consistently recorded huge negative consolidated fund and also rendered capital development fund balance in its audited annual financial statements for over two decades. It has been observed that the pattern of Nigeria's public fund accounting model is substantially different from the practice in the other comparable sovereign entities. Take for example, other countries like South Africa, Australia, USA, and etcetera do not capture and include capital development fund as a constituent of taxpayers' equity fund or capital employed in the annual financial statements. The external users of government financial statements often view consolidated fund or taxpayers' equity as the equivalence of net worth in financial position of sovereign entity. In certain situations cases this does not represent the realistic financial position / or the net-worth of a reporting sovereign entity.

The implementation of the international public sector accounting standards (IPSASs) in many sovereign entities have resulted to remarkable paradigm shift in fund unit accounting pattern in government accounting system and format of presentation in financial reporting (International Federation of Accountants (IFAC), 2004). This development appears to facilitating the uniform treatment of the public fund (consolidated fund, or general fund, net-worth and or citizens' equity fund accounting in government-wide accounting and financial reporting practices globally. Under the extant IPSASs accounting regime, array of public fund account items, that is, quasi-permanent capital funds or quasi-equity reserves capital fund account items appear to being treated broadly as taxpayers' equity capital fund of a government entity (IFAC, 2004).

Flowing from the latest accounting regime, government entities are now required to render reliable financial statements to the public (IFAC-IPSAS, 2004). But it is unclear to the external users of sovereign corporate financial reports whether public equity fund or capital employed due to divergence in the presentation of consolidated fund in government accounting on one side. In the case of Nigeria, for instance, consolidated revenue fund and capital development fund appear to represent citizens' equity capital fund but the pattern of public fund accounting appears significantly different from public funds recorded and reported in some other sovereign government entities.

1.2 Statement of the Problem

Consolidated (revenue) fund and capital development fund are the two common variants of public funds frequently captured as capital employed in government entities. Rendition or representation of these fund balances in financial reporting of sovereign government entities has come under close scrutiny within current public sector accounting regime. Although consolidated (revenue) fund can be seen as legally operated and rendered as core component of the citizens' or tax-payers equity fund in financial statements in several sovereign entities; it has observed that capital development fund on the other extreme, is optionally adopted and reported in the annual financial statements of some entities, for example in Nigeria. As a result, there is significant divergence in the pattern of public fund accounting system (CRF and CDF) and substance of the reported fund balances in corporate financial reports in different sovereign entities in the international arena. These observable trends in the international public sector accounting systems has triggered series of the problems in public fund accounting, including lack of uniformity, differences in the composition of fund balances shown in sovereign financial positions and congruence in faithful representativeness (quantitative elements or values) of public fund balances in government financial statements.

Second, there is a seemingly lack of clarity to accounting information, relevance, and reliability of the fund balances commonly presented as capital employed or part of liabilities fund in sovereign balance sheet of many countries. For example, public fund balances recorded in the financial statements in Nigeria and possibly some government entities included capital development fund CDF) and CDF balance as part of public fund without showing the corresponding fixed assets in the same balance sheet. These practices render the financial position posted in such government entities unrealistic in many dimension. To a reasonable extent such fund balances do not represent true and reliable carrying balances fund accounts and financial operations routed through these funds but were merely included as notional balancing adjustment figures that were applied merely to bring the total assets and total liabilities of the balance sheet to tally (agree0. To buttress this fact, Ajine in his audit opinion to FGN (2015) financial statements observes that there were remarkable discrepancies existing between the provisions of public finance laws and constitutional authorisation of the establishment, operations and representation of the consolidated revenue fund (CRF) and capital development fund balances in financial reporting.

In a related development, Nigeria's Finance (Control and Management) Act of 1958 authorized the creation of capital development fund in the case of Nigeria. However, it appears that the real intention of that piece of legal instrument has been given some misinterpretation of the provisions of the legislations based on the actual treatment given to capital development fund as part of public fund accounting / fund balance in Nigeria's financial reporting. Consequently, the financial position is blurred to the extent that the equivalence fixed assets acquisitions were not captured in the accounting records, which leaves much to be desired. *This development necessitated* comparative review on public fund accounting system and reporting practices in Nigeria with other countries; namely, South Africa Australia, United Kingdom and the USA conducted in this study. It is has been noticed that none of the other four sovereign entities recorded and presented the year-end carrying balance of the capital development fund as an integral part of public capital fund or taxpayers' equity or general fund in USA in their respective financial reports. ((HM, Treasury (UK), 2007, 2015; South Africa's Financial Reports, 2012, 2015; USA, 2009, 2012, 2015). Thus, the Nigerian model public fund accounting might not be appropriate as it is at variance with the international best practice.

In essence, it is imperative to conduct the comparative review and evaluation of sub-fund items that constitute public equity funds (consolidated and capital development funds), not only for Nigeria but also in the four selected sovereign entities. This situation elicit thorough investigation into the pattern of public fund accounting practices and rectification of the discrepancies and defects public equity fund being reported in sovereign entities. additionally, members of the public, including the financially literate persons do not fully understand whether the consolidated revenue fund (CRF) balances shown in sovereign financial statements (in some cases) represent long-term equity capital employed in government entities (the state) on behalf of the citizens or summary of the net-worth of the reporting government entity. In fact, Ani, (2017) argued that the nature and purpose of consolidated fund or general fund is not well defined in several jurisdictions and understood by many users.

The pertinent research questions formulated to guide in model development, gathering of data for analysis in the comparative review of public fund accounting in the five sovereign entities were based on fundamental principles of fund accounting in public sector, legalistic-environment and compliance to 'Rules of law model in government accounting. These include: Is the consolidated (revenue), general or citizens' equity funds accounting commonly adapted and reported in the financial statements of the sovereign government entities uniformly employed. Does the consolidated fund account operated in each of the reviewed sovereign entities were duly authorized by national legislations? Is there substantial difference in the nature, make-up and value of consolidated fund or general fund or citizens' equity reported in the sovereign balance sheet of the selected countries? Similarly; does each of these five sovereign entities establish, operate and render capital development fund as part of their respective general or citizens' equity funds accounting and reflected it in the financial statements?. Did each of the reviewed sovereign entities duly authorized by national legislation to operate capital development fund in the corporate report? Is there significant difference in quantitative attributes of capital development fund reported in the sovereign balance sheet of the selected countries?

The main objective of this study is to conduct comparative review and evaluation of the public fund accounting, specifically on consolidated revenue and capital development funds) and their representation in government financial reporting practices in selected sovereign entities, notably; Nigeria, South Africa, United Kingdom, USA and Australia. The research was carried out with view to ascertain the degree of uniformity or disparity in the structural pattern of public fund accounting (specifically consolidated revenue and capital development funds) and carrying balances of these funds duly reported in the financial statements of the other sovereign entities and Nigeria. Specific objectives of the research were to:

(1) Establish the extent to consolidated fund was maintained in compliance with existence of legislation instruments that authorised the operation and presentation of consolidated revenue fund balance in financial statements of these sovereign entities.

(2) Ascertain the magnitude of congruence or discrepancies in composition of sub-fund items making up consolidated fund duly presented in the annual financial statements of the entities.

(3) Determine the level divergence in the quantitative attribute of consolidated fund balances presented in the financial statements of the selected entities; and between Nigeria and the other four sovereign entities.

(4) Establish the extent to which capital development was maintained in compliance with existence of legislation instruments that authorised the operation and presentation of capital development fund balance in financial statements of these sovereign entities.

(5) Determine the degree of divergence in quantitative attribute of capital development fund balances recorded in financial statements of Nigeria, compared to the other four sovereign entities.

This research on a comparative review and evaluation of the consolidated and capital development funds becomes inevitable due to acute scarcity or non-existence of empirically research on fund accounting and stewardship reporting in government financial reporting in the literature. This in-depth analytical review of consolidated revenue fund and capital development fund provide significant expositions on the true nature and purpose of creation of these two sets of public fund in the general government sector.

This study also provides the national and international accountancy bodies; treasury authorities, researchers and regulators useful information for establishing accounting standards for effective harmonization of public fund accounting in sovereign and sub-national government entities, globally. It will help in mainstreaming of public fund accounting and ensure uniformity in the presentation citizens' common equity fund or capital funds employed in the government entity, result in reduction of illusionary accounting, promote transparency and alignment of the ideals of international public sector accounting standard with best practice in financial reporting in the public sector.

The present study provides proper understanding of 'consolidated fund' in the international and domestic context in literature which has been lacking over time because disclosures relating to changes / movements in public equity fund or net financial position were not given in financial reporting of some sovereigns. The research output and deliverables of this paper may likely influence amendments of some of the legal instruments that empower operation of certain public funds (for instance, in Nigeria), strengthening of the seemingly loop-sidedness and streamlining public fund accounting and presentation in government sector financial reporting. Hopefully, the deliverables of this research would lead increased efficient fund accounting and effective public financial management, good national governance and ultimately leads to accelerated growth and national development in the economy.

The scope of this study is conduct comparative review of public fund accounting practices, especially consolidated fund and capital development fund accounting (where appropriate) in the central treasury of Nigeria, South Africa, Australia, United Kingdom and USA. The comparative review and evaluation of consolidated and capital development fund accounting as major components of public funds balances in the annual financial reports of Nigeria and four other countries spanned a total of 12 consecutive financial years from 2004 to 2015. This involves analytical evaluation of the existence of legislative instrument that authorised establishment and operation of the consolidated revenue fund and capital development fund in each of the sovereign entities using the "observed " / "expected" numerical values of variances in the qualitative attributes. Second, the paper assessed uniformity of sub-fund items in the composition of consolidated fund balances presented in the financial statements of the five evaluated entities based on analysis of differences or variances from observed / "expected' numerical values of qualitative or quantitative attributes of this fund item. Lastly, we measured the differences or variances derived from the "observed / "expected" numerical values of the quantitative financial element of both the consolidated and capital development funds as duly reported in the annual financial statements of the entities.

The rest of the paper is arranged as follows. Section two presents the review of literature. The research design and methodology of research are provided in section three. Analysis of data, results of the research, interpretation and discussion of research results are presented in section four. Summary of findings; conclusions and recommendations are contained in section five.

SECTION 2: LITERATURE REVIEW

2.1 Conceptual Literature

Fund accounting in the context of government entity refers to the arrangement of all the items of government revenues, expenditures, transactions, assets and liabilities as well as budget head items in fund accounting structure. Oshisanmi (1992) defined public fund and fund accounting as 'a separate and accounting entities' in which resources are held, governed by special regulations, segregated from other funds and established for specific purposes on which resources of the funds may be expended. Abdulahi (2009) stated that fund accounting as an accounting system that emphasizes accountability rather than profitability and it is used by non-profit organizations and governments. Public fund accounting has been described by Oshisanmi (1992) as accounting processes adopted in accounting data capture, recording of fiscal accounting transactions and proper presentation of the outstanding balances in quasi-permanent capital fund employed in a government entity. Consolidated revenue fund is a type of government fund account in which all revenues of an entity must be entered before its dispositions. Capital development fund is a special fund to which public capital expenditures is recorded (FGN, Finance (Control and Management) Act, 1958). Consolidated fund and capital development fund respectively exist and maintained in the central treasury of different governmental entities. These two types fund accounts together with other variants of fund accounts constitute core components of citizens (or taxpayers') equity in government-wide accounting (FGN, 1957; Australia, 1900, FMA, 1997).

Public fund or taxpayers' equity fund accounting within the context of international public sector's government-wide accounting, and stewardship (accountability) reporting can be regarded as those public fund accounting head-items to which the capital employed in an entity belong to the citizenry or tax-payers of the sovereign. Consolidated fund or general fund is considered as government fund account to which annual surplus of revenue over aggregate public expenditure is transferred and retained for future uses. It has been empirically observed that the consolidated or general fund (citizens' equity fund) is also an account to which accumulated capital reserves and losses arising from revaluation of government fixed capital assets are charged. It is also the account to which extra-ordinary gains and losses / adjustments that arise in financial activities in the government treasury are retained or written-off. Other fiscal transactions are likely to be charged or treated under the consolidated or general fund; but such treatments depend on the prevailing domestic legislations on public finance and accounting in each jurisdiction. Therefore, it is expected that public fund accounting can differ slightly from one sovereign entity to another.

From the international perspective, operation of consolidated revenue fund and CRF accounting in the UK, USA, Nigeria, South Africa and Australia are guided by the provisions of extant legislations. Thus, consolidated revenue fund is seen as the account to which taxes and other revenues are deposited and from where funds are withdrawn in order to defray the cost of public services. Consolidated Revenue Fund is therefore considered as a term commonly used in many countries to describe the main treasury (cash and bank) account of sovereign government entity or sub-governmental entities to which taxes, general revenues and other public money are first remitted before dispositions. Consolidated fund on the other hand means the appropriation of surplus revenue that has effectively transferred as reserve public fund and the residue of other statutory resources as stipulated in extant laws.

There exists extant public finance legislations that authorised the establishment of consolidated (revenue) fund in the national treasury of the sovereign entities covered in this study. Example, in South Africa and Australia, consolidated fund is treated as public fund, but in the case of USA, it is referred to, as general fund or net position (net-worth). Her Majesty's Treasury of the government of the United Kingdom (Constitution of the Republic of South Africa, Section 1986; Constitution of the Australian Government, (1900); Consolidated Fund Act of 1816 and Government Resources Act (GRA) 2000) Her Majesty Treasury of the Government of United Kingdom; Constitution of the US Federal Government and Treasury and Finance Act, (2005) of the Government). However, we observed that there were no verifiable legal instruments that granted any permission for establishment, operation and rendition of capital development fund balance in the corporate financial reporting for the rest four sovereign entities. As a result, capital development fund / CDF fund balance were conspicuously omitted in the annual financial statements rendered by South Africa, Australia, USA and the United Kingdom respectively. It is further observed that there were special legislations enacted by the US federal and state government that authorized the creation of Railroad fund, Highways Funds and other public infrastructure fund and that these special capital project funds were not mixed-up with the consolidated fund, general fund or capital development fund in the USA's public fund accounting.

Section 81 of the Constitution of the Australian Government (1900) provides a source of legislative authorization to the operation of consolidated fund or contributed equity in Australia. In South Africa for instance, the Constitution of (1996) authorizes the operation of consolidated fund in the national treasury of South Africa. The US Constitution of (1890) provides legislative authorization to the operation of general fund to the federal treasury of the USA's government. In the case of the United Kingdom, the Act of Parliament, 2005; Consolidated Fund Act of 1816 and various annual Consolidated Fund Acts (2004 – 2015) in addition to the initial public finance Act that represented the main sources of legal instrument that empowers Her Majesty Treasury to operate, maintain and render consolidated fund balance in the financial report of the UK's government.

Finance (Control and Management) Act of 1958 and section 85 of the Nigerian Constitution (1999) provide legislative authorization for establishment, operation and maintenance of development fund or capital development fund (CDF) under the Nigerian public fund accounting model. This capital development fund account aspect of government accounting is primarily established for recording capital expenditures of government entity at all times (Nigeria's Finance (Control and Management) Act 1958). The Act provides that development fund account should be maintained in government sector to which all capital expenditures are recorded. The corresponding entries of the capital expenditure originally credited to development fund which ought to be captured in fixed capital asset account or written-off as expense item in the year of acquisition as it was the case in the old cash basis method.

