Public accountability and government financial reporting

Farzad Eivani¹, Kamran Nazari² and Mostafa Emami³*

¹Department of Accounting, School of Social Science, Razi University, Kermanshah, Iran.
²Department of Business Management, Payam Noor University, Kermanshah, Iran.
³Young Researchers Club, Kermanshah Branch, Islamic Azad University, Kermanshah, Iran.

Accepted 5 June, 2012

New Public Management” requires the introduction of competition within the Government to increase financial transparency and improve government performance. The major role of financial reporting is the effective transfer of financial data to people who are outside the organization in a way that is valid and timely one of the most important goals of which is to provide necessary data to evaluate the function of an economic agencies and its ability to make profits. The necessary condition to achieve this is to provide financial data in such a way that the evaluation of the previous functions becomes possible and effective in measuring the ability to make profits and in predicting future activities of economic agencies. The major role of financial reporting is the effective transfer of financial data to people who are outside the organization in a way that is valid and timely; one of the most important goals of which is to provide necessary data to evaluate the function of an economic agencies and its ability to make profits. Government accounting and financial reporting aims to protect and manage public money and discharge accountability. These purposes, and the nature of public goods and tax financing, give rise to differences with commercial accounting. In order to achieve ambitious socioeconomic goals, developing countries require public sector institutional capacity for setting and implementing public policy, which in turn necessitates government accounting reform. The social value of government accounting reform therefore lies in its contribution to development goals, including poverty reduction. Public accountability of government is demonstrated in part by accounting standards that require fair presentation and full disclosure. In the United States, many of these standards are developed by the Governmental Accounting Standards Board (GASB). The paper revealed that the effective implementation of development policies and programmes is anchored on purity of action, honesty of purpose, probity and integrity, which are important hallmarks of accountability and transparency. Financial reporting is the best index of accountability. The accountability and control apparatus in the public service has some minimum technical components that should elicit tolerable standards of accountability and transparency. There are reasonable regulations, adequate albeit outdated accounting procedures, stringent sanctions and financial auditing. The major problem however, is with the human component indices of commitment, honesty, integrity and transparency. The apparatus for managerial and programme accountability are either weak or non-existent. Consequently, the quality of the financial statements should be improved, the system should create room to inculcate both managerial and programme accountability apparatus. The human component-individual accountability should be seriously considered.

Key words: Public accountability, government, accounting reform, government financial.

INTRODUCTION

Today, business operations and financial position reporting have a direct or indirect influence on the individual’s decisions and it is important for them. In fact, financial reports provide a picture of how the company is run and can also be a way to monitor the business unit and its activities from the perspective of management and the board. External financial reporting should be able to present such a view to individuals. That there is a
serious problem of lacking accountability and transparency in the public service is not only well known but fairly documented. General and specific observations within the service and comments from international bodies like World Bank (WB), transparency international (TI), all seem to suggest that the problem is not only real but also enduring.

Accountability; the concept of its importance and the concept of accountability are a pervasive one which impacts on all aspects of government operations. The notions underlying it are those accounting for, reporting on, explaining and justifying activities, and accepting responsibility for the outcomes.

Accountability involves an obligation to answer for one’s decisions and actions when authority to act on behalf of one party (the principal) is transferred to another (the agent). According to the Management Advisory Board (MAB) of the Commonwealth Government (Neilson, 1993), the responsibility for accountability in the public sector exists "...where there is a direct authority relationship within which one party accounts to a person or body for the performance of tasks or functions conferred [..] by that person or body.

Accountability requires openness, transparency and the provision of information, and the acceptance of responsibility for one’s actions. The concept underlies all accounting as well as the operations of democratic governments (Hines, 1989).

It has been argued that sustainability reporting represents one of, if not the most important advance in organizational reporting in the last few decades. However, while this form of reporting has been taken up by the private sector, in comparison, progress within the public sector appears patchy and in many respects, is seen as an emerging field (Dickinson et al., 2005; Ball, 2004). Slowly this is changing with recent shifts in momentum within the public sector and there is evidence of increasing interest and engagement in the practice of sustainability reporting by public agencies (Ellis, 1997).

