THE REFORM OF CENTRAL GOVERNMENT ACCOUNTING IN MALTA

by

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ABSTRACT

Lüder's Financial Management Reform Process Model (2002) is used to analyse and explain the context of the accounting reform process at the central government of Malta, thus introducing Malta in the field of Comparative International Governmental Accounting Research (CIGAR). Organisational Theory that underlies this model is referred to when discussing its limitations. The qualitative research methodology required a set of interviews with actors involved in the reform process, supported by documentary research.

The governmental accounting reform process in Malta is described in two phases: the environment of the first phase is assessed as conducive to change; in the second phase, stronger forces at macro level reduced this conduciveness. The long-winding reforms at central government level in Malta may only be illusory because once the statistical reporting requirements for Eurostat were achieved, the reform concept changed. The findings confirm the centrality of the budget in government accounting.

The decision by the Maltese Government to adopt International Public Sector Accounting Standards (IPSAS) does not appear to be well-informed and appears based on the quest for credibility. The objective of the European Union (EU)'s interest in IPSAS is also questioned since these financial reporting standards do not give budgeting particular importance, and reporting to the EU by member states is already harmonised through the ESA95.

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Josette Caruana

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I dedicate this thesis to my father.

His courage to understand is an inspiration.

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LIST OF ABBREVIATIONS

AAWG	Accrual Accounting Working Group
CIGAR	Comparative International Governmental Accounting Research
CIPFA	Chartered Institute of Public Finance and Accountancy
DAS	Departmental Accounting System
DCS	Director Corporate Services
DG ECFIN	Directorate General for Economic and Financial Affairs
EBU	Extra Budgetary Unit
ECA	European Court of Auditors
EDP	Excessive Deficit Procedure
EFSF	European Financial Stability Fund
EMU	European Monetary Union
EPSAS	European Public Sector Accounting Standards
ESA	European System of National and Regional Accounts
EU	European Union
FAA	Financial Administration and Audit (Act)
FDRS	Financial Data Repository System
FMMU	Financial Management Monitoring Unit
FMR	Financial Management Reform
GAPSE	General Accounting Principles for Smaller Entities
GASB	Governmental Accounting Standards Board
GDP	Gross Domestic Product
GFR	General Financial Regulations
GFS	Government Finance Statistics
GFSC	Government Finance Statistics Committee
IAASB	International Auditing and Assurance Standards Board
IAID	Internal Audit and Investigations Directorate
IAS	International Accounting Standards
IASB	International Accounting Standards Board
ICT	Information Computer Technology
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
INTOSAI	International Organisation of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
IPSASB	International Public Sector Accounting Standards Board
MEP	Member of the European Parliament
MFEI	Ministry of Finance, the Economy and Investment
MGAS	Malta Government Accounting Standards

MIA	Malta Institute of Accountants
MITA	Malta Information Technology Agency
NAO	National Audit Office
NPFM	New Public Financial Management
NPM	New Public Management
NSI	National Statistics Institution
NSO	National Statistics Office
OPM	Office of the Prime Minister
OECD	Organisation for Economic Co-operation and Development
PAC	Public Accounts Committee
PMR	Public Management Reform
PPP	Public Private Partnership
PSC	Public Sector Committee
PSRC	Public Service Reform Commission
SAI	Supreme Audit Institution
SNA	System of National Accounts
SPV	Special Purpose Vehicle
UN	United Nations

LIST OF ABBREVIATIONS FOR RESEARCH PARTICIPANTS

AG	Accountant General, Treasury
BO	Budget Office, Ministry of Finance
DCS	Director Corporate Services
DFPDA	Director Financial Policy Development and Analysis, Ministry of Finance
DGA	Director Government Accounting, Treasury
DGSOS	Director General Strategy and Operations Support, Ministry of Finance
GT	Partner, Grant Thornton
IAID	Director General Internal Audit and Investigations
MIA	Malta Institute of Accountants, Technical Officer
MITA1	Malta Information Technology Agency, General Manager
MITA2	Malta Information Technology Agency, Manager
NAO1	Deputy Auditor General
NAO2	Assistant Auditor General
NSO	National Statistics Office, Manager
PAC1	Chairman, Public Accounts Committee
PAC2	Member, Public Accounts Committee
PS	Permanent Secretary, Ministry of Finance
TA	Treasury Accountant
XBO	Ex-Director General, Budget Office
XDGS	Ex-Director General Special Projects

