Foreword

"Government accounts generally… [have an] orientation towards accountability requirements" (UN 1970: 21[1]). This is recognised by the *Cash Basis International Public Sector Accounting Standard* (IPSAS) which accepts that financial reporting "is necessary for accountability purposes" (Page 7). However, this Standard is not based on existing good practices and so breaks some of the fundamental traditional precepts of financial accounting in the public sector.

The budget cycle includes three key stages, authorisation of the budget by Parliament, implementation by the executive and reporting back to Parliament on the budget out-turn. Before the beginning of the financial year, parliaments traditionally provide authority to the government to raise taxes and details how this shall be spent (the budget). The annual financial statements or appropriation accounts subsequently account to Parliament how the funds raised have actually been spent by the various ministries, departments and agencies.

Clearly it is important that accurate accounts of the receipts and disbursements should be kept, and it is evident that these accounts should be in such a form as will enable the revenue actually collected and the amounts actually disbursed to be compared readily with the Estimates of Revenue and Expenditure [the budget] (Colonial Audit Department 1951: 17[2]).

The next stage of the accountability cycle is then the audit. The auditors work on behalf of parliament (or in some cases the president) to confirm that the, "moneys made available by the legislature are expended properly and for the purposes for which appropriations are sanctioned" (UN 1970: 34). Thus auditors confirm that the budget was complied with and that all payments were made in line with the Financial Regulations. Where this is not the case, such irregularities, if significant are included within the auditor's annual report.

In addition, to a detailed comparison of the actual receipts and payments with the budget agreed by parliament, the annual financial statements traditionally included a statement of assets and liabilities. The balance of this statement shows, "the territory's accumulated balance available for appropriations, i.e., available for disbursements on government services" (Colonial Audit Department 1951: 29). The final main statement was the Statement of Public Debt which showed the government's outstanding liability to repay loans it had raised. It also may show any associated Sinking Funds which have been established to pay off each of the loans when they fall due.

Despite the recent renewed interest in the level of government debt, the Cash Basis IPSAS does not require governments to maintain the traditional practice of reporting on the level of this liability. In contrast the Standard does require a full consolidation of all

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[1] United Nations, Department of Economic and Social Affairs (1970) *A Manual for Government Accounting*, United Nations: New York

[2] Colonial Audit Department (1951) *An Outline of Colonial Accounting and Financial Procedure,* Colonial Audit Department: London

controlled entities including government business enterprises (GBEs, also called parastatal organisations or government corporations).

GBEs have traditionally used commercial accounting and so "depreciation accounts will customarily be maintained" (UN 1952: 17[3]). Thus it is practically very difficult to consolidate the financial statements of GBEs with those of central government ministries, departments and agencies as this would first require the conversion of their accrual based financial statements back to the cash (or modified cash) basis.

This explains why South Africa, for example, produces separate "Consolidated Financial Information" for its public entities (GBEs). These statements are not consolidated with financial statements from its national departments (ministries). In addition, the two sets of "Consolidated Financial Information" for the ministries and separately for public entities merely present an aggregation of financial information without the elimination of all inter-entity transactions (see http://tinyurl.com/SAaccounts2011).

Similarly the Ugandan Government produces consolidated financial statements for its central ministries, departments and agencies, but its GBEs are excluded as the benefits are not considered to be worth the effort. The Government Accounting Standards Board of India goes further (2008[4]) saying:

> *Though this is fundamental requirement of Cash IPSAS, it is likely to cause more distortion than bringing in clarity in the financial statements of government… Further, consolidating Government Companies accounts with that of Government will result in artificial inflation of cash inflows and outflows and is not likely result in any improved presentation of financial statements* (page 9).

The objective of producing consolidated public sector financial statements is not clear as the main objective of these financial statements has been for individual Accounting Officers to by held to account by parliament on the way in which funds allocate to them in the budget have been utilised. It is this personal responsibility to parliament (and specifically the Public Accounts Committee) that is at the core of the Westminster approach to public financial accountability and the control of public funds. The French approach is similar as the accounts of individual Public Accountants are audited by the Court of Accounts and, if the funds have been used appropriately, they are cleared or given quitus.

Unfortunately, the Cash Basis IPSAS does not follow this traditional approach and is not based on the existing good practices which have been developed in many countries over the last few decades.