The responsibilities arising from accountability in the public sector are very broad-ranging ones which encompass the entire structure of government. There is a continuous chain of accountability from governments and the public service to citizens (Funnell and Cooper, 1998: 27 to 29). Governments are responsible to their citizens for the good governance of the nation; ministers and cabinet to parliament for policy formulation and general implementation; and ministers and their departmental staff for detailed policy implementation and the provision of specified public services as authorised by parliament to eligible citizens. It should be noted that the word “democratic” comes from the classical Greek work of “demos”, meaning the people (Funnell and Cooper, 1998: 9).

Democratic governments are elected by citizens to act in the best interests of the nation on their behalf and citizens have a right to know what their governments are doing on their behalf.

They are answerable to their citizens. There is an implicit requirement for public trust in the operations of government and this is embodied in the responsibility for accountability (Funnell and Cooper, 1998: 1). The provision of appropriate information by government to parliament and the people is critical to the accountability obligation, and hence to democracy.

The necessity for maintaining the accountability of governments in democratic societies is attested to in various Royal Commission reports, government committee reports and High Court judgments. For example, the Report of the Royal Commission into Commercial Activities of (the Western Australian) Government and Other Matters stated in 1992 that: If Government is to be truly government for the people, if the public is to be able to participate in government and to experience its benefits, the public must be properly informed about government and its affairs (Miller, 1996).

The organisation for economic co-operation and development (OECD) believes strongly that sound governance is necessary for economic stability and social cohesion. The study would like to take a moment to discuss the word “governance” because it is sometimes casually used and often misused to represent several ideas. By governance, the study means the way power is embodied in public institutions and is exercised, as well as arrangements that keep policy making sound over time.

The concept of governance incorporates how decisions are made, the balance of powers and institutions, and in ways politicians and managers are held accountable. It refers not to public policies per se, but to the settings within which public policy is decided and executed. When it is effective, governance serves to provide (Talebian et al, 2011):

1. An environment in which people are treated fairly and equitably;
2. An atmosphere of transparency which limits monopolistic behavior and stimulates efficiency and innovation;
3. Stability and predictability for social investments;
4. A way of bringing coherence to diverse policy objectives, including both short and long term interests; and
5. Separated responsibilities and accountabilities to prevent the misuse of power by individuals or groups.

Governmental accounting recognises that financial benefits may not reflect economic benefits and that it is measurement of the latter that is sought: Future economic benefits have sometimes been used in accounting texts to signify access to future cash inflow. However, the term is used ... with broader meaning –

*Corresponding author. E-mail: Emamemostafa@yahoo.com. Tel +989183854194
namely the capacity to provide goods and services in accordance with the entity's objectives, whether those objectives are the generation of net cash inflows or the provision of goods and services of a particular volume and quality to beneficiaries (Miller, 1995).

Financial benefits (in terms of expected cash flow) are subsumed within economic benefits, pecuniary and non-pecuniary. Non-pecuniary service potential is generated by a wide range of community assets. Despite tangibility not being an essential characteristic of an asset (AARF, 1995, para. 33), their valuation and inclusion in government financial reports rests on the conclusion that, for accounting purposes, they cannot be readily distinguished from other physical assets (Rowles, 1998: 44), and they meet the asset definition test of SAC (Bolo and Hosseini, 2007).

The new accounting rule dramatically increases the amount of quality information included in government financial reports particularly in regard to retiree healthcare and other retiree benefits. State and local governments must take a series of steps that include quantifying the unfunded liabilities association with retiree health benefits. Results of these assessments must be reported in governmental audits and updated regularly.

Government financial statements will then list an actuarially determined amount known as an annual required contribution. In regard to healthcare this contribution includes (1) the 'normal costs' – the amount that needs to be set aside in order to fund future retiree health benefits earned in the current year and (2) unfunded liability costs- the amount needed to pay off existing unfunded retiree health liabilities over a period (Salehi and Abedini, 2009) of no longer than 30 years.

The spectre of two sets of accounts offering competing numbers, such as the net worth of government, with which to assess the economic performance of government, is unlikely to assist decision making by potential users of either set of accounts unless they can reconcile the differences. If both accounts seek to provide information about the economic performance of either the economy as a whole or government as an institutional unit within that economy (Gittins, 1995: 34), they should rely upon similar theory and measurement. In addition, savings in information collection and processing would be an obvious advantage if the two accounting systems were compatible.