In the contrast, there were no legislative instruments or sources of legal authorization for establishment, operation and rendition of outstanding balances of capital development fund in the central treasury of Australia, South Africa, United Kingdom and USA for the 2004 – 2015 / 2016 financial years. However, it was observed that In the US government, it was observed that series of federal / state capital project funds were enacted, such as Railroad Fund Act; Highway Fund, and other Public Infrastructure Development Fund for public capital spends. These special public capital funds established by laws and maintained in the USA's federal treasury but it appears that these capital project fund were not recorded / reported as capital development fund in the annual financial statements. These public capital fund accounts maintained in the US are treated and accounted for outside the consolidated fund in the sovereign balance sheet. Therefore, the practice of capital development fund is a predominantly Nigerian public fund accounting phenomenon which is largely at variance with the practice in other jurisdictions.

Thus, the study concludes that the practice of public fund accounting, financial reporting architecture and format for presentation might differ from country to country. But its application in some jurisdictions including Nigeria hinges on the provisions of sovereign constitution, public laws guiding government accounting, public finance, auditing and financial reporting and by extension, compliance to the rules of laws. Oshisanmi, 1992 and Anyafor, 1994 explained that public funds accounting within the Nigerian government entities have been established as part of financial control for earmarked resources, and to ensure compliance with extant rules, and administrative requirement~~s~~. Contextually, the practice of capital development fund is a predominantly Nigerian public fund accounting phenomenon which is largely at variance with the practice in other jurisdictions.

2.2 Fund Balances in Government Financial Reporting

Sources of legislative instruments that authorised the establishment of fund accounting head-items has direct and over-riding effect in accounting data capture and presentation in the financial statements and compliance to extant laws guiding public finance, auditing and management of financial resource in an entity. Public fund accounting involve the practice of capturing financial transactions and pertinent accounting adjustment events in consolidated fund of sovereign entity as well as capital development fund (CDF) in those countries that adopted CDF as integral part of its public funds in public sector accounting and financial reporting. Furthermore, accounting for public funds encompasses recording of pertinent accounting entries in the CRF and CDF but extend to representation of the carrying fund balances in a consistent and reliable structural pattern in audited annual financial statements for both internal and external uses.

Similarly, for the comparative analysis and verification of the legitimacy of the consolidated and capital development funds alongside their faithful representation, accounting information utility and reliability of as constituents of core public equity fund in financial position of government entities in the present study necessitate comparison of the "observed" legislative instruments or source of laws that authorised the establishment, operation and rendition of these two fund balances in the annual financial statements To facilitate comparison of the public fund accounting pattern among five nations, Nigeria is considered as the pivot focal entity; the "observed" recorded / reported attribute of consolidated fund and capital development fund in financial reporting of the entities represented dependent variables (X_1, and X_2 "expected" attribute of these two public funds are the control variables ($Y_{1,}$ and Y_2) in our research models. Similarly, to assess and determine the degree of uniformity of the sub-fund items in the composition of consolidated fund balances that were presented in the sovereign financial statements, variance derived from the "observed" (X_1, and X_2 and "expected" ($Y_{1,}$ and Y_2) of the qualitative attributes of consolidated fund is adopted / used. Thirdly, for determination of differences in reported consolidated capital development fund balances in the sovereign balance sheets derived from the "observed" (X_3, and X_5) and "expected" ($Y_{3,}$ and $Y_{5)}$ in numerical values of quantitative attributes of the two funds were adopted.

2.3 Theoretical Frameworks of Public Funds Accounting and Reporting

Theoretical framework that guide accounting for public funds and rendition of fund balances as the core public equity fund, brief theoretical literature and the general principles of the international public sector accounting practices and in corporate financial reporting of sovereign government entities are presented in this sub-section.

2.3.1 Theories of public funds accounting and financial reporting practices

First, the sources of legislative instruments were invoked as veritable reliable reference of the theory and practice of public fund accounting, and from the legal framework perspective of the Nigerian model, section 80 (1) and 83 (1), of the Nigerian 1999 Constitution provide the legal authority on the establishment, operation and rendition of the Consolidated Revenue Fund in the general government sector (FGN, 1999). Finance (Control and Management) Act 2004 also provided for establishment of 'Development Fund'. Finance Act (1958) further specified that government accounts be arranged and operated on fund basis. It is pertinent to state that these Nigerian legislations that authorised the operation of CRF and CDF were originally diffused into the Nigeria's government accounting system by the British colonial government at the commencement of government accounting and financial administration in Nigeria.

Section 162 (1) of Nigeria's 1999 Constitution expressly stipulates that the Federation Account as the account "into which shall be remitted all revenue collections by the Government of the Federation, except proceeds from personal income tax of the personnel of the Armed Forces. Thus, financial and legal implication is that the consolidated revenue fund account constitutes part of the core equity capital fund in the Nigerian model. In this sense, the Nigerian citizens are seen as the real owners of the residue balance in the Federation Account (Fund). For this reason, the federal government owes the electorate a duty to provide full information disclosure on movement / changes the consolidated revenue fund rendered in the public domain.

Viewed from the effect of the force of extant laws, it is apparent that the accounting system and treatment on capital development fund and the rendition of capital development fund accounting in the Nigerian model to be greatly at variance with the practice in the other comparable sovereigns in this study–at least in compliance to her domestic laws. From the conceptual, theoretical and the generally accepted international public sector accounting practice, funds disbursed for acquisition of fixed capital assets (of $5000 and above) as public capital expenditure, should conventionally be credited in the treasury main cash book and its corresponding debt entries entered into the fixed capital asset accounts and rendered as fixed assets in the financial statements. It can be concluded that the treatment of government's capital expenditure as capital development fund as one of the core components of public equity capital fund instead of “as fixed capital assets’ in the Nigerian government’s fund accounting system requires further scrutiny.

With the development, adoption and implementation of the international public sector accounting standards (IPSASs) in the selected sovereign entities and in several others globally; the IPSASs prescribes that surplus annual revenue (otherwise referred as balance from the statement of comprehensive income) should normally be credited / added (subtracted) in the public (taxpayers’) equity fund. It is important to state that four of the evaluated sovereign entities had fully implemented and rendered IPSASs compliant financial statements with the exception of Nigeria. However, it is necessary to state that Nigeria has only partially implemented the IPSAS accounting (modified cash-based accounting systems between 2012 and 2015. This situation can be used in part to explain the non-inclusion of fixed capital assets in its annual financial statements which also represented remarkable disparity in Nigeria’s financial reporting from the rest.

2.3.2 Specific theories of public equity fund accounts / fund accounting

The legalistic-environment model in government sector accounting; the rule-of-law theory as well as the structural vis-à-vis the stewardship theory of accounting. This is also known as legalistic--environmental and compliance model – which emphasises compliance to existing laws of government accounting i.e., rule-of-law theory; transaction and accounting “event” model; the measurement of value model (Porwal, 2007). The value measurement model and accounting information, communication and interpretation models also represent some of the core eclectic theory supporting accounting for consolidated revenue fund (CRF) and capital development fund in government entities where these two fund accounting head items have been properly operated, maintained and reported (Porwal, 2006), Chan, 2012).

The International Public Sector Accounting Standards (IPSAS) model developed by the IFAC, (IFAC (IPSAS), 2004); Nigeria’s generally accepted accounting principles (GAAP) also represent source of standard practice on public fund accounting and financial reporting. Finally, the Federation Account Allocation Committee (FAAC)’s “Financial Reporting Standard” is viewed as Nigeria’s home-groomed government-wide financial reporting standard and the precursor to the international public sector IPSASs accounting standards. Based on the above enumerated hybrid set of rules (laws), models, principles, practice and the Nigerian GAP for public sector; the Nigerian government accounting and reporting system represent rules-plus-principles based. Thus, theory of public fund accounting has been tacitly framed as mixture of compliance to rule-of-law theory and intertwined with principles and rules-based accounting practices.

2.4 Comparison of Public Funds Accounting in the Selected Sovereign Entities

The sources of legislative instruments for authorization of the establishment, operation and management of public funds in public treasury, legitimacy, reasonableness and relevance of public fund accounting head-item (composition) in financial accountability formed the foundation of analysis conducted in this study. These are the guiding principles for stewardship reporting and ascertainment of faithful representativeness of fund balances and usefulness of such fund balance in government-wide financial statements and in measurement of financial position are considered in the empirical reviews reported here as proxy of researched papers.

The reason for reviewing research papers on the topical accounting of the public equity fund / and financial reporting is due to paucity of published works public capital fund accounting. Second, the international public sector accounting and financial reporting standards was implemented within the past one decade and many countries are still grappling with its full implementation; thus, empirical works in this area is scarce. For this reason, practical evidence of the trend pattern of the consolidated revenue fund and the isolated case of capital development accounting in Nigeria were predominately incorporated as proxy for empirically researched papers in this sub-section of this paper. This empirical review approach provided useful information related to discrepancies in public fund accounting, disparity in their legal authorization and also of the reported fund balances in the selected entities

Allan (2005) conceptually reviewed government funds, the unreserved fund balance and reserved fund balance in management of public funds in public treasury in the USA. Allan's paper notes that maintenance of fiscal stability as an important factor in evaluation of financial position, treasury solvency and credit worthiness rating of government entities. The author explained that there is no nationally uniform standard regarding appropriate level of reserved or unreserved fund balance that government entity should maintain, or other financial resources for contingencies with much of it devoted to sustaining budget stabilization fund at central treasury. Allan further explained that fund balance does not necessarily refer to cash/ bank balance or the difference between revenues and expenditures. Rather, fund balance is the cumulative difference of all revenues and expenditures from government generated resources. Fund balance can also be considered as the difference between fund assets and fund liabilities, which has been referred to as fund equity (Allan, 2005). Allan (2005) concludes that the unreserved fund balance ratio is very important because it is often used as a measure of financial health in analysis of sovereign financial reporting – fund balance that equals five percent of budgeted expenditure is deemed prudent (Moody, 1990 cited in Allan 2005).

(2) While expressing audit opinion on Nigeria's 2015 annual financial statements, the Head of Supreme Audit Institution Ajine in FGN (2015) observed that there were remarkable discrepancies existing between the provisions of public finance laws and constitutional authorisation of the establishment, operations and representation of the consolidated revenue fund (CRF) and capital development fund balances in financial reporting. The implication of the of the incumbent Nigerian Auditor-General of the Federation is that the existing fund accounting system and financial statements may not be accurate, fair and true and reliable for decisions.

(3) Comparative review of the contents of annual financial statements of the governments of the UK, USA, South Africa, Nigeria and Australia showed are still maintaining the Consolidated Fund but with different sub-fund items and descriptions. For example, consolidated fund is referred as the "general" in the federal treasury of the US government with the citizens' equity fund called the net position – which has been reportedly reported in negative values. This is a clear indication that the US government has predominantly relied on public debt capital fund in sustaining its federal treasury and this trend is duly replicated in her huge public debt portfolio and deficit budget balances over the years.

(4) Comparative review of the consolidated and capital development fund accounting in the case of Nigeria indicated that the operation and rendition of the consolidated revenue fund account and CRF fund balances were permitted in the Finance (Control and Management) Act, 1958 as amended, However, the components of consolidated revenue fund (as it is regarded in Nigeria) included attributes / sub-CRF fund balances that are inconsistent with items in composition of consolidated fund balances in the other four sovereign entities. This implies (on the surface of it) that the consolidated fund accounting in Nigeria is slightly at variance with the treatment given to the same fund in other countries and it suggests that consolidated revenue fund accounting in Nigeria may be defective.

The annual audit report and statement of compliance issued the Comptroller and Head of National Audit Office in the UK, indicated that consolidated fund account was maintained in HM Treasury and in the financial statements. The items making up consolidated fund reported by H.M Treasury department included surplus revenue, profit and dividend due and payments transmitted by government owned enterprises to the central treasury (HM, UK Treasury, 2008 - 2015). Based on the comparative study on the current reporting of CRF and CDF in financial statements in four countries has proved continued inclusion of capital development fund balance in the Nigeria's FGN annual accounts and retention of CDF as public fund in federal treasury as slightly different from the practice in the other sovereign. This treatment could arise either by error committed in drafting of FGN public finance laws or misinterpretation of the intent of the provision of the extant laws.

In related development, comparative review of the contents of annual financial statements of the governments of the UK, USA, South Africa and Australia showed that none of these four sovereign nation maintained capital development fund but to the contrary, Nigeria recorded fixed capital assets and reported balances of its capital development fund in annual financial statements throughout the 12 financial years covered in this study. It appears that the treatment given to capital development fund and CDF fund balances were in subtle compliance to the rules of law for the country or due to apparent misinterpretation of the source legal instruments over the years.

(5) The review confirmed that South Africa legitimately adopted consolidated fund in its national treasury and representation of consolidated fund balance in annual financial statements (South African Constitution 1996). Unlike in the case of Nigeria, government accounting and financial reporting has grown, modernized and improved remarkably, South Africa is one of the African countries that has already / successfully implemented the IPSASs full accrual accounting and financial reporting system. The components of consolidated revenue fund are very similar and consistent with items in composition of consolidated fund balances in the other four sovereign entities. South Africa does not treat and transfer the aggregate value of its annual public capital expenditures as capital development fund but as fixed capital assets in line with the IPSASs regime.

(6) Review of annual financial statements of the Commonwealth Treasury of the Australian Government, confirmed of consolidated fund accounting was legitimately adopted in the national treasury and represented in the annual financial statements. It also indicate that Australian government was one of the countries that implemented accrual-based government accounting, outcome-based budgeting and public financial management system well ahead of the development, adoption and implementation of the IPSASs full accrual accounting and financial reporting system. The composition of consolidated revenue fund in the Australian corporate report is very similar and consistent with items in composition of consolidated fund balances in the other four sovereign entities. Public capital expenditures is not recorded and reported as capital development fund in the Australia's government financial reporting but as fixed capital assets in line with the IPSASs regime.

2.5 Limitations of the Reviewed Studies and Gaps Identification

The reviewed studies provided sufficient empirical facts (data) and evidence showing defects / disparity in the pattern, nature and context of public or citizens' equity fund being reported in government entities in different sovereigns. Thus, these papers have contributed (their quota) to the development of fund accounting practice in the literature. In essence, the present paper provided pertinent conceptual and practical expositions on public funds (CRF and CDF) accounting in the government sector accounting literature, through comparative review of the nature, structure and relevance of public fund accounting in different countries and through the process identify defects in state fund accounting in some jurisdiction. Therefore it makes significant efforts to reduce the existing information gap and knowledge in this field of public fund accounting and financial reporting.

Section 3: METHODOLOGY

The ex-post 'facto' quantitative analysis based on archival information retrieval approach of the information content of published financial statements using accounting data / financial statements evaluation method with absolute percentage margin of differences as analytical technique in a two-way test of variances in the comparative reviews was employed in the study.

3.2 Sources of Materials used in Model Development and Analysis

The study focused on a comparative review of public fund accounting analysis and evaluation of these fund balances as presented in financial statements of the Federal Government of Nigeria, Republic of South Africa, Commonwealth treasury of the Australia Government, Her Majesty's Treasury of the government of the United Kingdom (UK), the federal Treasury of the Government of USA respectively, for 12 consecutive years. The sovereign treasury of these five selected countries represent the focal institutions in this paper. These sovereign nations were selected as representatives of government entities in this international review and comparison public equity fund or general fund and capital development fund accounting for pertinent reasons given in section 2.2.