CHAPTER 1: INTRODUCTION

1 COMPARATIVE INTERNATIONAL GOVERNMENTAL ACCOUNTING RESEARCH

The Comparative International Governmental Accounting Research (CIGAR) Network started around 1987 from the idea of studying governments through the eyes of accountants (Jones, 1991). Governmental accounting in many countries is not mainstream accounting and there are various ways of how an accounting and budgetary system can be designed (Jorge *et al.*, 2011). This research field developed, therefore, on the concept that governmental accounting systems of different countries are worth knowing about for their own sake, and that sharing this knowledge enhances comprehension (Jones, 1991). CIGAR stimulated an international exchange of ideas and discussion of research methods and results. Public sector accounting is firmly embedded in the political, economic, legal and social contexts in which it is practiced, even more so than business accounting (Jorge *et al.*, 2011). This resulted in the underlying literature to consist mainly in a set of country studies (Jorge *et al.*, 2011).

CIGAR literature reveals that governments have basically used some form of cash-based budgetary accounting system. Such systems were not implemented or audited by professionally-qualified accountants (Jones, 2011a). The influence of professional accounting bodies, which mainly constitute business accountants, has been increasing since the 1970s, resulting in a focus on extending the cash-based accounting to some form of accrual-based accounting, with more emphasis on financial accounting and reporting that dominates business accounting, with the attendant typical codifications (Jones, 2011a). Jones (2011a) refers to the formation of the Governmental Accounting Standards Board (GASB) in the US in 1984, and the attempt to extend international harmonisation in the form of the International Public Sector Accounting Standards Board (IPSASB) in 2004. In spite of this, it is normal for a national government to make its own accounting policies in the process of carrying out some form of changes to its accounting system to accommodate accrual accounting practices (Jones, 2011a).

CIGAR also reveals that the traditional cash-based budgetary accounting system has persisted amidst attempts by governments to 'modernise' their accounting systems (Jones *et al*., 2013) in order to perhaps meet private sector professional expectations. Accounting reforms are undertaken by governments to introduce some form of accrual accounting system as an add-on to the traditional cash-based budgetary accounting system and not as a replacement (Blöndal; 2003; Montesinos, 2005; Paulsson, 2006; Grossi and Soverchia, 2011; Jones *et al*., 2013). This is due to the centrality of the budget in all governments (Jones, 2011a). The term accountability for a national government takes on a different meaning than for a business, due to the political, economic, legal and social contexts; and thus, perhaps, even the required accounting and reporting:

> *The budget is the lifeblood of the government, the financial reflection of what the Government does or intends to do.* (Wildavsky, 1984:128)

National governments are unique institutions even between themselves due to the various relations that may exist between their legislatures, executives and judiciaries; resulting in the budget within each national government setting to have its own rules and conventions, and thus its own consequent accounting (Jones *et al*., 2013).

The uniqueness of national governments and the importance of the budget are considerations that are largely absent from the dominant forms of financial reporting as presented by the accountancy profession. Jones *et al.* (2013) also draw attention to certain literature that perhaps does not emphasise the importance of the budget when addressing national government accounting reforms[1]. According to Jones *et al*. (2013), this may be acceptable in studies concerning lower-level governments where the role of the budget is not so formal and central, but at national level, such literature would need to be used with care.

Lüder and Jones (2003) is an exemplar of a CIGAR study that includes national government accounting and budgeting. Referred to as the EuroCIGAR study, it includes nine country studies based on the same format that discusses current and proposed budgeting and accounting technique, governmental structure, legal framework and the roles of the accounting profession and standard-setting bodies. The EuroCIGAR study uses Lüder's Financial Management Reform (FMR) Process Model (2002) to analyse and explain the context of the reforms from traditional cash-based budgetary accounting systems to accrual-based systems in each of the nine countries, even though the reforms are incomplete or merely proposed.

Lüder's FMR Process Model (2002) is described as a paradigm for CIGAR (Chan *et al*., 1996a) and has been applied and studied in various contexts. In spite of its limitations, the model instigated a spate of country studies that contribute to the underlying CIGAR literature. The model is criticised for not providing an explanation of the content of government accounting (Jorge *et al*., 2011). In view of the uniqueness of the nature of national

[1] For example, Guthrie (1998) and Monsen (2008).

governments as institutions, this appears to be a rather far-fetched expectation from any model. Twenty five years of CIGAR reveals fundamental differences in traditional cash-based budgetary accounting systems due to the various social, legal, political and economic contexts. It also reveals that there appears to be no consensus as to what any accounting reforms embracing some form of accrual accounting should actually be (Jones *et al*., 2013).