Government regulatory bodies have also been identified in the literature as being constituents in the public sector accounting standard setting process. In Australia, despite the existence of the Public Sector Accounting Standards Board (PSASB), government regulatory bodies - Departments of Local Government (or their equivalent) in each Australian jurisdiction, have the responsibility for the determination of accounting requirements for local governments. Prior research has documented that these bodies have lobbied on public sector accounting standards (Ryan, 1999).

Public sector accounting standard setters in numerous jurisdictions internationally has adopted the user needs perspective as their framework for general purpose financial reporting (Van Peursem and Pradt, 1992). This perspective suggests that resource providers, recipients of goods and services and parties performing a review or oversight function are the primary users of financial reports.

Despite this emphasis, the response rate of these groups to exposure drafts has been found to be low, even where the proposed standard adopts a user perspective (Weetman et al., 1996; Gaffney, 1986; Butterworth et al., 1989; Hay, 1994; Dixon et al., 1994).

The fact that the accounting standard was issued with requirements largely unchanged from the original exposure draft suggests a number of possibilities: either the ED gained general constituent approval; respondents who did not agree with the proposals chose not to lobby; or the positions of opponents to the requirements failed to influence the standard-setters to alter the outcome.

By documenting the level of evident constituent participation in the ‘due process’, the key issues, the positions held by respondents and any strategies employed by them in an attempt to influence the standard-setters, this case study will add to other public sector case studies and enable conclusions to be drawn about the operation of the public sector ‘due process’ (Puro, 1984).

A considerable body of literature has developed, particularly examining the nature of governmental accounting and financial reporting. Research in this category typically explains the practical application of accounting standards in the governmental settings, discusses currently unresolved governmental accounting issues, and or questions current practices in governmental accounting and financial reporting (Gittins, 1995).

Some of the major issues identified include: a perceived gap in the information content of government financial report and information need of users and lack of external accountability (Tamlin, 1997), the need to integrate budgeting, accounting and financial reporting and that a strong and enduring relationship exists between government accounting and budgeting (Tuttici et al., 1994), and the need to reform budgeting processes in view of large budget variances (Watts and Zimmerman, 1978).

The government financial reporting function seems to have been subjected to the greatest amount of criticism in recent years with regard to its information content and its apparent inability to meet the assumed need of a variety of user-groups.

In addition, individuals and institutions outside the government have become virtually interested in the financial activities and status of governments. Example of such users includes creditors, citizen groups (that is, taxpayers, service recipients or voters), business enterprises and others, yet the Government Financial Reports remain the singular picture of the resources
entrenched, how the resources are employed during a fiscal year, and in what form the resources are now held. However, there are overwhelming calls on government to shift emphasis from traditional stewardship financial reporting to the presentation of more informative Government Financial Statements (Solomons, 1978).

Sutton (1984) observes that various persons who have written on the subject of financial reporting in the Federal Government have termed it ‘antiquated, fragmented, incomplete, unreliable and lacking timeliness’… Gary further submits that to a person schooled in government accounting, the Federal Government Financial reporting is disgraceful. All of these epithets may have merit, especially in respect of the statutory background of government accounting, the adequacy of the information content and the extent to which it satisfies public accountability criteria.

Morey (1926) acknowledged that many errors of principle will be committed if there are no material modification to the public accounts, in adopting private sector accounting procedures. In addition, if relevant information contained in Government Financial Statements could provide financial information, the timing of publication can impair its reliability, completeness, and usefulness and so adversely affect users of Published Government Financial Statements (Tandy and Wilburn, 1996).

**VALUING FUTURE ECONOMIC BENEFITS**

In valuing future economic benefits, national accounting seeks an approximation of the cost of using, or using up, some existing asset or good in one particular process of production is measured by the amount of the benefits that could have been secured by using the asset or good in alternative ways. The best practical approximation to opportunity cost accounting is current cost accounting, whereby assets and goods used in production are valued at their actual or estimated current market prices at the time the production takes place” (Salehi and Azary, 2008).