Australia is widely recognised as a leading nation in public sector accounting and epitome of best practice in government financial reporting. South Africa on its part is a rapidly development country in Africa with a reasonably improved government sector accounting and vastly improving public financial management systems / financial reporting. Nigeria was chosen due to the observable sub-optimal public fund accounting systems and fund balances being presented in its financial reporting. Furthermore, Nigeria was chosen as a pivot institution because it has consistently operated both consolidated revenue fund and capital development fund from the time of her independence in 1960 up to the cut-off period of this research. It is believed that the pattern of government fund accounting in Nigeria's treasury and their reported balances in the nation's sovereign balance sheet is different (Ani, 2017; Ajine, 2015).from the treatment of similar funds in other sovereign financial reports.

Government of the United Kingdom transmitted to Nigeria the British model of government accounting at the inception of her nationhood. Thus, the public fund accounting in the UK is included as a medium to verify or moderate whether there is uniformity between the UK and Nigeria's public fund accounting model with the rest of other selected entities. Public fund accounting (general fund) since they represented as integral part of net position or net-worth in the case of the USA's government accounting model was included in the analysis owing to the size of negative net position, huge federal public debt, size of general government sector of the USA government; and development fund (for Nigeria) the level of development in the practice of government accounting and corporate financial reporting in both sovereign.

Data sets used in the models and analyses were obtained from secondary sources. These were extracted from the internet published annual financial statements of the central treasury of the respective national governments, and in the case of Nigeria, gazetted Nigeria's (FGN) financial reports. Archival data retrieval system through document study with rating score method was adopted in extraction of raw data sets from annual financial statements of selected entities from the year 2004 to 2015. In isolated cases, additional data / information were sought for and obtained from Nigeria's federal audit department and federal treasury. Similar efforts were made to obtain further clarifications from the USA's government accountability office and the other major accounting / financial reporting agencies consulted (where necessary). The extracted data / information from the sovereigns financial reports were applied in the comparative review and analyses of the nature, structural pattern, legality and relevance of public fund accounting and government financial reporting in Nigeria and other countries (USA, Australia, South Africa and United Kingdom) carried out in this study.

3.3 Model Specification, Construction and Development

Theoretical framework that guided model development and construction in this this research are the eclectic theories of legislatic-environmental model in accounting, theory on rules-of-law, structural model of public fund accounting with stewardship reporting model, the value measurement model and accounting information / communication cum financial reporting model of the public sector. The description / narratives of these theories have been presented in sub-section 2.3 of the preceding section. These model building followed value measurement method for public financial resources or the flow-stock aggregates that comprised revenue and expenditure; assets and liabilities equation functions as adopted in Chan (2012). In this modelling framework, Assets (t+1) minus Liabilities (t+1) = Net Assets (t+1). Similarly, total liabilities fund equation in government entity's balance sheet has been expressed as public core equity fund plus total public debt and deposit fund correspond to total asset; that is, Total PCF + Total Public Debt + Deposit Fund = tl+1 and Total Liabilities Fund = Total Asset (Chan, 1989).

The configuration of the models' variables and specification of equation functions in development of models were arranged sequentially, starting with the first three models related to consolidated fund (CRF) namely; legislative instrument(s) and source of authority of establishment and rendition of the two public funds (CRF and CDF); common fund accounting items in the composition of the CRF and CDF as core public fund balances in financial reporting and identification of convergence (uniform fund accounting) with comparison of actual recorded fund balances in the entities' financial positions. Then, followed with the latter, the models developed for capital development fund; particularly on legislative instrument(s) and source of authority of establishment and rendition of the CDF, and a comparison of actual recorded fund balances in the entities' financial positions.

The core public fund account head-items duly established by public finance laws; operated and recorded or captured as year-end closing fund balances in the financial statements of Nigeria's federal treasury and the other four countries were employed variables in the study. The structural form, description and composition of these government funds are enumerated here. In line with the specified research objectives under introduction in section one, specification of the models of research; dependent variables were the 'observed' or 'actual' reported fund account balance ("O" = X) and the "expected" recorded or reported public fund balance (consolidated revenue fund and or capital development fund" ("E" = Y) as the independent variables.

Thus, qualitative attributes of legislative instruments for the authorization of operation of accounting for consolidated revenue fund (CRF) and capital development fund (CDF) (where applicable) and rendition of year-end reported fund balances in Nigeria and the other four sovereign entities treasury (South Africa, Australia, UK and USA) derived through archival information retrieval method were employed for analysis the study. The observed elements of consolidated (Revenue) fund and CRF balances presented in the financial statement of selected entities is taken as dependent variables and expected elements of the same fund as independent variables in each of the first three models. Nigeria is used pivot focal entity (Nigeria) among all the evaluated sovereigns.

A simplified numerical ranking score system was adopted in allotment of values to the extraction of “observed” and “expected” objects that related to either consolidated (revenue) fund and capital development fund respectively in the content study of the sovereign’ financial statements. For dependent variables (Xs) an “observed” attribute of fund accounting event is given rating score grade 1 (one) for a full and complete capture of data; 0.5 (half) for partial facts / data and zero (0) for non-existence of any “observed” event; likewise, a rating score point of one (1) is accorded to an “expected” attributed of fund accounting attribute based on evidence of sources of information, half or 0.5 for partial representation of facts and zero for non-existence of evidence of source of the “expected” attribute. The raw data derived as the proportion of sum total of dependent variables (X) and independent variables (Y) were used in computation and statistical test of the “absolute percentage margin of variance or differences between and / or against the total value of cohort sovereigns or for each of the six models developed and hypothesis testing.

Hypotheses formulation and Development:

Statistical hypotheses to test variance or differences between “observed and “expected’ attributes these fund accounting under three capsules; legislative instruments which authorised operation of each fund account; sub-fund items in composition of the two public fund and comparison of variations / differences in reported fund balances among the selected entities.

Hypotheses of research for the comparative analysis and evaluation of legislative instruments that authorised consolidated fund and capital development accounting, composition of consolidated and capital development fund as well as faithful representation of outstanding consolidated fund and capital development fund balances in the models were formulated in null form and are stated as:

Hypothesis (1): Ho_1: Domestic legislations that authorise operation of consolidated revenue fund in the treasury of selected sovereign entities were not existent.

Hypothesis (2): Ho_2: There was no uniformity in accounting treatment in consolidated fund accounting and composition of items the reported (CRF) fund balances shown in financial statements in the treasury of the entities.

Hypothesis (3): Ho_2: The quantitative elements (domestic monetary values) of consolidated fund balances shown in financial reporting were not faithful representative the transaction event capture in the entities.

Hypothesis (4): Ho_4: The extant legislations did not authorise operation of capital development fund (CDF) accounting in the treasury of sovereign entities.

Hypothesis 5: Ho_6: The quantitative elements of the carrying capital development fund balances in financial reporting were not faithful representatives of public capital spend of the entities.

Criteria for measurement and testing of hypothesis in the models are as follows:

(1) Ho_1: if value of the “absolute percentage” margin of variation within cohort entities’ “observed”-to-expected” attributes of extant legislative authorisation consolidated revenue fund (CRF) accounting and capital development fund (CDF), composition of items making up CRF and CDF balances and the qualitative objects; is greater than (>) or equal to a minimum of 0.9 on scale of 1 (at 10 percent level of statistical significance); accept Ho and reject Ha. If otherwise, adopt Ha. Then for variance against the group - in the second stage, if ‘absolute percentage margin of error of variance’ < 0.5, accept Ho but if > Ho reject. A similar criterion for hypothesis test applies in all the models developed, except the fifth and analysis of data, and decision rules for the test results.

The models are given as:

(1) Legislative authorization of operation of consolidated funds.

(2) Congruence in composition of consolidated fund balance items

(3) Measure of Variation in values of quantitative attributes of CRF Balances

(4) Legislative authorization for operation of development fund items.

(5) Divergence in quantitative attributes capital development funds

Equation functions for model used for analysis, measures and hypothesis testing of the relevant models as follows:

APMV = $X/Y_{1,\ 2,\ 3,\ \text{and}\ 4}$ = f (“O”/ ‘O’ (‘E’) (1)

and for the fifth and last model

APMV = X/Y_5 (f (“O” / ‘O’ (‘E’) = {(X/Y_5) (– 1)} (2)

The evaluation procedure and analytical techniques approaches adopted include the “Financial Statements Evaluation System, employed as the main tool of analysis. Simple descriptive statistics based on “absolute percentage or margin” of variances difference(s) between ‘observed’ and ‘expected’ accounting events / reported fund balance at 10% level of significance was adopted. The variance of the pivot entity (Nigeria) was measured against variance of the group in model five only. This analytical technique build on the premises that the derived “observed” to expected values of the qualitative and quantitative attributes of extant legislative instruments that grant authority for operation of consolidated and development funds as compliance to rules of law. The use of sub-fund items in composition of consolidated fund and uniformity or convergence in quantitative objects helps in proper comparison of fund accounting systems. Divergence in development fund in the case of Nigeria provides useful framework to faithful representativeness of these two fund balances in sovereign financial position.

SECTION 4: RESULTS OF ANALYSIS AND FINDINGS

Results of analyses and tests of this study, together with the relevant tables of test data and result of analyses are provided in this section. Analytical evaluation of public fund accounting was conducted to confirm their legitimacy, congruence in composition and degree of faithful representativeness of consolidated and capital development fund balances reported in annual financial statements of the evaluated entities. It also measured the degree of uniformity in consolidated fund balances reported by the five entities and divergence between the entities that maintained development fund against the others. The latter test aids the interpretation given to public fund balances (consolidated and capital development funds) as tax payers find in sovereign financial statements as medium of communication accounting values of such liabilities (capital employed).

4.1 Analysis and Test Results

Summary descriptive statistics of numerical data analysis of the consolidated and capital development funds used in computations and derivation of test results in the relevant models of this study are given in Table 1 here**.**

Table 1. Summary Descriptive Statistics of Funds Numerical Analysis of the Five Sovereign Entities (2004 - 2015)

Variables	Observed (X)	Expected (Y)	Ratio 3	Mean Value	Max Value	Variance VAR	0.1 Level of Significance
Model 1.	60	60	1.00	1	1	0	*
Model 2.	54	60	0.9	0.9	1	-0.1	*
Model 3.	54	60	0.9	0.9	1	-0.1	*
Model 4.	12	60	0.2	0.04	1	-0.8	**
Model 5.	6	60	0.1	0.02	0.5	-0.9	**

Notes: Hypothesis test accepted at values equal to and above 10% Significance level and those below the minimum limit is rejected.

SOURCES: FGN (2004 - 2015); Author's Compilation (2017)

4.1.1 Model 1: Legislative authorization of consolidated fund accounting

From Summary of numerical data analysis of qualitative attributes in table 1, total sum of "observed / expected" of the qualitative attributes of extant legislative authorisation the consolidated fund accounting in the sovereign entities is equal to 1 or 100% (60/60).

Test result is 100% and based on test criterion of this model given in section three applies. Ho_1 is 100 > 90% at the 10% level of significance. Therefore, Ho_1 is accepted and Ha_1, rejected.

4.1.2 Model 2: Sub-fund items in composition of consolidated fund balances

Total sum of "observed / expected" of the qualitative attributes of extant legislative authorisation the consolidated fund accounting in the sovereign entities in table 1 gives 0.9 or 90%; (that is 54/60). Thus, model two test yield 90%; and 90% is equivalent to 90% at 10% significance level. Based on prior specified decision rule; Ho_3: 0.9 = 0.9, therefore, Ho_1 is accepted and Ha_1, rejected.

4.1.3 Model 3: Convergence in consolidated fund balance quantitative attributes

Total sum of "observed / expected" of qualitative attributes of the reported consolidated fund accounting in the sovereign entities is equal to 0.9 or 90%; (54/60). Table 4.1.3 in the appendices provide summary of numerical analysis of qualitative attributes of "observed' / "expected" values of convergence in reported consolidated revenue fund (CRF) balances. Test result yield 0.9 or 90%; and 90% is equal to t-tabulated @ 90% at 5% level of significance. Based on the specified decision rule; Ho_3: 0.9 = 0.9, therefore, Ho_1 is accepted and Ha_1, rejected.

4.1.4 Model 4: Legislative authorization of capital development fund accounting

Summary of numerical analysis of qualitative attributes of "observed' / "expected" values of the qualitative attributes of legislative authorization of capital development fund (CDF) accounting items are given in Table 4.1.4 in appendix pages. Total sum of "observed / expected" of the qualitative attributes of extant legislative authorisation of consolidated fund accounting in the entities is 0.1 or 10% (6/60).

Model 'four' result is 10%. "Absolute percentage margin" of variance of the "observed / 'expected" quantitative attribute of legislative authority of CDF is 10% (6/60); and 10% is less than 90% at a target 10% significance level. Based on prior decision rule; Ho_3: 10% < 90% and Ha_4 is accepted and Ho_1, rejected.

4.1.5 Model 5: Divergence in quantitative attributes of development fund

Numerical data analysis of the divergence in qualitative attributes of "observed' / "expected" values of the reported capital development fund (CDF) balances are given in Table 4.1.5 in appendix page. Total sum of the "observed / expected" of CDF in entities is equal to 0.5 / 12 – (100); = −95.5%.

Result of model 5 test is –95.5% and –95.5% > 90%; and 90% at 10% significance level. Thus, Ha_5 is adopted and Ho_5: rejected.

4.3 Interpretation of Results with Synthesis

(1) The results of analyses from model one to three have shown that there is a statistically significant positive relationship in treatment in the nature, pattern, and relevance of consolidated revenue fund or general fund or taxpayers' equity fund (net-worth or net position). They confirmed also that the constituents of consolidated fund were duly reported as representatives' of citizens' equity capital fund in all the five selected sovereign entities. With this research result, this paper has confirmed or attested that consolidated fund was commonly and consistently reported as core constituents of public equity fund in the five selected countries as well as in several entities.

(2) The result of test on legislative instruments on authorisation of the establishment of capital development fund and the legitimacy of sustenance, rendition of development fund account balance as core component of public fund being presented in the Nigerian model has implemented in compliance with the country's public finance law (Finance (Control and Management) Act 1958). But it is uncertain if the right interpretations have been given to the intendment of that piece of legislation in the Nigeria federal treasury. In this sense is more advisable to the relevant authorities in Abuja – Nigeria to revisit and review that legislative instrument.

Nigeria is not just the only sovereign nation that grapples with some degree of capital development and special project funds. The US treasury is also having its fair share of the practical challenges in providing smooth and reliable representation of its capital project and infrastructure investment funds. It is necessary for the public finance authorities in the US federal treasury and the general accountability office to conduct comprehensive review and streamlining of the numerous capital project fund and reflect realistic values of such fund as part of public funds in liability side and fixed capital assets on the other side. This will help the US federal treasury in provide a better picture of its assets, liability and net financial position in future. Meanwhile, Nigeria is the only entity in the cohort that reflected capital development fund in its financial reporting though with some reservations. Further scrutiny on the transaction event entries in Nigeria's development Fund (CDF) accounting and its annual reported carrying balances in the financial statements of the Nigerian federal treasury revealed that a number of extraneous accounting adjustment items were captured under this fund accounting item erroneously created, maintained and without any corresponding fixed capital assets on the asset side, even during the IPSASs adoption transitional period. The inclusion of such sub-CDF fund items appear irrelevant to the public equity capital fund in Nigeria's sovereign financial position.

4.4 Evaluation of Results of Hypotheses tests (To be merged with 5.2-Discussion)

(1) Results of test of hypotheses distilled from the international reviews and comparison of the consolidated (revenue) fund and capital development fund accounting system and corporate financial reporting practices in five developed and developing countries including Nigeria revealed the following outcomes.