The divergence of theory and practice within and between countries is also identified by an early survey of the literature on accrual-based reform by Caperchione (2000), that also raises issues concerning harmonisation within the European Union (EU), and emphasises the importance of governance that should be integrated within any technical accounting reform.

2 THE MALTESE CONTEXT

This study concerns the accounting reforms in the central government of Malta. The objective of this study is to introduce Malta in the field of CIGAR. The central government of Malta uses the traditional budget-oriented cash-based accounting system, and like other countries in CIGAR studies, the Maltese central government is in the process of change to a more informative accounting system. This process started in 1999 and is still ongoing.

This study is important because, according to the researcher's knowledge, no other research exists concerning the accounting system of the central government of Malta and the changes that it is experiencing. The governmental accounting system of Malta is worth knowing for its own sake, and the dissemination of this knowledge will also enhance the understanding of government accounting systems of other countries (Jones, 1991).

Malta is an EU member state, and the timing of this study is, therefore, also crucial. Following the economic crisis, the EU is considering the implementation of a standardised public sector accounting system across all member states. In the context of the diversity of government accounting systems and accounting reforms revealed by CIGAR (Jones *et al*., 2013), the work being undertaken by the EU appears daunting to say the least. The task of the EU Commission is even more breathtaking since it has included the reliability of government finance statistics in the equation, thus connecting government accounting with national accounting, and encouraging the study of harmonisation between the standards underlying these two fundamentally different reporting systems. The impression is being given that accrual accounting and standardisation will lead to better governance. In the process, it appears that the centrality of budgets and budgetary accounting for governments is not being given due importance.

Lüder and Jones' (2003) EuroCIGAR study is used as a guide for extracting and presenting the findings concerning the current and proposed budgeting and accounting techniques, governmental structure, legal framework and the roles of the accounting profession and standard-setting bodies in the Maltese context. This study also uses Lüder's FMR Process Model (2002) to analyse and explain the context of the reforms from traditional cash-based budgetary accounting systems to accrual-based systems in Malta, thus enhancing the utility and contribution of this study to CIGAR.

Malta has always had strong links with Europe, way back before EU membership. The legal structure is Continental European, while the administration of the country and the fiscal legislation of the Central Government have been inherited from colonial times. The underlying financial legislation were designed on British Colonial Regulations with emphasis on budget preparation, budgetary accounting and control.

The so-called 'development decades' from 1959 to 1989 saw the government venturing into various types of legal and organisational structures, with the public sector growing into a heterogeneous and economically influential institution. The constitutional crisis of the 1980s, and the government's determination to apply for EU membership, led the politicians to require extensive reforms in the public service. The reforms started in 1990, with the Public Service Reform Commission (PSRC) suggesting decentralisation and delegation of authority for better administration, and efficient and effective public services (PSRC, 1989). One of the pillars of public administration reform was the improvement in the financial management of the government, including the adoption of modern accounting methodologies.

Local Government was set up in 1993, and soon after, this was required to implement an accrual accounting methodology as used by the private sector. New government entities were also required to implement such accounting methodology from the outset. The central government procrastinates. The findings of this study reveal that while accounting reform at this level is paid its due lip service, there appears to be a reluctance to actually implement such reforms. Government auditing, both internal and external, evolved over time and now adheres to international standards, but government accounting and reporting appears to have frozen in the colonial era.

The Ministry of Finance set up the Accrual Accounting Task Force in 1999 with the remit to take all necessary measures to implement an accrual accounting system for the central government. The project of this Task Force was big and multi-pronged, including the specifications for an appropriate computerised accounting system; the required revisions to the financial management legislation; and the formulation of accrual accounting standards for government. It was decided from the outset that the cash-based budgetary accounting system will be retained, and that any accrual-based reporting will be an add-on.

While accounting standards for the Government of Malta (the Malta Government Accounting Standards [MGAS]) were designed, the findings show that work on the legislation lagged behind. Since 2002, in the absence of a new computerised accounting system that can handle accrual accounting, the Treasury has been compiling trial accrual-based financial statements by integrating accrual data collected from the departments with the cash-based data generated from the accounting system. These financial statements are neither published nor audited, but the Treasury persists in preparing them and refining the data, in anticipation of the implementation of accrual accounting in central government, as preparation of the opening balances that would be required.