The Cash Basis IPSAS was first issued in January 2003, but although it has been widely promoted by the donor community, PEFA and IFAC, not a single government in the world

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[3] United Nations, Department of Economic Affairs (1952) *Government Accounting and Budget Execution*, United Nations: New York

[4] Government Accounting Standards Advisory Board (2008) *A Study on Gap Analysis of Indian Government Accounting with International Standards*, New Delhi: GASAB Secretariat www.gasab.gov.in/pdf/Gap_Analysis.pdf

has actually been able to adopt this standard. This is not from want of trying, many governments have looked at the standard, but recognised that it is not practical to implement its key requirements. It is estimated, for example, that at least 31 governments in Africa have tried to adopt this standard. One international consultant recently estimated that he had worked in around 30 countries trying to adopt the standard, but that its key requirements had not proved practical.

As a result of these problems, the International Public Sector Accounting Standards Board is planning to fundamentally revise the *Cash Basis IPSAS*. However, this process appears to have stalled. The IPSAS Board has not considered this issue since its June 2010 meeting and no further progress has been made to revise the Standard.

What is needed is for existing good practices to be identified and used as a basis for ensuring that the Cash Basis IPSAS becomes a practical standard that most governments can implement within the medium term. A start has been made with a study, funded by the African Capacity Building Foundation. This reviewed the annual financial statements of 12 governments from across sub-Saharan Africa and identified attributes of good practice (see www.scribd.com/doc/94003101).

We begin this issue of our Journal with *An Overview of Accounting in the Nigerian Public Sector* which is the first chapter of a recent book by two eminent Nigerian authors, Eddy O. Omolehinwa and J. K. Naiyeju. This paper reviews the differences between public sector accounting and that undertaken in the private sector. It then discusses the different types of public sector organisation and the approaches to public sector accounting which have been developed for each of these institutions. Finally the authors consider the research challenges in the area of public sector accounting. They note that the most important has been access to data, but that this has improved in recent years with the annual and even quarterly financial statements now being made available for the Nigerian public sector on the Internet.

Administrative Cameralistics is a particular accounting model developed for use by governmental organizations in German-speaking European countries. In this paper, Norvald Monsen builds on previous papers in this Journal with a practical example. This illustrates the two developed variants of Administrative Cameralistics. These both include two core financial statements: the Statement of Revenues and Expenditures and Statement of Financial Status. These examples again show that the public sector has traditionally been based on the modified cash basis of accounting.

In our third paper, Udaya Pant, considers *Public Financial Management Reforms in Nepal*. He presents an analysis and scrutiny of the evolution of the Nepali public financial management system and recent reform efforts. A description of the historical background should help readers to understand the subject and the key issues. He concludes that basic reforms need to be institutionalized. The intent should not be to 'push reforms' to please the donors. Rather, the basic systems may be tried first, to internalize the skills and the spirit of reform and ensure that the reforms are monitored regularly.

Our next paper provides a reflection on public financial management reforms in Liberia (West Africa) by a senior financial official from the public service of India. Amitabh Tripathi notes that despite the consensus on its importance, post-conflict public financial

management capacity building is a tale of two contrasting ideal types – one that is prescribed, in theory and another that is practised. The paper argues that despite the 'intrusive' international engagement, capacity building in Liberia evolved through a slow and incremental process.

In our final paper of this issue, Andy Wynne briefly outlines why business style accrual accounting is not generally appropriate for the public sector. This conclusion is based on the actual evidence for the costs and benefits of business style accrual accounting from Britain, Australia and New Zealand. He also reviews the significant problems around the implementation of accrual accounting in the Cayman Islands. The paper concludes that incentives are needed to develop existing approaches to public sector financial reporting in ways which recognize the distinctive objectives and nature of government in the provision of public goods and services.

We again end this issue with a section reviewing recent public financial management publications and other resources which we hope will be of interest to readers of the Journal. We would be pleased to receive reviews and suggestions of other resources which we should refer to in future issues.

If you would like to continue the debates raised in this issue please start thinking about contributions for the next issue of this Journal, the ICGFM blog or attend future ICGFM events. We look forward to hearing from you!

Andy Wynne	Charbet Duckett	Jim Ebbitt
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