Model one result yields a significant positive result. This is a clear indication that the consolidated fund accounts were legally established. Result obtained in model one show that Nigeria and the other sovereign nations have consistently operated, maintained consolidated fund accounting and CRF balances public funds / as part of the citizens equity funds in their sovereign balance sheet in compliance to extant public finance laws of the respective countries and have been sustained and the balances held there-on were fairly faithful representation of the accounting transaction events. This test result is in consonance with the research hypothesis one and the first research objective.

(ii) Result obtained in the second model also shows significant positive result. It signifies that the sub-fund items in the composition of the reported consolidated fund accounts and CRF fund balances recorded and presented by the evaluated sovereign entities common and uniformly presented in their respective sovereign annual financial reporting during the reviewed financial years. The result further confirm that consolidated fund accounting and CRF balances of these entities were legitimately reported as an integral part of public funds in their respective sovereign balance sheet in compliance to extant public finance laws of the respective countries. However, the sub-consolidated fund item in composition of CRF in the case of Nigeria were sub-optimal and require extensive review and amendment in its fund accounting system. On the whole, this result is in agreement with the objective two and formulated research hypothesis.

(iii) Result from model three shows significant positive result. It signifies that the quantitative attributes of the reported consolidated fund balances in their respective sovereign annual financial statements with uniformly applied and incongruence with one another, despite slight variations that were observed in the Nigerian model. The result further confirms that consolidated fund balances of these entities were legitimately reported as an integral part of public funds in their respective sovereign entities. On the whole, this result is in agreement with the objective two and formulated research hypothesis.

(iv) The result in model four shows significant adverse result. Nigeria is the only entity that treated capital budgetary resource allocation / expenditure disbursements as capital development without corresponding accounting entry as fixed assets. This is an indication that the legislative instrument that gave legal force to capital development fund accounting in Nigeria is out-dated, misconstrued or misinterpreted in the course of its implementation. To buttress this fact, none of the other four sovereign national entities; Australia, USA, South Africa and United Kingdom (Nigeria's colonial mentors) operated, maintained and rendered CDF fund and reported carrying balances in the same pattern, configuration and transaction items as it was done in the Nigerian model. Therefore, inclusion of CDF as core public fund accounting system currently operated and maintained and constituting government common taxpayers fund balance does not project a true fair and reliable public equity and net financial position as shown in the balance sheet of Nigeria's federal treasury.

(v) Similar to hypothesis test in model four, the test of the last (fifth) model yield significant negative result. It confirms that Nigeria was the only entity that operated, maintained and reported capital development fund balances with negative values as an integral public equity fund with negative values in its annual financial statements during the reviewed periods. None of the other four countries reported capital development fund in their respective annual balance sheets. The result of finding distilled from hypothesis test and research objective is in conformity with the value measurement model and funds stewardship reporting in government accounting (Chan, 2012). The degree of divergence in legal form of CDF fund accounting and reporting or presentation of CDF fund between Nigeria and other countries very, very wide margin of differences. This presupposes that the CDF accounting in Nigeria is deficient and require immediate amendments.

SECTION 5: SUMMARY, CONCLUSION AND RECOMMENDATIONS

This accounting research study involved archival information retrieval and financial reporting evaluation approach and anchored with ex-post 'factor' content analysis of the published financial statements of the five sovereign entities. The paper undertook a comparative evaluation of the pattern of public fund accounting systems, the sub-fund item composition of consolidated and capital development fund balances of five namely; Nigeria, South Africa, United Kingdom, United States of America and Australia from 2004 – 2015. Nigeria was taken as the pivot focal institution due to peculiarities of the attributes of items that constituted consolidated fund and capital development fund balances and magnitude of divergence from similar public funds in the other sovereigns.

This comparative empirical analysis was to ascertain whether the extant laws of these countries permitted operation of such funds, reasonable level of uniformity in composition of the reported fund balances; and if there are differences in quantitative attributes of public fund balances rendered in the annual financial statements of these entities. This research provides useful insight on the perspectives, problems, practice of public sector accounting and developments in government financial reporting in post-IPSASs implementation years. In the same vein, narrows existing gaps in knowledge and literature as a result of paucity empirical studies on public fund accounting and lack of proper understanding of fund accounts.

5.1 Summary of Result of Finding

Result of model one confirmed existence of legislative authority for establishment of consolidated fund, operation and presentation of consolidated fund balance in the respective sovereign governments. However, remarkable discrepancy exist in composition of consolidated fund balances with substantial negative (debit) balance were reported in the FGN's financial statements from the other sovereigns. Result obtained in second two on a comparison of sub-fund items constituting consolidated fund balances among the five countries was uniform. Quantitative attributes of some of Nigeria's consolidated fund balance items differ slightly from those of other countries, particularly the UK that diffused consolidated fund accounting to the entity. For the measure of the qualitative attributes of the fiscal year-end carrying balances for this same fund accounting, the result of model (3) demonstrated that there was reasonable degree of similarities in consolidated fund balances in the financial reports of all the entities.

The results obtained in the analysis, comparative measurement and tests conducted on capital development fund in the fourth model; show there were no legislative authorization for establishment of capital development fund, hence the result of this test yield significant statistical variance between the "observed" and "expected" attributes of the legitimacy of the operation capital development fund in any sovereign entity. Furthermore, the analysis in this model indicate that Nigeria as the only sovereign government entity that adopted capital development fund balance as core component of public equity fund - in compliance to her own extant domestic public finance laws. In this context, capital development fund accounting is seen as an isolated Nigerian accounting phenomenon and it calls for thorough public finance legislative reviews. Similarly, result of the comparison of sub-fund items in the composition of the capital development fund balances produced a statistically significant adverse variance between the "observed" and "expected" attributes of the composition of capital development fund balance. This is an exclusive attributes of some of Nigeria's public fund accounting and demonstrated high degree of divergence from the rest of the pack with symptoms of defects. Finally, the result of measure of qualitative attributes of the fiscal year-end CDF carrying balances in the model (6) demonstrated that there was reasonable degree of disparity between CDF fund balances in Nigeria's financial reporting model from the others.

5.2 Discussion of Research Deliverables and Results

(1) Although operation of consolidated fund and representation of consolidated fund balances as core components of public equity capital fund in annual financial statements of Nigeria's federal treasury were legislatively authorised in this study, verified and attested here; some discrepancies were identified in certain sub-fund items. For example, some items of unbalanced fund transfers, and unverified static fund account items, net cash flows from public debt instruments (treasury bills / bonds issues and redemptions) were recorded into these two public fund accounts and formed part of the reported fund position over time. It imperative to note that full IPSASs accounting model were not followed in Nigeria's fund accounting and financial reporting in the 12 reviewed years. This trend is partly responsible for the divergence in Nigeria fund account with the rest entities and demonstrates that proper public fund is deep rooted in Nigeria's sovereign financial reporting system.

Based on these test results the reported outstanding consolidated and capital development fund balances in the financial reports do not reflect accurately faithful representation of Nigeria's public equity capital funds. The treatments given in consolidated in some financial years were inconsistent with the fundamental principles and practice of consolidated fund accounting in other sovereigns within in terms of the composition of CRF items and in the context of compliance to the rules-of-law. Furthermore, the items that constitute consolidated fund in the HM Treasury of the British government are restricted to: (i) amount issued from the consolidated revenue fund for supply but un-spent at year end; (ii) extra revenue receipts received; (iii) extra revenue income due but not duly received; (iv) capital reserves and gains arising revaluation / disposal of public fixed capital assets and (v) other amounts due to be paid to the CRF of the UK.

On the contrary, the items captured / incorporated as sub-items in Nigeria consolidated fund included net cash-flows from treasury bills / bonds issue and redemption, other debt related instruments, write-off adjustment of unverifiable items, etcetera. This implies that some items in Nigeria's CRF accounting system were incorrectly captured, or extraneous adjustment vouchers entered to and or inaccurately included in the consolidated fund balances. Thirdly, it was on Nigeria that operated, maintained and reported Capital Development Fund balances with negative values in its annual financial statements during the reviewed periods. Based on these enumerated factors consolidated fund balances in Nigeria were found to be significant different from and other four sovereign entities investigated. The treatment of CRF balances in the annual financial reports in Nigeria's treasury is adjudged sub-optimal, therefore, it requires urgent transformation for proper fund accounting as representative of the core public equity fund in Nigeria's sovereign balance sheet. It is interesting to note that the British government diffused consolidated fund accounting system to Nigeria at the formation.

(2) The result obtained in model two confirmed that consolidated fund accounting in Her Majesty treasury of the government of the United Kingdom consistently followed extant legislative instruments, amendments thereon and the enacted annual Acts of parliament guiding operation of the consolidated fund and rendition of CRF fund balances as core components of public equity capital fund in the annual financial statements (2004 – 2015) was confirmed. Sub-consolidated fund items making-up CRF balances shown in the financial reports of the UK's

government treasury include revenue surplus or surplus from comprehensive statement of income (SCOPE), amounts issued from the CRF for supply but not spent by year-end and returned to the treasury (unspent fund); Consolidated fund's extra receipts received and receivables including amount due and to be paid to CRF; capital revaluation reserves arising from asset revaluations *(HM Treasury's Corporate Report, 2004 – 2005; p.50 – 55).* Based on these considerations, the consolidated fund accounting system and fund balances as reflected in the financial statements of HM treasury were in compliance with extant laws that authorised it and consistently with the principles and practice of the consolidated fund reported balances with three other countries but at variance with that of Nigeria. Capital development fund was not mentioned in public finance and accounting legislations of the UK government; thus, capital development fund did not form part of the core public equity fund in the H M treasury's financial statements. In this sense, consolidated fund accounting in the UK is considered appropriate.

(3) Consolidated fund accounting in the South African national treasury of consistently followed extant legislative instruments, amendments thereon and the enacted annual Acts of parliament guiding operation of the consolidated fund and rendition of CRF fund balances as core components of public equity capital fund in the annual financial statements (2004 – 2015) was confirmed. Accordingly, South Africa's pattern of consolidated fund accounting is considered reasonable and appropriate in this study. In related development, capital development fund was not found in public finance and accounting legislations for South Africa. Thus, capital development fund does not form a part of the core public equity fund in the national treasury's financial statements.

(4) The pattern of consolidated fund accounting in the federal treasury of the US government was consistent extant legislative instruments, amendments thereon and the enacted annual Acts of parliament guiding operation of the consolidated fund and rendition of CRF fund balances as core components of public equity capital fund in the annual financial statements (2004 – 2015) was confirmed. However, the paper noted that similar problems and challenges in public fund accounting practices in the Nigerian federal treasury, net position in the annual financial reporting (between 2004 -2015 / 2015) / financial position of the US government's federal treasury is blurred because the aggregate capital development funds and debt stock held by the US federal treasury were not shown on the surface of the US government's financial reports. This makes it seemingly difficult for even the financially trained persons / external user-groups to decipher the financial statements for informed decisions. For instance the US federal treasury recorded almost US$10 trillion negative net position or net worth which from the scheme of things, is the reflection or a representation of the US government's massive public debts which appeared not fully represented in the annual financial reports but this presented in an easy-to-understandable form. Then, the array of public capital investment project funds appear not duly reported as public equity fund in the liability side and fund assets of the US sovereign balance sheets as it were. These are seeming significant public accounting issues currently prevailing in the US federal treasury that deserve immediate rectification.

Based on these considerations, the consolidated fund accounting system and fund balances as reflected in the financial statements in the financial reporting of the federal treasury of the US government, a realistic picture of either the consolidated fund or public equity fund or citizens equity fund vis-à-vis the true net-worth or net financial position of the federal treasury of the US government appear not provided in the consolidated financial statements alongside even in the accompanying notes. Based on these empirical observations, the study concludes that there are significant discrepancies in the government financial reporting in several financial years covered in this paper. For instance, the aggregate value of the USA's public debt was not clearly shown in the balance sheet when the size of US sovereign debt is readily known to the international capital market(s) quantum of most years – and the Federal legislature sometime threatens to decline approval of budget deficit approval requests. Thus, public fund accounting system of the US government share some similarities with Nigeria and slightly at variance with what is obtainable in South Africa, the United Kingdom and Australia.

(5) Consolidated fund accounting in the commonwealth treasury of the Australian government consistently followed extant legislative instruments, amendments thereon and the enacted annual Acts of parliament guiding operation of the consolidated fund and rendition of CRF fund balances as core components of public equity capital fund in the annual financial statements (2004 – 2015) was confirmed. The paper noted that capital development fund was not maintained in the Australian government accounting therefore CDF fund balances did not feature in its financial reporting during the reviewed periods; rather it recorded and reported fixed capital assets (net of depreciation) in the annual accounts. Consolidated fund accounting system and fund balances of the Australian government has been maintained in compliance to the extant public accounts and finance laws of the nation. Thus, the pattern of consolidated fund accounting is considered reasonable and appropriate in this study.

This research discovery in public fund accounting practice in Nigeria further reinforces the need for urgent reviewing, strengthening and up-grading within the first three IPSASs prior years accounting adjustment periods of implementation period.

5.3 Conclusions and Implication on Developments in Accounting Practice

The establishment of capital development fund (CDF) in Nigeria was in compliance of the country's legislations (FGN, Finance Act of 1958)); but it is the only sovereign that incorporated the CDF as an integral part of its public fund accounts during the reviewed periods. However, there no such legislation that authorised such funds accounting in the rest sovereigns either by convention or force of laws except in Nigeria. It may likely occur due to misinterpretations of the intendment of the extant laws contained in the country's constitution / public finance (Control and Management) Act, that prescribe the operation of capital development fund and reporting the same in the annual accounts. This seemingly defect in public fund accounting in Nigeria deserve urgent review and rectification by the Federal Government of Nigeria on one side. Furthermore, the authors observe that the public debt portfolios of the US government were not reflected in the annual financial statements for the years under review. We also was also noticed that series of public capital project fund were established, operated and reported as separate fund accounting unit entities but we did not identify where these capital project funds (Railroad fund, Highway Fund etcetera) were amalgamated and reported as either consolidated equity or statutory capital reserve fund in the US financial statements.

The observed discrepancies in the US public fund accounting are likely to impact negatively on the net position or net worth in its financial statements. The most significant conclusion and milestone of the research deliverables is that the International financial institutions (the World Bank and IMF), the International Federation of Accountants (IFAC) and the national accountancy bodies (globally) are challenged to the need to conduct further assessment of the legal instruments that authorized public fund , fund accounting and develop uniform accounting standard for the consolidated fund and indeed the public equity fund / capital employed to be adopted in the presentation of government financial statements. The introduction, adoption and implementation of international standard on accounting and financial reporting for public funds will contribute in reduction of illusionary accounting and improvement public financial governance.

5.4 Recommendations

(1) Federal Government of Nigeria is advised to review and amend the necessary public finance and accounting legislations that have authorised the establishment, operations and presentation of capital development fund, proper accounting and the rendition of outstanding fund balances in the Nigeria's financial reporting Government's fund accounting system and fund management should be urgently reviewed, and amended.

(2) The US government may wish to restructure and streamline the financial reporting architecture of government financial reporting to incorporate its huge public debt profile and bring it in harmony with both the consolidated fund including the statutorily established public capital investment trust funds (Railroad fund, Highways fund) net position or net worth which from the scheme of things, is the reflection or a representation of the US government's massive public debts which appeared not fully represented in the annual financial reports. Then, the array of public capital investment project funds appear not duly reported as public equity fund in the liability side and fund assets of the US sovereign balance sheets as it were. These are seeming significant public accounting issues currently prevailing in the US federal treasury that deserve immediate rectification.