The link between opportunity cost and welfare also is established: the prices used to value different goods and services should reflect not only their relative costs of production but also the relative benefits or utilities to be derived from using them in production or consumption. This establishes the link between changes in aggregate production and consumption and changes in welfare (Greenall et al., 1988).

National accounting seeks to measure the current exchange value in money terms; that is, the values at which assets and other goods, services, labour or the provision of capital are in fact, exchanged or else, could be exchanged for cash (UN, 1993, para. 3.72). If no actual exchange values are at hand, values should be taken from markets in which the same or similar items are traded currently in sufficient numbers and in similar circumstances against cash.

Based on market prices, such measurement treats the financial value of an asset as equivalent to its economic value. The absence of readily observable market prices creates a problem. A market, such as the stock exchange, is acknowledged in SNA93 as an ideal source of price observations which can be used for valuing balance sheet items. A market's utility in valuation decisions is derived from trading a homogeneous product in considerable volume, with the price obtained listed at regular intervals (Deegan et al., 1990), such markets are rare. Where there is no appropriate market from which the value of a particular non-monetary flow or stock item can be taken, by analogy its valuation could be derived from prices that are established in less closely related markets.

Some goods and services may need to be valued by the amount that it would currently cost to produce them (UN, 1993, para. 13.73). These pricing methods - observing market values, accumulating and revaluing transactions, and calculating the present value of future returns - relate to the assessment of current opportunity cost.

According to Hone (1997: 40), there are two ways of interpreting the future flows of economic benefits. Firstly, the benefits represent an increase in the utility of well-being of society that comes from the stewardship of the community asset.

Secondly, the benefits represent a gain achieved by the steward-managers from achieving their entity’s objectives and obligations to the community. Accordingly, in valuing economic benefits, both commercial and social values are appropriate because economic benefits can flow from the use of community assets, from the option to use them in the future, or from the knowledge that they exist. Implicit market prices exist for the provision of social, cultural and environmental services and, by extension, for the assets which generate them.

Measuring these distortion-free prices is an exercise which separates financial analysis from economic analysis which, with its focus on community welfare, is an extension of financial analysis (Perkins, 1994: 3, ch.16). Carnegie and Wolnizer (1997: 45 and 47) dispute whether non-financial benefits can be quantified in commercial terms.

Although, social valuations may assist government’s allocations of scarce resources among competing potential recipients, verifiable financial valuations are necessary for inclusion of assets in statements of financial position As a recent report discussing ways of valuing Australia’s native forests observed, the identification of financial with economic values occurs because of “the easy but methodologically sloppy habit of referring to the financial activities of the Australian society as the ‘economy’” (Mian and Smith, 1990). If government accounts and national accounts have a similar economic
focus, similar definitions, and are based on the use of accrual accounting with similar valuation practices, reconciliation should be possible. Superficially, asset definitions used in Australian national and government accounting appear to be similar. While the key to determining what is an asset, the definition of "economic benefit", is similar, recognition criteria vary, leading to differences in the grounds for asset inclusion (MacArthur, 1988).

### FROM ACCOUNTABILITY TO ACCOUNTING

Accountability has an economic focus, requiring information which can be used to assess "the economy, efficiency and effectiveness of entity operations" (Parker, 1993: 162; PSACE, 1995: 13). This represents a "hijacking" (Rentschler and Potter, 1996: 110) by accountants of traditional notions of accountability, in which the emphasis is on effectiveness.

Effectiveness is determined by reporting entities' objectives, objectives which span cultural, heritage, scientific and educative values. Such accountability lies outside the market (Carnegie and Wolnizer, 1995: 84) and is difficult to quantify in financial terms. Financial notions of accountability also may trivialise the notion inherent in the Westminster model of government, a notion based on ethical and equity considerations (McCrae and Aiken, 1994: 66).

Others, such as Micallef and Peirson (1997), adopt the strong economic focus inherent in the Australian conceptual framework, a focus which is reflected in the standards governing governmental accounting. This economic focus leads Hone (1997: 40) to declare that resource allocations must be based on increases in the utility or well-being of the community, and on gains achieved by public sector asset managers by meeting their entity's objectives and obligations to the community.