Malta became an EU member state in 2004 and joined the Eurozone in 2008. The accrual data collected from the departments is also required for the preparation of statistical reports prepared according to National Accounting standards. The findings reveal that once EU reporting requirements were achieved, the accounting reforms stalled. Effectively, the reform concept appears to have changed from implementing a full accrual accounting system to a hybrid system that satisfies EU reporting requirements; from being managerial-driven to being more accountability-driven.

The organisation structure to carry out the reforms is in place but is not functioning. In the meantime, a decision was taken in 2011 to adopt International Public Sector Accounting Standards (IPSAS). This decision was taken on the eve of the EU's official demonstration of its interest in IPSAS for all member states. Albeit the smallest member state, Malta has to abide by all the requirements of EU membership. Limited resources of a small administration would necessarily lead to prioritisation. It appears that the Maltese authorities have now taken the stance to await further directions from the EU before proceeding with any further changes.

3 RESEARCH OBJECTIVES

The basic research question of this study is the 'how and why' of accounting reforms being carried out by the central government of Malta. The circumstances leading to the adoption of IPSAS will also be analysed, together with the perception of national accounting versus government accounting.

This one-country study contributes towards CIGAR by heeding to the suggestion of Chan *et al.* (1996) for CIGAR to pay more attention to content (that is, the governmental accounting system itself), the process of innovating, and the international diffusion of innovations. It will, in particular, answer to Lüder’s call for scholars to conduct studies which are analytical exploratory, conceptual and explanatory (Chan, 2002). Although not a comparative study, there is global interest in government accounting reforms, and the model used, that is, Lüder's FMR Model (2002), has been derived from explicit comparative research.

Using Lüder's FMR Model (2002) focuses the research to answer the following questions on central government accounting reforms in Malta:

- What are the factors or variables underlying the change process while it takes place?
- Who are the main actors effecting and/or affecting the change process?
- How are the reforms being implemented?
- What is the combined effect of these factors? Do they create the right environment for the government to successfully achieve the anticipated reforms?

The decision taken in 2011, by the Ministry of Finance, to adopt IPSAS in full adds another dimension to the study. The empirical data also reveals the importance given to statistical reports of national accounting by practitioners. The increased interest in IPSAS being shown by the EU for government accounting of the member states makes these issues current and relevant, thus adding the following objectives to this study:

- What are the underlying factors that have led to the decision to adopt IPSAS?
- Why IPSAS and not some other accounting standards?
- How will this decision to adopt IPSAS affect the accounting reform process?
- Why is the EU considering IPSAS for its member states and what may be the possible outcome of this interest?

- What are the perceptions regarding the differences between national accounting and government accounting, and how are such perceptions affecting the accounting reform?

As the literature review in Chapter 3 describes, Lüder's FMR Model (2002) has changed and developed over time as it has been applied by various researchers in different contexts. In his current research, Lüder is considering revising the model to a more simplified version (Lüder, 2013). This study applies the more recent published version of the model in a different context, namely, the central government of Malta. After describing the factors constituting the variables as they exist in the Maltese context, the conduciveness to accounting reforms of the environment created are assessed.

The feedback loops designed in the Model prove very useful to explain the slow reforms happening in Malta, in particular, the apparent change in trend in 2004. Moreover, by referring back to organisational theory that underlies the Model, the research discusses the criticism of the Model in that it does not explain the reason why the contents of government accounting are what they are, and why the contents become what they become when they change (Jorge *et al.*, 2011). Another criticism is that it does not consider the extent of certain variables and how the variables interact with each other (Christensen and Yoshimi, 2001; Jorge *et al.*, 2011).

4 LIMITATIONS

The central purpose of research is understanding. Documentary research and interviews are the research methods used to surface the data required to answer the research questions. Some of the findings surfaced by this research are facts and thus difficult to misinterpret. Other findings are opinions and may be subject to different interpretations. The analysis of such findings is, therefore, subjective.

5 OVERVIEW OF THE STUDY

Change is the underlying theme of this study. History is a record of events that warrant to be noted because they imply change. Change in the government organisational structure, together with a change in the environment, lead to a change in the meaning of accountability and transparency requirements. The reforms undertaken by a government should lead to a change in the governmental accounting system. The model that is used to assess this process of change, namely, Lüder's FMR Model (2002), has itself changed over time and it still is.

This study is organised in nine chapters, including this Introduction (Chapter 1), where the scope of the study and the research objectives are identified, highlighting the contribution of the study towards CIGAR.