(3) The paper also recommend that the International financial institutions such as the World Bank and IMF, the International Federation of Accountants (IFAC) and the national accountancy bodies (globally) are challenged to the need to conduct further assessment of the legal instruments that authorized public fund , fund accounting and develop uniform accounting standard for the consolidated fund and indeed the public equity fund / capital employed to be adopted in the presentation of government financial statements. The introduction, adoption and implementation of international standard on accounting and financial reporting for public funds will contribute in reduction of illusionary accounting and improvement public financial governance.

5.5 Contribution of this Research to Knowledge and the Limitations

The deliverables of this empirical study will contribute immensely to harmonization and standardization of citizens' equity fund accounting as part of core government fund globally.

5.6 Suggestions for Future Research on Public Capital Equity Fund

Intensive and extensive studies should be conducted by other researchers in the future, in order to streamline, standardize and harmonize stewardship accounting and rendition of consolidated fund, other government statutory funds and by extension, ascertainment of reliable net financial position of government entities. The suggested research studies will go a long way in eliminating un-sound fund management practices and poor financial governance in different sovereign jurisdictions.

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Table 2. CRF FUND ACCOUNTING BALANCES

5 COUNTRIES' FINANCIAL REPORTS

(2004 - 2015 / 2016)

Year	Country:	Nigeria	(UK)Britain	U S A	Australia	S-Africa
	Period	Jan –Dec	Apr – Mar	Oct-Sept		
	Numaire	Naira (B)	P Stlg 000	US $ (B)	Aus Dola	SA - Rand
2004	1	101,604.83	81,408	7,709.8	39,564	563,441
2005	2	352,174.30	1,248,340	8,458.7	62,468	121,491
2006	3	735,301.15	1,245,634	8,916.4	44,042	569,099
2007	4	516,790.11	1,244,340	9,205.8	33,906	926,787
2008	5	-20,221.06	1,254,044	10,203.5	53,006	1,190,359
2009	6	-370,067.75	42,733,025	11,455.9	70,411	180,826
2010	7	-1,432,097.60	120,850,186	13,472.8	80,384	486,267
2011	8	-3,255,574.52	123,918,186	14,785.4	78,662	391,537
2012	9	-6,773,659.31	136,349,249	16,101.0	54,952	450,103
2013	10	-11,643,722.69	141,330,202	16,909.3	37,564	1,029,249
2014	11	-11,527,509.52	96,734,155	17,700.7	33,425	709,907
2015	12	-12,583,737.78	129,895,325	18,221.9	34,737	284,254
Total		**-45,900,719.84**	**796,884,276**	**151,141.2**	**623,119**	**6,903,320**
Mean		**-3,525,059.99**	**66,407,023**	**12,761.77**	**51,927**	**575,277**

Sources: FGN / OAGF ; HM Treasury -UK; USA gov. Treasury; Commonwealth Treasury of Australia; Republic of South Africa's Treasury (various years).

Table 3. CDF FUND ACCOUNTING BALANCES
ANNUAL FINANCIAL REPORTS OF 5 COUNTRIES

(2004 - 2015 / 2016)

Year	Country:	Nigeria	(UK)Britain	U S A	Australia	S-Africa
	Period	**Jan –Dec**	**Apr – Mar**	**Oct-Sept**		
	Numaire	**Naira (Billion)**	**P Sterling**	**US Dollar**	**Aus Dola**	**SA -Rand**
2004	1	65,141.07	0	0	0	0
2005	2	171,449.49	0	0	0	0
2006	3	44,759	0	0	0	0
2007	4	36,997.86	0	0	0	0
2008	5	-2,822,225.43	0	0	0	0
2009	6	-2,774,640.04	0	0	0	0
2010	7	-3,140,451.12	0	0	0	0
2011	8	-2,706,870.81	0	0	0	0
2012	9	70,392.78	0	0	0	0
2013	10	5,028,750.59	0	0	0	0
2014	11	2,717,327.78	0	0	0	0
2015	12	1,910,544.35				
Total		**-1,398,424.31**	0	0	0	0
Mean		**-116,568.69**	0	0	0	0

Sources: FGN / OAGF ; HM Treasury -UK; USA gov. Treasury; Commonwealth Treasury of Australia; Republic of South Africa's Treasury (various years).

Notes: Capital Development Fund accounting and carrying balances were only captured and reported in the annual financial statements of Nigeria's National treasury in the reviewed financial years. Nigeria was the only sovereign entity that did not report fixed capital assets and did not

Adopting MTEF through Fiscal Rules: Experiences of Multi-year Budget Planning in India

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Abstract

The medium term expenditure framework (MTEF) has been getting renewed attention, given the preoccupation of countries to achieve fiscal consolidation and expenditure prioritization after the global fiscal crisis. With the formal adoption of MTEF in 2012 under the provisions of the fiscal rules, India had already joined a growing number of countries adopting this innovation expecting improvement in fiscal discipline, and allocative and technical efficiency in budgeting. The structure of MTEF in India suggests that it could be supportive to the fiscal rules, but its impact on medium term budget planning is uncertain. The paper makes a case for taking forward this institutional innovation forward to develop a structured medium-term framework to link policy, planning, and budgeting beyond a short horizon of annual budget.

Key words: Budgeting System, Multi-year Expenditure Framework, Fiscal Rules, Performance Budgeting, Strategic Planning

Introduction

Medium term expenditure frameworks (MTEFs) have been implemented in many countries over the last two decades, both in developed and developing world. This is considered as one of the most popular budget innovation in recent times. The need for a medium term perspective as compared to a short horizon of an annual budget was the compelling reason behind the rapid expansion of this instrument. The features of MTEF that helps in establishing fiscal discipline and providing scope for better prioritization in resource allocation increased its appeal. Initially championed by the World Bank, the MTEF became the focus of donor countries and multilateral agencies at Central and sector levels. The long-standing credibility of Australia's 'forward estimates' (David Crobett, 1998) in controlling expenditure is cited as an established process of medium term expenditure planning.

The MTEF reflects two major preoccupations of post-fiscal crisis budget reforms – fiscal consolidations and expenditure prioritization. It is a relevant budgetary institution to facilitate adherence to the fiscal rule targets as it provides a framework to take budgetary decisions over 3 to 5 years period. As the budgeting system complies with the pre-determined fiscal targets and consequent expenditure constraints under the fiscal rules, a medium term expenditure perspective of the policy decision taken in the budget becomes helpful. The MTEF, along with the annual budget contains forecasts on economic growth and revenues, targets for aggregate spending, and possibly limits for the spending departments helping them to prioritize better.

India introduced medium term expenditure framework (MTEF) in 2012 under the provisions of the fiscal rules, the fiscal responsibility and budget management act (FRBM Act). Although this is a formal adoption of the framework, the Act since its adoption in 2003 always had some medium term projections of fiscal variables, which are targeted. These are presented in a document called medium-term fiscal policy (MTFP). Two other Statements, fiscal policy strategy and macro-economic statement accompanied the MTFP. While there have been several intermittent attempts to bring in innovations in the public financial management (PFM) system, the introduction of MTEF is a significant development. The changing fiscal architecture in the country after the abolition of the five-year development planning process enhanced its appeal.

The paper, after discussing the conceptual issues in MTEF and the experience of its progress, elaborates on the emergence of a medium term framework under the fiscal rules in India. It proceeds to examine the contours of MTEF as to whether it is an adequate instrument to improve allocative and technical efficiency in addition to fiscal discipline. The paper then looks at the need for a sound medium term framework post Planning Commission fiscal scenario in India. The paper examines the opportunities to move ahead with medium term budgetary framework, the need of an effective MTEF at the sub-national level and scope for institutional support in the existing system and gives concluding remarks at the end.

MTEF: Linking Policy, Planning and Budgeting

The World Bank, in its widely referred 'Public Expenditure Management Handbook', held the implementation of MTEF as a central element of PEM reform to counter disconnect between policy making, planning and budget implementation, which is considered to yield poor budgeting outcome (World Bank 1998). The countries implementing MTEF expect improvement in public financial management outcomes beyond the annual budget by establishing aggregate fiscal discipline, promoting efficiency in resource allocation, and improving operational efficiency of spending agencies. With large number of countries opting for it, the MTEF emerged as an integral part of PEM solution to address broader performance problems of the governments.

The expectation of fiscal performance from the implementation of MTEF is due to its impact on budget quality and budget credibility (World Bank, 2013). The MTEF tends to reduce the tendency of ambitious annual spending plans based on blown up revenue projections to improve budget realism. The emphasis on sector priorities, based on Government objectives and policies rather than on annual increments, helps the resource allocation decisions and reduces the fiscal strain coming from politically induced resource tradeoff. The MTEF helps the spending departments to become proactive while designing and costing their programs due to increase in predictability of flow of resource in a multi-year mode. This enables them to participate in the budgeting process more meaningfully (PEFA, 2011). The focus shifts from controlling the expenditure to pragmatic spending plans and achievements of results commensurate with the objectives.

Linking policy, planning, and budgeting under MTEF is conceptualized by determining the available resource envelope to the government and allocating these resources in line with government priorities in a multi-year budgeting framework. To complement top-down resource envelope, bottom-up estimate of the current and medium term costs of the policy initiatives are estimated by developing spending plans for the sectors. Sector studies consist of strategies for the sectors and the estimated costs of running and new programs. The expenditure implications of the sector policies are estimated by using costing techniques. The MTEF can be used to highlight the opportunity costs of various policies and programmes that need to be foregone if additional resources are allocated to a particular programme.

The MTEF is often considered as an umbrella framework with interconnected frameworks or sequence of stages (Castro and Dorotinsky, 2008, OPM Review, 2000, and World Bank, 2013). A medium term fiscal framework (MTFF) constitutes specifying a top-down aggregate resource envelope and allocation to major category of expenditure items. It shows the fiscal stance of the Government through a set of integrated medium-term macroeconomic and fiscal targets and projections. The medium term budgeting framework (MTBF), more popular variant of the medium term frameworks, develops further by including bottom-up resource requirements prepared by the spending departments and reconciling with the resource envelope available to the Government. In this framework, budget estimates for individual spending departments indicated in a medium term and resource allocation follows the strategic priorities. The medium term performance framework (MTPF) takes this process further by shifting the focus from inputs to outputs. This is basically output-outcome type budget in which performance indicators can be worked out for each sector programmes and through them sector outputs are defined.

The early experience from the implementation of MTEFs in developing countries, particularly from African region, showed several weaknesses (Le Houerou and Taliercio 2002, Homes and Evans 2003). The MTEF was found to be ineffective in influencing environment of the annual budget due to lack of political ownership and often resulted in unrealistic projections (Jim Brumby 2008). Discouraging experience from the implementation of MTEF, however, did not repudiate the idea of formulating a medium term perspective for the annual budget. The consistent use of MTEF in Australia to plan and finance spending initiatives and positive experiences from other industrial countries sent out positive signals (Brumby and Hemming, 2013). The efforts to strengthen public financial management systems both in developed and emerging markets to successfully address the fiscal policy challenges in a more integrated world economy included MTEF as one of the important instruments to modernize budget planning process.

A recent study by the World Bank (World Bank 2013) over a period 1990-2008, shows there has been widespread adoption of MTEF and shifting from basic MTFF to MTBF and MTPF among the advanced countries. The study steering though cross-country data found strong evidence that the variants of MTEF promote fiscal discipline. While the impact of efficiency gains in allocation of resources and operations are not conclusive, there are instances of improvement.

The budgeting System and Policy Making in India

While the overarching five-year development planning system influenced the economic decisions in the country, the budgetary system remained the most visible face of the policymaking. The budget continues to be financial instrument showing annual revenue and spending plans and a place of assessment of Government's policies. The annual budget presented in the Parliament is conventional input based. However, it is consistent with accounting, audit, and legislative control systems (Swarup, 1990). Some of the government initiatives to improve the budgeting systems and processes over the years yielded many enduring changes[1]. However, bringing in efficiency and effectiveness to the decision making and implementing the policies remains concerns, more so when the Government has been expanding the key central programs in the area of building rural infrastructure, eradication of poverty and creation of employment, and social sector spending. Taking a medium terms perspective of policies while building the programs and determining cost is one such crucial change on the way of budgetary transformation.

The budgeting system in India is similar in form at both union and State levels. The functional responsibilities and financial powers of the Union and states and the relationship between them following the Constitutional provisions (Seventh Schedule, Article 246) define their contents. The States' tax powers are inadequate to meet their expenditure needs and therefore, the Constitution provides for the sharing of revenues from central taxes and provision of grants by the Union Government. The budget outcomes of the States many a times become affected by the

[1] Outcome budget is one such innovation.

uncertainties and discretions in the fund-flow from the Central Government. A longer-term perspective in building programs for service delivery at State level would depend upon the effectiveness of a medium-term approach at the Union level.

The development planning process in India was stated to have provided a multi-year perspective to the planning and budgeting systems. The five-year plan was close to the concept behind the MTEF as the plan (investment) and non-plan (spending on existing programs and recurrent expenditure) expenditure is planned based on projected resources. The integration of annual plans to the budget was considered as an innovation (Thimmaiah 1984).

The divergences between plan and budget were evident in the resource mobilization, allocation, and organizational structures (Premchand 1983). The practice of making distinction between plan and non-plan expenditures, an accounting development to keep a tab on plan investment, led to expanding the plans beyond the resource limits and resulted in neglect of existing assets both at Central and sub-national levels (Ministry of Finance 2008). The economy and sector wide plan consisting of both private and public sectors was not adequately linked to the annual budget. Planned goals, objectives, outputs, and resources allocated to achieve them were not adequately integrated into the annual budgets (Planning Commission, Expert Committee on Expenditure Management 2011). The plan budget linkage was not smooth and there were several disconnects in practice (Jena 2016).

The abolition of the Planning Commission in 2014 formally put to rest any misgivings regarding scope for a perceived multi-year budget planning within the five-year development planning process. The Planning Commission was considered to be not suitable to India’s economic aspirations in a more globally integrated environment with higher participation of private sector. The capacity of the Commission to make an economy wide investment plan involving the Centre, States and the private sector was believed to be limited. The NITI Aayog, constituted as successor to the Commission in 2015, was given the responsibility of long term strategic planning and to provide technical support to the Central and State Government in different areas[2].

Fiscal rules adopted in the form of Fiscal Responsibility and Budget Management Act (FRBM Act) in 2003 proved to be a strong anchor for budget making and public policy. The objective of achieving fiscal targets over a period required projecting macro variables under a framework, called medium term fiscal policy (MTFP). The MTFP contained projection of the fiscal variables like revenue deficit[3], fiscal deficit[4], tax revenue, and outstanding liabilities relative to GDP as targets for three years in a rolling manner. The MTFP also contained a macro-framework and fiscal stance of the Government aligned with the budget[5]. Over the years, the

[2] The National Institution for Transforming India, NITI Aayog, was established in 2015. NITI Aayog, considered as premier policy ‘Think Tank’ of the Government of India, will design strategic and long term policies and programs and provide both directional and policy inputs.. NITI Aayog is not meant to engage in approving or funding the plans prepared by the sub-national governments like the Planning Commission.

[3] Revenue deficit in the Indian budget classification refers to recurrent deficit. It is the difference between revenue receipts and revenue expenditure, which increases the liabilities without corresponding increase in assets.

[4] Fiscal deficit is the excess of total disbursements (excluding debt repayments) over the total receipts (excluding debt receipts) during a fiscal eyar.