The global rise of government accounting is fundamentally due to the greater demand for accountability in a democracy and market economy. Democratic governance and market transactions require and foster the norm of reciprocity the expectation of exchange of benefits of comparable value upon which accountability is based. Accounting information can be used to monitor and enforce the terms of economic, social and political contracts. When a government engages in market transactions whether buying or selling services, lending or borrowing money it is subject to economic accountability. When it levies taxes to finance public services, it incurs political accountability (Dolley and Priest 1994).

While all governments engage in some degree of planning and control, only democratic governments are mandated to open their books directly to auditors and indirectly to the public through financial reports. Fiscal transparency is therefore an attribute of limited government, for to give out information is to cede authority. Government officials rationally do not volunteer more information than is required or in their interest. It is therefore not surprising that, while some accounting is done on a voluntary basis, financial disclosure is often made only in response to demand.

The regulatory structure for government financial disclosure mirrors the pattern of accountability in government and the political system. In an administrative hierarchy, the superior holds subordinates accountable and requires feedback information on their performance. A legislature monitors the conduct of the executive branch, for example, in executing the approved budget. Furthermore, a government has the incentive to disclose information in order to induce others to provide resources to it. These include potential buyers of government securities; vendors of goods and services on credit; and grantors of financial aid. In these voluntary exchanges, information is used to predict a government's ability to carry out the terms of contracts, after the transactions are made; accounting information is used to monitor contractual performance (O'Keefe and Soloman, 1985).

Governments are less inclined to disclose financial information to those without leverage over it, at least in the short-term, such as individual taxpayers. It is here that mandatory standards seek to increase the information access of those who are least able to demand it, or to enforce their right to know. The exercise of accountability requires institutions in both senses of the term: namely, organizations; and rules of the game (World Bank, 2002: 4).

In government accounting, these refer to standard-setting bodies and the standards they promulgate. These institutions of government accounting in individual countries are extensively documented in the CIGAR literature and will not be covered in this article. It is, however, important to describe the general purposes of government accounting, in order to contrast it with commercial accounting. The Commission on Audit shall have the power, authority, and duty to examine, audit, and settle all accounts pertaining to the revenue and receipts of, and expenditures or uses of funds and property, owned or held in trust by, or pertaining to, the Government, or any of its subdivisions, agencies, or instrumentalities, including government-owned or controlled corporations with original charters, and on a post-audit basis: (a) constitutional bodies, commissions and offices that have been granted fiscal autonomy under this constitution; (b) autonomous state colleges and universities; (c) other government owned or controlled corporations and their subsidiaries; and (d) such nongovernmental entities receiving subsidy or equity, directly or indirectly, from or through the Government, which are required by law or the granting institution to submit to such audit as a condition of subsidy or equity.

However, where the internal control system of the audited agencies is inadequate, the Commission may adopt such measures, including temporary or special pre-audit, as
are necessary and appropriate to correct the deficiencies. It shall keep the general accounts of the Government and, for such period as may be provided by law, preserve the vouchers and other supporting papers pertaining thereto. The Commission shall have exclusive authority, subject to the limitations in this Article, to define the scope of its audit and examination, establish the techniques and methods required therefor, and promulgate accounting and auditing rules and regulations, including those for the prevention and disallowance of irregular, unnecessary, excessive, extravagant, or unconscionable expenditures or uses of government funds and properties (Section 3). No law shall be passed exempting any entity of the Government or its subsidiaries in any guise whatever, or any investment of public funds, from the jurisdiction of the Commission on Audit (Scanlan, 1999) (Section 4).

The Commission shall submit to the President and the Congress, within the time fixed by law, an annual report covering the financial condition and operation of the Government, its subdivisions, agencies, and instrumentalities, including government-owned or controlled corporations, and nongovernmental entities subject to its audit, and recommend measures necessary to improve their effectiveness and efficiency. It shall submit such other reports as may be required by law.

ORGANIZATIONAL ROLES AND RESPONSIBILITIES

The following organizations play central roles in budgeting, accounting and auditing arrangements. The COA audits the general accounts of the Government, promulgates accounting rules and regulations, and submits the annual financial report of the Government, its subdivisions, and agencies (including government owned or controlled corporations).