[5] The MTFP sets forth a three-year rolling target for prescribed fiscal indicators like deficits and debt. As these are fiscal outcomes projected for a medium-term, the fiscal strategy of the Government to achieve them is elaborated in another statement called ‘Fiscal Policy Strategy Statement’. It is supposed to give strategic priorities for the ensuing budget year. To provide a macro-economic background to the fiscal stance, the fiscal rule also stipulated to present a ‘Macro-economic Framework Statement’ containing assessment of the growth prospects.

projection of the target fiscal variables became the core activity of the MTFP facilitating tracking of macro numbers and did not develop into any kind of any expenditure planning. The preparation of MTFP and progress towards achieving the fiscal targets are all monitored by the Ministry of Finance.

The MTFP, however, remained as a supporting document describing the fiscal stance of the Government. It did not develop into a system to prepare top-down resource envelope through an unbiased projection process and to allocate resources to major spending categories. Although, the MTFP elaborates on macroeconomic challenges and prospects, it lacks a medium-term macro-fiscal framework for improving efficiency of the budgeting system. It was not upgraded to contain the assessment of future year fiscal impact of the Government policies. The State Governments in India, depending heavily on Centre for funds, have to deal with the unpredictability of fund-flows while formulating their MTFPs[6].

It was contended that the effectiveness of the fiscal rules could be enhanced by stretching the annual budget from one year to three years with an effective MTEF or its variant MTBF (Holger van Eden et al, 2013). The usefulness of the MTEF will depend upon its capacity to establish a hard constraint on future expenditures (Allen Schick, 2013). A well-formulated medium term strategy in budgeting depicting budget impact of policy changes considered as a key element in this regard.

The Indian Variant of MTEF

The country adopted a formal MTEF in 2012, which was anchored in the fiscal rules with the rationale that it would support achieving the desired fiscal targets set under the FRBM Act. This reflects the growing focus on fiscal discipline in the budget reforms across the countries after the global fiscal crisis. The recommendations of the Thirteenth Finance Commission (TFC) to provide a detailed framework containing three-year forward estimates of revenues and expenditures formed the background for this decision (Govt. of India 2009, Report of the TFC, pg. 132). The objective was to provide a fiscal roadmap for three years into future and use it as an operational policy document. However, there was not much elaboration on how the MTEF would strengthen prioritization in resource allocation when the MTEF was adopted in India

This version of MTEF contains forward estimate of expenditure commitments in various Sectors viz. Education, Health, Rural Development, Energy, Subsidies, and Pension etc. (Tables 1 and 2). Expenditure commitments are shown separately for Revenue and Capital expenditure. The MTEF is designed based on broad functional categories of expenditure and does not contain the schemes and programs run by the departments[7]. It shows the expenditure indicators projected for three years in a rolling manner, which includes the budget year and two outward years. The MTEF consists of descriptions relating to the assumptions while making the projections.

The assumptions relating to projections do not give a clear insight to the derivation of the numbers and their utility. It was prescribed that the projections should be made taking into

[6] The State Governments receive share in Central taxes, grants from the Centre, and funds for several centrally sponsored schemes. The tax devolution is s predictable source of revenue as the share of the States are determined by the Central Finance Commission. The discretionary elements are high in other sources of funds and many a times depends on the fiscal health of the Central Government. The fund flows for several Central schemes implemented at State level also does not follow a predictable pattern affecting the ability of the States to implement them in time.

[7] The system of Government accounts in India contains elaborate details of the financial transactions, which sometimes considered as excessive.

account the expenditure commitments of policy changes, contingent liabilities, and grants given for capital assets. Leaving aside the committed expenditures like salary, pension, and interest payments, where guidance has been given for their estimation and projection, there is hardly any clarity on the assumptions behind the projections of other spending items. The assumptions regarding these spending innocuously indicate that the projections have been carried out 'keeping in view the availability of resources and financing requirement for various programs of Government in line with various decisions and commitments' (Medium-term Expenditure Framework Statement, 2015, pg. 6). The document does not elaborate on the linkages between the spending commitments and the policy decisions.

Table 1 Revenue Expenditure (Recurrent) Part of the MTEF

Rs.Billion

Heads	**BE**	**Projections**		**BE**	**Projections**		**BE**	**Projections**	
	2013-14	**2014-15**	**2015-16**	**2014-15**	**2015-16**	**2016-17**	**2015-16**	**2016-17**	**2017-18**
Revenue Expenditure									
1. Salary	789	866	951	906	996	1196	1006	1165	1282
2. Interest	3707	4144	4576	4270	4684	5153	4561	4960	5390
3. Pension	707	778	856	820	902	1082	885	1026	1129
4. Subsidy	2210	2173	2186	2514	2460	2550	2274	2390	2550
a. Fertiliser	660	623	636	730	760	850	730	750	800
b. Food	900	1200	1350	1150	1200	1300	1244	1320	1410
c. Petroleum	650	350	200	634	500	400	300	320	340
5. Grants to States	1544	1687	1878	1253	1279	1295	1127	1066	1061
6. Defence	1169	1251	1339	1344	1479	1774	1551	1799	1979
7. Postal Deficit	67	62	58	69	69	69	67	67	67
8. External Affairs	88	95	101	100	100	101	96	108	119
9. Home Affairs	157	168	178	165	168	170	158	170	184
10. Tax Administration	120	129	137	30	130	130	186	145	43
11. Finance	152	164	174	223	225	227	309	331	355
12. Education	697	814	902	720	768	800	559	604	646
13. Health	295	336	394	316	343	355	261	290	309
14. Social Welfare	343	376	421	353	387	401	251	270	289
15. Agriculture and Allied	276	301	336	288	304	313	222	240	263
16. Commerce and Industry	140	157	173	164	162	165	140	151	165
17. Urban Development	28	30	33	152	156	159	133	147	162
18. Rural Development	1024	1120	1245	1060	1153	1196	796	844	898
19. Dev. of North East	18	20	21	21	23	26	22	24	26
20. Planning and Statistics	117	74	80	62	64	66	61	65	70
21. Scientific Departments	97	104	112	101	104	106	108	114	123
22. Energy	124	123	145	112	120	124	93	100	114
23. Transport	153	163	175	178	181	184	143	151	163
24. IT and Telecom	61	64	67	72	81	85	56	61	72
25. UT	64	68	73	62	63	64	63	69	76
26. Others	215	229	246	325	342	350	231	245	261
Total-Revenue Expenditure	14362	15496	16860	15681	16744	18139	15360	16605	17796
of which,	0	0	0	0	0	0	0	0	0
Grants for Capital Assets	1747	2333	3042	1681	3016	2535	1106	1496	3168

Source: MTEF Statements, Relevant Years, Government of India
Note: BE is budget Estimates

Table 2 Capital Expenditure Part of the MTEF

Rs.Billion

Heads	BE	Projections		BE	Projections		BE	Projections	
	2013-14	2014-15	2015-16	2014-15	2015-16	2016-17	2015-16	2016-17	2017-18
Capital Expenditure									
1. Defence	867	945	1031	946	1088	1164	982	1070	1177
2. Home Affairs	93	99	109	102	143	156	93	98	103
3. Finance	380	236	261	161	219	228	111	127	148
4. Education	0	0	0	0	0	0	0	0	0
5. Health	29	33	39	21	35	38	9	11	12
6. Commerce and Industry	22	24	26	12	16	18	17	19	22
7. Urban Development	75	84	96	98	119	124	101	121	147
8. Planning and Statistics	9	10	11	8	11	12	4	4	4
9. Scientific Departments	40	44	49	39	53	56	36	41	45
10. Energy	67	76	86	71	99	109	61	66	73
11. Transport	489	529	636	548	698	739	759	795	844
12. IT and Telecom	27	28	30	40	54	57	27	33	35
13. Loans to States	110	119	133	120	132	140	125	131	138
14. UT	19	21	24	17	22	24	19	21	23
15. Others	64	67	72	85	109	118	70	72	74
Total-Capital Expenditure	2291	2315	2602	2268	2797	2981	2414	2610	2845
Total Expenditure	16653	17811	19461	17949	19541	21120	17775	19214	20642

Source: MTEF Statements, Relevant Years, Government of India

Note: BE is budget Estimates

The projections are usually prepared after the budget was presented. This shows a strong annual budget bias, where the spending on development and capital outlay become residual after meeting the committed spending[8]. Bulk of the spending, to the tune of 87 percent, in Government goes toward revenue expenditure. Nearly two-third of this is spent on grants to States, interest payments and subsidies. The other major components are spending on defense, railways, salaries, pensions, and others (Report of the CAG 2015). The large committed expenditure in this projections show an increasing trend. The projected expenditure trends in social and economic sectors and in capital outlay do not show a consistent behavior vis-à-vis the earlier years.

The Government revised the MTEF in 2016-17 following the inputs provided by the Expenditure Management Commission (EMC).[9] The MTEF was expanded consistent with the Demand for Grants[10] of the Expenditure Budget and it contains demand wise projections of revenue and capital expenditure for the two outward years (Govt. of India, MTEF Circular

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[8] The MTEF comes after four to five months after the budget, which is usually presented in February.

[9] The Government constituted the Expenditure Management Commission (EMC) in 2014 to suggest major expenditure reforms that will enable the government to reduce and manage its fiscal deficit at more sustainable levels. The EMC was supposed to make recommendations on institutional changes relating to budgeting process, fiscal rules, and fiscal discipline.

[10] Demand for Grants is the part of the budget documents and shows the estimates of expenditure from the Consolidated Fund, included in the annual financial statement and required to be voted upon in the Parliament. Generally, one demand for grant is presented in respect of each ministry or department. However, for large ministries and departments, more than one demand is presented.

2016-17). The existing aggregate spending wise information also continues to exist. The initial projections are taken from the ministries and departments with a growth factor in the range of 5 to 10 percent; a higher growth factor should be accompanied by reasons for it. These inputs and fiscal stance taken in MTFP is used by the Ministry of Finance to finalize a demand wise projection of revenue expenditure and capital expenditure. The ministries and departments are communicated with the approved spending projections. This data after being categorized into a format based on schemes is to be used in the interaction between the departments and the Ministry of Finance for resource allocation.

The MTEF revision shows positive intents. The proposed changes in the projections indicate features of both the MTFF and MTBF. In the revision plan, the role of the administrative departments in developing a multi-year expenditure plan has been acknowledged. The second round changes in the projections by the Ministry of finance based on the fiscal stance of the MTFP and communicating this back to the departments is like preparing expenditure ceilings under the MTBF. This exercise will be of use for expenditure control and will serve the purposes of the fiscal rules. The medium term projections at department level and an aggregate view taken at the Ministry of Finance level will facilitate expenditure control.

The revision in MTEF also makes it a work in progress. It still does not shed light on whether the spending departments will prepare a medium-term sector plan, negotiate for resources for the budget based on this plan, and prioritize the programs based on the spending limit. The projections of aggregate departmental spending are not the same as giving a ceiling to the departments and allow them the flexibility of choosing their programs to achieve the sector Goals of the Government. The MTEF will remain as an instrument to serve the objectives of the expenditure control.

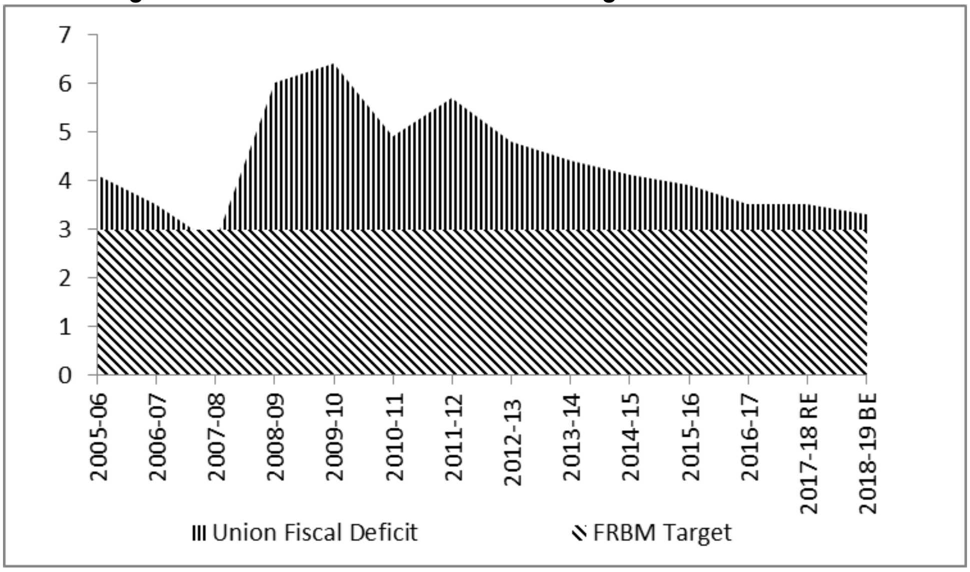
The MTEF, structured around department wise revenue and capital expenditure, is not an outcome of prioritized spending preferences revealed by the departments and constrained by accompanying resource forecast. The departments do not get an indication of availability aggregate resources early in the budget making process during their negotiation for funds (Ghosh and Jena 2008). The projections are suggestive and are framed on annual budget estimates. They do not necessarily show the medium term implications of policy decisions taken in the budget. Probably, some of the committed spending items like salary, pension, and interest payments would follow the path.

The Fiscal Experience and Enabling Factors

The fiscal outcome since 2008-09 shows the overarching macroeconomic stabilization process, strengths, and weaknesses of the PFM system and its impact on fiscal discipline in the country. The introduction of MTEF may not be a factor in this. The targets of balancing the current account and attaining a sustainable fiscal deficit of 3 percent of GDP were achieved by 2007-08 as against the FRBM Act timeline of 2008-09. High growth of the economy at about 9 percent and consequent rise in revenue collection contributed to this early success. Post global fiscal crisis, when the national economy declined sharply, the Government decided to put on hold the process of fiscal consolidation and amended the Act only in 2012 with a time line of 2017. Latter the targets were further postponed and in 2018-19 budgets, the timeline to achieve FRBM target was extended by three years. The fiscal outcome has to be assessed on its trend without comparing with the budget targets due to the intermittent deferral of target dates.

The fiscal deficit, which increased sharply in 2008-09 and crossed 6 percent of GDP in the next year, has shown a declining trend since then. (Figure 1) While achieving the FRBM target of 3 percent of GDP remains the target, the declining fiscal deficit indicates the strengthening of the fiscal consolidation process. An efficient medium term framework will be helpful now to give impetus to the fiscal consolidation. The budgeting system needs to go beyond the short horizon of annual budget by empowering the departments to make their medium-term plan within the budget constraint. Indicating a growth factor in the range of 5 to 10 percent to project aggregate department spending makes it an incremental process.

Figure 1. Fiscal Deficit: FRBM Target and Outcomes



The credibility of the annual budget, accuracy in medium-term macroeconomic and demographic projections, established fiscal objectives and rules, and a comprehensive, unified top-down budget process are considered as pre-conditions to build a successful medium-term framework (Harris et al 2013). In addition to declining fiscal deficit, many of these features of PFM system in India look favorable.

A credible annual budget, enabling the Government to implement the policies voted in the Parliament in a predictable manner, forms the basis for the multi-year decision making process. The aggregate revenue receipt performance during 2011-12 to 2016-17 remains good with the actual revenue remaining between 93 to 105 percent (Table 3). During the last three years, while the overall revenue receipts reached the targets in 2016-17, it exceeded the target by 4.68 percent in 2015-17. This gets a rank of ‘A’ following PEFA methodology. The PEFA ranking on budget credibility for India for the period 2007 to 2009 was also very high (Jena 2010 – PEFA India)[11]. Expenditure outturn as compared to the budget estimates shows that the actual revenue expenditure (current expenditure) was between 94 to 104 percent during this period, which gets top ranking. This was an improvement over the last PEFA assessment. The capital expenditure seems to have become residual in the system and takes a setback depending upon the demands of committed spending. During last two years, the spending in capital account has remained more than the budget estimates. This was mostly due to budget amendments during the fiscal year.

[11] The aggregate revenue collection during the period from 2006.07 to 2008.09 exceeded 97 percent of the budget estimates in two of the three years for which the PEFA ranking for revenue outturn was a high of ‘A’.

Table 3 Deviation from Budget Estimates

Percent

	2011-12	2012-13	2013-14	2014-15	2015-16	2015-16
Revenue Receipts	-4.87	-6.03	-3.94	-7.43	4.68	-0.20
Tax Revenue	-5.23	-3.79	-7.72	-7.54	2.60	4.48
Non-Tax Receipts	-3.00	-16.56	15.45	-6.94	13.32	-15.51
Revenue Expenditure	4.43	-3.31	-4.48	-6.45	0.11	-2.34
Capital Expenditure	-1.24	-18.53	-18.09	-13.27	4.80	15.22

Source: Budget documents, relevant years, Government of India

To build a successful MTEF, the basics of PFM institutional structure and macro management needs to be on strong footing. The macroeconomic and fiscal management in India has been showing stability in recent years despite the presence of considerable volatility in the international economic environment. The GDP growth for the country was 7.9 per cent in 2015-16 and the expected growth during 2016-17 is 7.1 percent. The task, however, is to maintain the momentum in a difficult global environment. A stable macroeconomic environment helps preparing realistic forecasting to apply in the medium term budget framework.

Fiscal rule for the country defines the stance of the Government in the medium term with regard to key variables like deficit, tax, and debt. The target fiscal outcomes in the medium terms put a limit on the fiscal behavior of the Government. When the MTEF is built, its contours in terms of program financing are accommodated within such limits. Post fiscal crisis in 2008-09, the country has been trying to strengthen fiscal consolidation[12] and a major revision to the fiscal rules is made[13].

A unified top-down budgeting process is the crucial element of budgeting process, which facilitates expenditure discipline and helps the spending departments prioritizing within their limits. The abolition of Planning Commission in India has ensured a unified decision making process to the Ministry of Finance. As the fiscal architecture has been evolving with several changes, the need for taking a comprehensive view of budget process and making all expenditure decisions at one time has become necessary.

An accounting change in expenditure classification to remove plan and non-plan distinction expected to improve taking a holistic view of the program expenditure and provide comprehensives idea about resource availability for programs. This artificial distinction distinguishing desirable spending on development from unproductive spending had lost the clarity (Expert Committee on Expenditure Management 2011). It created a fragmented budgetary allocation involving two different authorities like Planning Commission and the Ministry of Finance (Ghosh and Jena 2008). The tendency to favor the plan spending has created a situation in which the assets already created are neglected for funds to maintain them. With the demise of Planning Commission, the distinction lost its usefulness.

The change in expenditure classification is stated to facilitate better formulation of MTEF and performance budget. The policy decisions, particularly relating to investments, will be based on both capital and operating costs together in a unified manner by the spending departments.

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[12] See the report of the Comptroller and Auditor general of India 2016 on compliance of FRBM Act

[13] The government formed a committee in 2016 to review the working of the 12-year old FRBM Act and suggest changes.

While the rearrangement in expenditure classification and unifying the resource allocation decisions in the hand of the Ministry of Finance provides opportunities to further the MTEF process, firming up the resource envelope and provide ceilings to spending departments should be given priority. To projections of expenditure variables under the existing MTEF are adequate to provide the spending departments with indications regarding resource availability.

Building on the Existing Institutions and Moving Ahead

The MTEF in India need to transform from supporting instrument for fiscal rules to an efficient instrument for budget planning. The medium term expenditure framework should move towards adopting the features of the medium term budgeting framework (MTBF). Nomenclature should not be a hindrance; it can continue to be named as MTEF. The core theme of this should be to build on a sound macroeconomic framework with unbiased estimates of availability of resource, improve predictability of flow funds, reflect the future costs of policy decisions adopted in the annual budget through multi-year revenue and expenditure estimates, and improve service delivery mechanism.

Progress has already been made in terms of preparing medium term fiscal policy, projecting aggregate department wise spending, and operating under fiscal rules. The existing institutions and experiences should be put to use to build a more efficient MTEF or MTBF. First, providing strong indication of resource allocation to spending departments for the outward years with a realistic picture of resource envelope should be focused. Second, it is important to make distinction between ongoing and new programs and providing higher fiscal space to priority programs in a politically influenced resource trade-off situation. Third, the spending departments need to overcome the challenges of conflicting pressures to prepare a sector plan and prioritize within the resource limit.

The idea of giving ceilings to the spending departments indicates certainty about their budgets over a medium term that permits them better planning. However, the commitment for resources may create conflict due to problems in realizing the revenues (Robinson Mark 2016). The decline in growth of countries leading to slow growth of revenues and firmer fiscal rule regimes created doubt on committing resource ceilings for next three years. As MTEF is designed to be a rolling system, which will be revised, based on the economic situation and revenue projection, the potential conflict could be avoided.

Unlike an incremental system, the departments have to focus on government policies and cost of the programs as the basis for prioritizing. The programs have to be identified, which will outline the contours of the medium term planning (Schiavo-Campo 2009). Major divisions in a ministry like primary education or secondary education can be considered as broad programs to define the objectives and indicators. Such broad definition of programs to ensure accountability is appropriate in a government where the autonomy and flexibility to design and implement the budget is high for departments and ministries. In the Indian budgetary system, the functional classification of expenditure is elaborate and the flexibility to re-appropriate is limited[14]. This level of budget classification is not necessary for a functional MTEF. At the same time, the expenditure categories included in the existing MTEF do not reflect the program structure. The program classification for MTEF has to be judicious so that prioritizing them for resource allocation, monitoring, and evaluating the program implementation will be feasible.

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[14] The functional classification shows the functions and activities of the Government for which the expenditure has been incurred. The functional classification system comprises of a six-tier structure with a hierarchy that explains the major functions, objectives of spending, specific activities, details components of the schemes, and the object head of the expenditure.

Further Progress: Aiming at MTPF

The MTEF or MTBF can be taken forward using the output type budgeting with performance indicators to prepare what is known as medium-term performance framework (MTPF). This will shift the focus from inputs to outputs and facilitate evaluating the performance. Although, the MTEF does not specifically need a performance budget and can be adopted in a cash based line item budgeting environment, promoting results and encouraging better performance from the sector programs is always considered as improvements in the system. The MTPF design includes program outputs, and performance indicators of the sector strategies. The performance indicators are considered while taking resource allocation decisions and form the basis of evaluating the effectiveness of the programs.

The performance budget adopted in 1968, failed to make any impact, and remained a routine document without being able to link the budget decisions to the performance indicators (Premchand 1969, Cutt 1972, Toye 1981). Dismal run of this early innovation prompted the Central Government to adopt a revised version called outcome budget in 2005. The outcome budget is yet to emerge as a useful instrument to influence the budgetary decisions in both program formulation and resource allocation. The factors like lack of appropriate and acceptable performance- indicators focus on quantifiable outcomes instead of more acceptable outputs, inadequacies in costing process, stretched performance chain with gaps in information with regard to Central schemes, absence of an effective monitoring system to evaluate the results proved obstacles (Jena, 2012). The inclusion of performance indicators in the sector strategies to transform the MTEF to MTPF will depend upon strengthening of the outcome budget.

The Subnational Context

The States have traversed a long way from the late nineties and early 2000s (Rao and Jena,2009) when fiscal reforms were undertaken to stave off the imbalance and mounting debt burden. The States have shown fiscal discipline, particularly after adopting the fiscal rules in the form of fiscal responsibility and budget management (FRBM) Act. The compliance to the targets of fiscal rules to contain fiscal deficit and stabilizing debt overhang underpinned the trust over the ability of the States for the fiscal consolidation and a broad spectrum of political commitment to the fiscal rules. There are, however, concerns in the public financial management processes relating to resource allocations in the budget, predictability of fund flows, and efficiency in use of public resources. There is a need to move forward building upon the early successes to improve social and physical infrastructure for overall development, creating enabling environment for investments, reducing poverty and other deprivations in laggard States, improving employment and so on.

The abolition of Planning Commission and cessation of Central plan grants to the States after the recommendation of 14th Finance Commission (FFC) left the States with a crucial need for a medium-term budget planning process[15]. As the practice of plan approval from the Planning Commission ended, the focus has shifted to the ability of the State Governments to manage their own development path. Given the large functional responsibilities, consequent expenditure requirements, and the resource constraint, a multi-year expenditure plan with clear priorities

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[15] The 14th Finance Commission (FFC) considered tax devolution to be the primary route of transfer of resources to States. The FFC enhanced the States' share in central taxes (untied transfers) to 42 percent from present 32 percent to enhance the flexibility of the States to take expenditure decisions based on their own priorities. Consequent to the enhancement of share of the states in the divisible pool of Central taxes, the Central Government has discontinued the central assistance to the State plans.

with budget constraint is necessary[16]. The indicators of sustainable development goals (SDGs) have been emerging as the new focus of development in the Government policies. The spending departments need effective medium terms spending plan to integrate the long-term SDG indicators into their sector strategies.

MTEF will be a useful instrument for the States to address some of the basic PFM issues at sub-national level[17]. The contemporary challenges faced by the States, judged from the basic objectives of the PEM system, are the issues related to the allocative and operational efficiency. Ensuring value for money and effective utilization of public resources to achieve desired results remained as the problem areas. The tendency of expanding the budget size, spreading resources thinly, and bias towards short-term goals adversely affected resource allocation in a prioritized manner. The issues relating to inadequacies in designing and implementing the programs, project appraisal and approval processes, and planning and monitoring mechanism remained as common themes across the States affecting the operational efficiency in service delivery. Post fiscal rules[18], the State Governments have improved their fiscal position and are in a stronger position to adoption budget reforms (Rao and Jena, 2009).

With the removal of plan and non-plan distinction, some uncertainty has arisen over the future role of the State-level planning bodies, usually the planning departments. These bodies should be effectively used as coordinating agencies among the departments to formulate appropriate strategies, policies and processes in a medium term. The planning departments can become repository of knowledge regarding public policies to facilitate capacity building of the spending departments in the areas of sector planning and performance management. They can help the spending departments in project appraisal to select the programs, costing, and strategies to achieve the program goals.

Concluding Remarks

The medium term expenditure framework in India needs to shed the mechanical approach to make it an efficient budgetary instrument. Decades of development plan and medium-term projections of fiscal variables under years of fiscal rules could not change the short horizon of the annual budget. The formal adoption of MTEF with projection of expenditure variables does not sufficiently inform the budgetary implications of policy changes. The need for investment and development of human and physical infrastructure many a times leads the governments both at the Central and State levels to plan more than they could support. The Government needs strengthen the MTEF process to establish a hard budget constraint in the budgeting process, improve the predictability in the flow of resources to ministries and departments, and improve the strategic priorities in resource allocation. With the end of the planning era, the Governments at national and sub-national level require a credible medium-term framework.

The Government should move ahead with the MTEF (or MTBF) by indicating availability of resources to the departments in a medium term to provide them the flexibility of prioritizing their expenditure plans to achieve the sector goals. This should be a forward-looking process

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[16] The State governments in India bear major portion of expenditure responsibilities and provide basic services in the field of health, education, water supply and sanitary services, electricity, transport and communication, agriculture and also have the responsibility of maintaining law and order and provide wide range of judicial services. The Constitution of India demarcates the functional responsibilities between the Central and the State Governments.

[17] For some of the expenditure management issues at the State level, see Jena, 2016 and Jena et al , 2016

[18] The State Governments adopted FRBM Act separately through their own State Acts. Central Government incentivized the States through debt restructuring facilities to adopt the fiscal rules.

where the medium term expenditure projection is updated consistent with the resource availability. Both the Ministry of Finance and the spending departments need to coordinate for resource allocation and program management within a medium-term framework. The MTEF can further develop into Medium-term Performance Framework (MTPF) by including performance indicators in the sector programs, if the output and outcome type budget get renewed attention. It is important, however, to allow the MTEF to stabilize and show positive impact on fiscal discipline, resource allocation, and service delivery.

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Public Accounts Committees: Do They Really Enhance Public Financial Accountability In Africa?

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Abstract

Strengthening Public Financial Accountability in Africa is one of the fundamental tools to enhance good governance and development. In Ghana, the Auditor- General (A-G) has the mandate under Article 187 (2) of the 1992 Constitution to audit the accounts of all public institutions set up by an Act of Parliament. Moreover, Article 187 (5) further mandates the A-G to submit such audited accounts to parliament for review and examination. The primary function of the Public Accounts Committee (PAC) in line with the A-G's mandate is to critically "examine the audited accounts showing the appropriation of the sums granted by Parliament to meet the public expenditure of the government and such other accounts laid before parliament" (Standing Order 165(2). The PAC after reviewing these audited accounts further provide public sittings giving opportunities for account holders, spending officers and other public servants to respond to issues with regards to omission and commission in their findings, provide some recommendations which are supposed to be implemented and used to improve public financial accountability. This study, inter alia, sort to delve into the effectiveness of the oversight role of PAC in enhancing public financial accountability. Three key fundamental questions run through this study: What are the formal procedures put in place to ensure the implementation of the PAC recommendations? To what extent has the PAC's recommendations been implemented? To what extent has the recommendations of the PAC enhanced Public Financial Accountability? This study adopted a largely qualitative research approach. Face-to-face Interviews and document reviews were employed as tools for data collection. The study reveals that generally there is an absence of a well-structured institutional framework to enhance proper coordination, monitoring, reporting and the implementation of the recommendations of the PAC report. For instance the former Audit Recommendations Implementation Committees (ARICs, now changed to Audit Committees) seemed not to have any strong connections with the PAC and other key accountability institutions such as the office of the Attorney-General. Secondly, the absence of applying sanctioning mechanisms to wrongdoers, deficiencies in the institutional capacity of other accountability institutions, coupled with financial and human resource limitations, have had an adverse impact on Public Financial Accountability.

Key Words: Public Financial Accountability, Public Accounts Committee, Audit Report Implementation Committee, Audit Committees.

Introduction

The approach to mobilizing and managing public finance in most African countries has been met with challenges such as corruption, misapplication and misappropriation of funds, over-spending and lack of compliance with existing legislative frameworks. In an effort to overcome these challenges, most African countries have attempted to introduce reforms in public sector financial mobilization and management systems. These reforms have mainly dealt with areas of legal and institutional framework, resource generation, improved resource allocation, transparency, accountability and fiscal discipline aimed at improving efficiency, effectiveness and value for money (Owalla & Luanga, 2014). In this vein, there is growing recognition of the contribution of parliament towards strengthening public financial accountability through effective scrutiny of government spending. Consequently, the 1992 constitution of Ghana empowers the Parliament of Ghana to exercise oversight function over public revenues and expenditures (Article 124). This financial oversight role of parliament is exercised through its Public Accounts Committee (PAC). The PAC seeks to minimise the potential for financial malfeasance by scrutinising government expenditure and making appropriate recommendations to government. However, the extent to which the PAC recommendations strengthen public financial accountability arrangements and especially with regards to the fight against corruption is inadequately expounded within the public financial accountability literature. Against this background, this paper seeks to contribute to the discourse by examining the effectiveness of the PAC in enhancing Public Financial Accountability.