The Department of Finance (DOF): The DOF is responsible for (i) formulating, institutionalizing, and administering fiscal policies in coordination with other concerned subdivisions, agencies, and instrumentalities of the government; (ii) managing the financial resources of government; (iii) supervising the revenue operations of all LGUs; (iv) reviewing, approving and managing all public sector debt; and (v) rationalizing, privatizing and ensuring the public accountability of corporations and assets owned, controlled or acquired by the Government (187). The DOF oversees three operating bureaus: the Bureau of the Treasury (BTr), the Bureau of Internal Revenue (BIR), and the Bureau of Customs. The Bureau of the Treasury (BTr): The BTr plays a pivotal role in the cash operations of the national government. It is responsible for (i) receiving and keeping national funds; (ii) managing and controlling disbursements of national funds; and (iii) maintaining accounts of financial transactions of all national government offices, agencies, and instruments.

Department of Budget and Management (DBM): The DBM is responsible for the design, reparation and approval of the accounting systems of government agencies. It is also responsible for coordinating and implementing the annual budget process. Furthermore, the Department manages the process of cash disbursement as well as monitoring compliance with appropriations.

Development and Budget Coordinating Council (DBCC): The DBCC comprises representatives from DBM, DOF, Bureau of Treasury, NEDA, and BSP. All agency budgetary requirements must pass through the Council. Its objectives are to (i) set budget parameters based on available resources; (ii) conduct budget hearings; and (iii) submit the resulting consolidated budget to the House of Representatives (particularly the Committee on Appropriations).

CONCLUSION

Financial reports are an important source of information for stakeholders, who use them for investing, contracting, and regulating decisions. Low quality reporting can lead to suboptimal decisions and potential misallocation of resources and as such, financial reporting quality is important (Ellis, 1997).

Traditional public administration is internationally widespread and has been durable, because the ideal of rules ensuring equal service delivery to every citizen has strong popular and political appeal. Moreover it is durable because traditional public administration can continue to operate where bureaucrats do not have highly specialised skills and where they may not be trusted to exercise discretion. The kinds of changes we are talking about are crucially dependent on relatively specialised skills (for example, the transition to and use of accrual accounting) (Chua and Sinclair, 1994).

These new approaches will not work at either the political or the bureaucratic level in the absence of a supportive culture. It may not be possible for a government to leap frog to such reforms. Rather system changes should occur gradually as public officials internalise values and attitudes to the point where there is a supportive culture for rule compliant behaviour oriented to the public interest. It is only in such an atmosphere of relatively high trust and low enforcement costs, that the full advantages of high managerial discretion will be realised.

The work of the Organisation for Economic Co-operation and Development (OECD) is to promote stable and sound governance arrangements. The budget is a nation’s, a province’s or a city’s most important policy document. Consequently, to promote sound governance arrangements, the Member countries of the organisation for economic co-operation and development (OECD) are committed to producing well-crafted budgeting and
reporting systems that are tailored to the business of government.

Budgets are constructed in a way that encourages politicians and public servants to act coherently in the larger public interest. This is achieved:

1. Vertically, by connecting policy intent to administrative action.
2. Horizontally, by ensuring that one action of government is consistent with another, and
3. Temporally, by recognising that sound governance includes care for the interests of future generations.

Conditions of separated decision-making, transparency and accountability help these processes to be self-cleansing over time and thus provide the insurance of a successful society in the long-run. The accounting system should measure the cash and other financial consequences of past transactions and events, including, but not limited to, budget execution. The accounting system should be capable of keeping track of the levels and changes in assets, liabilities, revenues and expenditures or expenses, relative to budgeted amounts. These principles do not prescribe accounting choices. Rather, they provide a foundation for deliberating and setting government accounting standards.

Generally, accounting standards take on a greater social role as accountability requirements in countries that require higher standards of ethical behaviour. Government accounting standards in effect become government accountability standards. (Recently the U.S. General Accounting Office was renamed Government Accountability Office). Government must answer for the resources or authority it receives from others in the society and economy.