Research Problem

Section 15 (1) of the PFM Act, 2016 (ACT 921) requires the Minister of Finance to put in place a functional public financial management (PFM) system with sufficient controls, checks and balances, as a measure of promoting accountability, ensuring adherence to standards and regulations, promoting civil society alertness and participation, and effective resource allocation and utilisation. Moreover, Standing Order 165(2) gives mandate to the PAC to "examine the audited accounts showing the appropriation of the sums granted by Parliament to meet the public expenditure of the government and such other accounts laid before parliament". On the other hand, the Financial Administration Act (FAA) 2003, Act 654, established the Financial Administration Courts (FAC) to enforce recommendations of the PAC on the Auditor-General's (A-G) reports as approved by Parliament.

In spite of the systems put in place, the Auditor- General's (A-G) reports consistently reveal low levels of compliance with existing legislative framework, misapplication and misappropriation of funds, managerial lapses and weak monitoring procedures leading to the loss of billions of Ghana Cedis- a situation that suggests significant managerial and capacity handicaps within the PAC. While the reports of the A-G persistently condemn the weak internal control systems within the Ministries, Departments and Agencies (MDAs), this study seeks to add to the literature by assessing the efficiency and effectiveness of the PAC in the enhancement of public financial accountability.

Objective

The general objective of this paper is to evaluate the effectiveness of the PAC in enhancing public financial accountability with particular emphasis on tracking PAC reports to verify the degree of compliance with PAC's recommendations based on the A-G's reports.

The four specific objectives are:

1. To assess the formal mechanisms put in place to implement the PAC recommendations;
2. To assess the extent to which the PAC's recommendations have been implemented by the management of various public institutions.
3. To examine some of the challenges facing the PAC and how it can be addressed to ensure effective PFA in Ghana.
4. Highlight the lessons and their implications for the theoretical, comparative and empirical literature on PFA and accountability in general

Functions of the Public Accounts Committee

Section 165 (1) of the Standing Orders of Parliament states that "the Public Accounts Committee shall consist of not more than twenty five Members under the Chairmanship of a Member who does not belong to the party which controls the Executive branch of government".

This arrangement is meant to facilitate the independence of the PAC from government. Since its inception under the Fourth Republic, the PAC has always been composed of the upper limit of twenty-five members and it has always been chaired by a member from the opposition party. A similar situation exists in the House of Commons in Britain where a leading member of the opposition is usually the chairman of the Committee of Public Accounts. The PAC of Ghana has the rights and privileges of the High Court and can examine witnesses.

The Standing Orders 165 (2) also states that the PAC shall "be assigned the examination of the audited accounts" showing the appropriation "of the sums granted by parliament to meet the expenditure of the government and of such other accounts laid before Parliament." First, the main function of the PAC is to ensure that public money is spent for the purpose intended by parliament and due economy and high standards of morality are maintained in all financial matters.

Second, the PAC also advises on changes that may be considered desirable in the form of the estimates. Third, the PAC is also empowered to examine the accounts of statutory bodies which have been laid before Parliament (Alvey, 2007). This is an ex post responsibility rather than ex ante role in the budget process typical of legislatures in the United States model (Alvey, 2007).

The PAC is also empowered by the Standing Orders to report to the House at least twice a year. The Committee works closely with the Auditor-General, and it is increasingly involved in performance and financial auditing. According to Ayensu and Darkwa (2000), the PAC and the Committee on Government Assurances serve as mechanisms for executive oversight. The PAC indeed serves as a check on the executive branch on issues relating to financial management. The report of the committee is usually above party politics and has therefore managed to achieve a high degree of unanimity in its findings and recommendations (Commonwealth Parliamentary Association, 2006).

Four, the PAC also holds public meetings. In order that its activities would be known to the general public, the PAC started public meetings in October, 2007. The public meetings of the PAC generated a lot of interest and enthusiasm among Ghanaians, especially civil society organisations and political parties. The establishment of public meetings by the PAC is important for a number of reasons. First, it promotes accountability and transparency in its activities. Second, it demonstrates the preparedness of Parliament to hold ministries, departments and agencies (MDAs) responsible for the resources allocated to them in the course of the financial year. Third, it also promotes accountability and transparency in the use of public funds, and exposes cases of malfeasance, incompetence, fraud and dishonesty in the management of public funds. Fourth, by naming and shaming wrongdoers in the glare view of the public, this serves as a deterrent for future culprits. It is however sad to note that in spite of the tremendous work carried out by the PAC, financial malfeasance and misappropriation of public funds still plague the public sector in Ghana. Indeed many of the victims that have been found guilty of financial malfeasance by the PAC are yet to be sanctioned.

Five, the PAC has "adopted the role of principal watchdog over expenditures and operated as an activist body able to take initiatives" (Warren, 2005). There are two main schools of thought regarding practices and norms of the PAC. One group is of the opinion that the PAC should only limit itself to the examination of the reports of the Auditor –General; while the second group perceives that there should be far greater scope for its investigations. Increasingly, government officials have responded timely to the reports and recommendations of the PAC even though one will expect that there will be greater follow-ups on recommendations for full impact (Ayensu & Darkwa, 2004). In spite of the numerous functions bestowed on the PAC, the Committee is generally constrained by inadequate resources and support staff.

Method

This study relied on both primary and secondary data. Generally, for case study design, six key techniques of data collection are used. These are physical artefacts, interviews, documentation, archival records, direct observation and participant observation (Welman, Kruger & Mitchell, 2005). This study, however, used two of the above- mentioned methods, namely direct interviews using semi structured open ended interview guides and documents/records review methods.

Study Population

The study population was taken from key organisations including; the Ghana Audit Service (GAS), Parliament's PAC and some Ministries Departments and Agencies (MDAs). The study population was classified under three groups. The first group involved heads of departments and units of the GAS and the Ministry of Finance (MOF). The rationale for their inclusion was that, while the GAS audits all public accounts, the MOF on the other hand is formally required to comply and implement PAC's recommendations that affects the Ministry.

The second group of people were the elected representatives (politicians): This group involved ten present and former members of the PAC. Members of the PAC formed part of the study due to their oversight responsibility of examining and giving recommendations on the A-G's reports. Secondly, members of the PAC serve as representatives of the people, and are responsible for giving satisfactory explanation to the public on issues that relates to financial accountability and institutional performance.

The third group are members of the Audit Report Implementation Committees (ARICs) now referred to as Audit Committees from the various MDAs. Their major role is to make enquiries into the status in the implementation of specific recommendations in the PAC reports. Respondents were selected on the basis of their functionality, rather than they being selected at random. Selecting respondents on the basis of their knowledge and background which are relevant to the study enhances the quality of data for analysis and discussion. Also, Tremblay (1995) argues that this technique is effective when defining the essential characteristics of some issues by drawing on personal experience and understanding of the people involved. Their inclusion in the study seeks to reveal the extent to which they have implemented specific recommendations in the PAC reports.

The respondents were purposely selected, using a criterion sampling method. The criterion sampling method is very useful as it enhances quality assurance. The criteria for selection was based on respondents with comprehensive insight and understanding on PFA issues. In sum, twenty-six participants were interviewed as shown in Figure One.

Figure 1: Respondents Used in the Study

Designation	Organisation	Frequency
Members of ARICs	MDAs	10
Heads of units/department	Audit Service	1
Heads of Unit/department	Ministry of finance	1
Senior Principal Auditors	Audit Service	3
Chief Finance Officer	Ministry of Finance	1
Members of PAC	Parliament	5
Former Members of PAC	Parliament	5
TOTAL		26

Source: Author's work

Results and Findings of the Study

The study adopted Hedger and Blick (2008) five key variables for analysing the effectiveness of PACs. The five key thematic variables were used in designing the interview guides:

Inputs	1. Constitutional and Legal frameworks 2. SAI role and Inputs 3. Domestic stakeholder inputs (media, public) 4. Resources (staff, budget, infrastructure) 5. International cooperation 6. Previous year's PAC output (i.e. follow-ups) 7. Conventions and Principles of conduct
Processes (and their immediate effect)	1. Conventions of conduct 2. Conventions of organisation 3. Formalised working practices/modus operandi 4. Intra-governmental cooperation between PAC, SAI and Executive
Outputs	1. PAC findings and conclusions (majority or consensus) 2. PAC reports and recommended actions 3. Follow-up of recommendations (Government response and implementation) 4. Status reports on government's actions 5. Public engagement and media coverage
Outcome (Intermediate)	1. Sanctions and penalties applied to officials 2. Improved financial systems and financial controls 3. Increased financial efficiency of government 4. Improved public service delivery 5. Improved public sector performance 6. Effective legislative checks/constraints on executive power
Impact (Long-term)	1. Conventions and principles of conduct established for PAC 2. Culture of effective public financial accountability 3. Culture of democratic accountability 4. Systematic feedbacks on outputs, outcomes and impacts into enhanced inputs and strengthened processes.

The study revealed that Ghana has in place a sound constitutional and legal framework. For instance, Public Financial Management laws that have been enshrined in the 1992 Constitution of Ghana, the Financial Administration Act (2003), the Financial Administration Regulation (2004), and Public Financial Management Act (2016) among others. However, the prevalence of corruption tends to be a consequence of institutional failures. Therefore, safeguarding the integrity of the PFM system necessitates rigorous enforcement of the regulatory framework and putting in place effective mechanisms to strengthen horizontal accountability institutions such as PAC.

With regards to PAC's resources (staff, budget and infrastructure), it came to light that the PACs are mostly served by two support staff, which is not enough, considering the volume of workload and the challenge of lack of skills. The inability of the Committee to get the required skills ranging from information technology, financial management and public administration to cover all aspects of their duties is a serious drawback in enhancing public financial accountability. Moreover, the study revealed certain challenges regarding the shift of PAC members and support staff. Since the PAC mostly deal with issues that have taken place in the past financial years, institutional memory from members and support staff thus becomes important for the effectiveness of the Committee. When members and support staffs are being shifted from one Committee to the other, Committees turn to lose vital information, knowledge and skills which can be used as a "weapon" to make strong follow-ups, and to effectively track the implementation of resolutions. A member of the PAC stated in an interview that as a result of the recent elections in 2016 and the subsequent change in government, more than five experienced members of the committee had to be replaced with new inexperienced ones.

It came to light that PAC operates within a limited budget, which hinders their oversight work. During an interview with a PAC member, it was revealed that PAC's inability to meet its budget requirements resulted in members' inability to follow-up on some recommendations spelt out by the AG. In addition, support staff were being denied the opportunity to attend training workshops to enhance their skills. Thus lack of budget means that few members and support staff would be elected or seconded for training programmes. Another key challenge is the fact that the PAC's budget is dependent on Parliament's budgetary allocations.

PAC's follow-ups on reports and recommendation actions have mostly been marred with challenges of work backlog. Parliament's programmes seems to be too congested and coupled with the lack of political commitment from members, has resulted in the increase of workload and backlogs. Dealing with the heavy workload and backlog could lead to compromising robust oversight and accountability measures, as a result of the limited time available to the Committee. In an interview with a former member of the PAC it came to light that the A-G's reports comes under scrutiny late for any lasting impact due to a rigid system in place. This problem according to the former member of PAC has resulted in a backlog of reports to be cleared. For instance, the committee's sitting in 2017 is dealing with 2015 reports.

Intra-governmental cooperation between the PAC, SAI, ARICs and the executive revealed the PAC's inability to coordinate effectively with the aforementioned institutions. For instance, PAC's inability to cooperate effectively with the ARICs led to the non-implementation of the Committees recommendations on the A-G's report. A former chairman of the PAC stated that "As part of measures to ensure that all institutions audited by the A-G comply with the Act, Parliament intends to constitute a monitoring team that will do follow ups after every public sitting and report to Parliament on actions taken by the ARICs. Where an institution has failed to comply with the recommendations, heads of such institutions will be identified and appropriately sanctioned." (Field notes, March, 2018). Moreover, the study found that most of the Audit Report Implementation Committee (ARICs) set up in the MDAs were ineffective. Up to date, some ARIC committees were yet to be formed in some ministries. Others that had been formed were not properly constituted. Yearly reports with regards to the follow ups of the status of recommendations had not been done. The ‘status of recommendations reports’ that the researcher came across were outdated. The inability of the ARICs to ensure that heads of institutions audited by the A-G pursue the implementation of matters in the A-G’s reports, might have led to their dissolution and replacement with the newly constituted Audit Committees as spelt out in the new PFMA (Act 921). Prior to its dissolution, a former Chairman of the PAC hinted that the PAC together with the leadership of Parliament was putting up a team to monitor the work of ARICs to ensure the full implementation of recommendations made in the A-G’s reports. This statement connotes some level of pessimism on the part of the ARICs in the discharge of their duties.

Relating to the issue of cooperation between the PAC and the executive is the challenge of partisanship. There is enough evidence to suggest that some decisions taken by the PAC are often influenced by political affiliation and factions within the PAC, and such decisions do not often represent the interest of the public. This statement was made known by a former member of the PAC during an interview. Such tendencies compromise the effectiveness and efficiency of oversight and financial accountability work.

With regards to the issue on sanctions and penalties applied to public officials, the study revealed that PAC also faces the challenge of assuring the public that its work would lead to the sanctioning of public officials who have been found culpable of embezzling State funds. The study revealed that, many of the A-G’s reports and recommendations were yet to be implemented. Consequently, many have described PAC’s public hearings as an exercise in futility. This situation has arisen as a result of the dormant nature of the sanctioning regime. The alarming evidence of corruption and misuse of public funds has dented the image of the PAC.

With regards to the Supreme Audit Institutions (SAI) role and input in complementing the efforts of the PAC, the study revealed capacity constraints in the office of the Auditor-General (A-G). The capacity constraint is manifested in several areas including lack of financial autonomy, inadequate office accommodation, poor library facilities, weak research base and lack of expertise on the part of some internal auditors. Indeed, there is an urgent need for changes in the present system of financial management as a result of increases in government’s budget and expenditure. Hence the need to resource the office of the A-G adequately.

Conclusion

The fundamental question that engages our attention in this paper is whether the constitutional-legal and institutional framework put in place have really ensured that the PAC’s mandate of enhancing public financial accountability has been accomplished? There is no easy answer to this question. In spite of its challenges, the PAC process seems to be impacting positively on the accountability processes. However, it came to light that PAC was not sufficiently engaged with the follow-ups of previous year’s recommendations issued by the Committee. Probably, this may be due to the fact that their mandate or role in the follow-up process is not explicitly captured in the PFM laws.

Recommendations

The study proposes that the PAC embark on capacity building for its members and support staff to ensure effective oversight. This could be done through training, professional skills development programmes and study opportunities. Such interventions would ensure maximum efficiency in the interpretation of financial statements, draft resolutions, and the ability to track the implementation of resolutions taken. Improvement in the quality of oversight would ensure that fraudulent and corruption related activities are detected or prevented. Since the Constitution places a limit on the number of PAC membership, the committee could be adequately capacitated with more support staff such as researchers, committee coordinators and legal advisors. The support staff must be purposely recruited to represent the diversity of knowledge and skills; ranging from auditing, financial management, law, information technology and administration.

The study also proposes a broader scope of functions for the PAC. The PAC should have the mandate to carry out pre-emptive inquiries. In line with this, any additional role of the PAC should be tied to increases in financial allocations and their capacity. The study further recommends an integrated partnership between the A-G, PAC and civil society organisations (CSOs). Effective linkage between the offices of the A-G and PAC should be extended to the Attorney-General's office to improve on the prosecutorial and sanctioning function.

Finally, the study recommends the establishment of an independent body under Parliament such as an administrative panel review to implement the recommendations of the PAC. This independent body will also ensure that cases referred to the Attorney-General or police are sent to court and dealt with in good time.

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