In conclusion, fundamental to the development of accrual accounting in developing countries is the ability to identify and measure the government’s assets and liabilities. Corruption tends to result in the understatement of government’s assets or the overstatement of government’s liabilities. Unless financial integrity is assured, the credibility of government’s financial information suffers. Thus both financial integrity assurance and accurate accrual accounting are accountants’ professional contribution to developing countries. The most significant factors to push the change forward have been as follows: a favourable political approach, civil servants wholeheartedly working to successfully implement the reforms and the continuous point of reference of business accounting. Even though there is still a clear need to improve the financial statements that are now prepared, especially in the case of local administrations, the Spanish model seems rather advanced in comparison to others in its environment.

From the mid-1990s, the priorities and criteria to qualify under-development of managerial culture in public administration have changed the focus of the process and reduced the speed of reforms. The interest is now moving towards National Accounts, and therefore, micro-economic aspects are rather overlooked. Nonetheless, this move towards aggregated information is also taking place in other European countries, so the international stimuli for micro-economic accounting harmonisation are reduced. However, this process implies a high support for full accrual accounting and budgeting, in the lines of the magnitudes used by National Accounts. This will undoubtedly lead to a significant push to adopt Generally Accepted Accounting Principles (GAAP) in public sector accounting and budgeting.

Last but not least, in Spain we use the accounting and budgeting model derived from the change of political regime in the late 1970s. The budgetary accounting is based in the modified cash basis of accounting, whereas the financial accounting is based on the modified accrual basis. Even though in the short-term the interest is moving towards National Accounts, the need to provide an effective financial management and rendering of accounts by public administrations will imply a further development and improvement of the initiated reforms.

Elaborate financial regulation and rigid accounting system are deliberately designed to guide the actions and conduct of public officers in the conduct of and accounting for scheduled activities. In scope and content the financial regulations appear to be quite adequate. There are sufficient provisions to guide every responsible officer and to safeguard official resources. The cash basis of accounting which the Finance (Control and Management) Act, 1958 imposes would also appear to be realistic going by the traditional activities of government; financial account However, there is the added need for managerial and programme accountability which the prevailing system has not adequately catered for; value for money is not a feature of the present system. The problems related to wrong approvals, wrong payments, wasteful expenditure, fake acquisitions and ghost disbursements are directly traceable to weak internal control system. The individual accountability, an important element of the system is at its lowest ebb of accountability and transparency (Butterworth et al., 1989). Taking all these together, one is tempted to infer that though the accountability and control apparatus in the public service may not be the best, it has some minimum technical components that should elicit tolerable standards of accountability and transparency.

The findings and conclusions of the paper necessitated the following recommendations on legislative requirement, and report content and presentation (Coleman, 1996):

(1) Legislative Requirement:

(a) The right of users to request special financial reports must be legally mandated, and be made accessible;
(b) The timing of reports publication should be made 3-months as against the statutory 7-months;
(c) Establishment of Governmental Accounting Standard Board, to determine the detailed procedures, principles, and standards that should operate within the public sector, as public Accounting Standard Board is to the private sector accounting; and:

(d) The present statute makes the accrual basis of accounting illegal, in view of the importance now attached to it; the modified accrual basis of accounting should be adopted in reporting government financial transactions.

(e) Value for money audit should be mandated by law as well as a shift from stewardship reporting to emphasis on external accountability and programme planning and budgeting systems.

(I) The office of the Auditor-General whose constitutional duty it is to examine and authenticate the books of accounts is deliberately designed to be party of government but yet outside it. Efforts have to be made to enhance the autonomy and staffing situation and facilities too.

(2) Content and presentation:

(a) Provision of information showing the relationship between services rendered and operating outlays, to enable groups external to the government obtain accounting information to assist them in evaluating the performance of functionaries in charge of government operations.

(b) Improvement in the quality and style of presentation of the statements with focus to make it understandable, complete, reliable and consistent. This could be achieved through:

(i) Expansion of the contents of the notes to financial statements; notes to include: basis of presentation and explanation of funds and fund accounts, basis of accounting- for measuring and reporting constituents of the financial statements;

(ii) Disclosure of the reconciliation between actual expenditures on the budget basis and the modified accrual basis, and disclosure on adverse situations—deficits in fund balances or retained earnings of individual funds, excess expenditures over appropriations, material violations of finance related legal and contractual provisions.

REFERENCES