Chapter 2 describes the steps taken in conducting the research and the materials used at each step. A qualitative approach is taken to answer the research questions, using a mix of documentary research and in-depth interviews. The underlying literature is used as a guide to prepare the main research tool used for the empirical part of the research. The research participants are chosen to accommodate the behavioural variable as identified by the model used by the study, namely, Lüder's FMR Model (2002).

Chapter 3 is a review of the pertinent literature relating to organisational change and government accounting reforms. Organisational theory underlies Lüder's FMR Model (2002) that is used for this study, and Institutional Theory is the branch of organisational theory which is used to discuss the criticisms of this Model.

The findings from the empirical and documentary research are described over four chapters. Chapter 4 starts with the historical background and leads to the current situation of government accounting. Chapter 5 presents the opinions and attitudes of the actors involved in the accounting process regarding the proposed reform. Prominence is given to the Permanent Secretary's position as the main actor. The opinions and attitudes of the other actors may or may not coincide with those of the Permanent Secretary, presenting further debates and highlighting uncertainties. The identification of accounting standards for the Government of Malta is described in Chapter 6, together with the increased interest being shown by the EU in the IPSAS, mainly due to the financial crisis. The findings in this chapter try to establish the effect of these variables on the governmental accounting reform process. The findings in Chapter 7 relate to the importance given to national accounting by the Maltese authorities and how this is affecting the governmental accounting reforms.

The findings described in Chapters 4 to 7 provide data related to the research questions of this study as identified in this introductory chapter; and these findings are analysed and discussed in Chapter 8, through the lens of the literature reviewed in Chapter 3. Chapter 8 is divided in five main sections:

1. The historical background is analysed first, where the impact of the traditional paternal system of government and British Colonial influence on current accounting reforms are analysed;
2. The contextual, behavioural and instrumental variables as described by Lüder (2002) are identified in the Maltese context. Lüder's FMR Model (2002) is applied and it is shown that the governmental accounting reform process in Malta can effectively be divided into two phases, with the first phase having an environment that is conducive to governmental accounting innovations, while the second phase is perhaps not so conducive;
3. The decision to adopt the IPSAS is analysed, which results in highlighting the superiority of the European System of National and Regional Accounts (ESA95) over the IPSAS. The availability of the IPSAS and the EU's interest in them appear to actually act as a deterrent on the accounting reform in Malta. The reasons why the EU is showing this interest and the possible outcome in the form of the European Public Sector Accounting Standards (EPSAS) are discussed, together with the expectation that IPSAS adoption would bring government accounting closer to ESA95;
4. The effect of the ESA95 and national accounting requirements over the governmental accounting reforms is then analysed, in particular, the consequences of the limited reporting entity definition of the ESA95;
5. Finally, Lüder's FMR Model (2002) is re-visited. The criticisms of the Model are analysed through the lens of Institutional Theory. It is suggested that in the context of

the accrual accounting reforms in Malta, the Model could be three dimensional, with two interconnected planes being the macro and micro environments.

Chapter 9 concludes the thesis with a general overview summarising and highlighting the main findings and key contributions. The limitations of the study are pointed out, together with recommendations and suggestions for future research.

CHAPTER 2: RESEARCH METHODOLOGY

1 INTRODUCTION

This one-country study contributes towards CIGAR by heeding to the suggestion of Chan *et al.* (1996a) for CIGAR to pay more attention to content, the process of innovating, and the international diffusion of innovations.

According to the researcher's knowledge, no previous research exists on this aspect of government accounting in Malta. The empirical work required by this study has not been done before. The study is, therefore, both exploratory, in order to describe the context, and explanatory, in that it will try to identify the factors that affect the accounting reform.

The empirical work is divided into two parts. The first part studies the developments in government accounting in Malta: the background history and legislative developments that make government accounting as it is now. The second part involves an analytical exploratory study of the current government accounting situation.

The purpose of this chapter is to identify the analytical framework used in the study and to describe the research tools used.

2 THE ANALYTICAL FRAMEWORK

The objectives of this research are identified in Chapter one. The basic research question is the 'how and why' of accounting reforms being carried out by the Government of Malta. The circumstances leading to the adoption of IPSAS are also analysed, together with the perception of national versus government accounting.

The type of questions presented by the study require a qualitative research methodology in order to be answered since the purpose is to describe, analyse and compare accounting practices, focusing on a particular context and then integrating a broader approach (Miles and Huberman, 1994; Ryan *et al.*, 2002). Qualitative research is grounded in a philosophical position which is broadly 'interpretivist' in the sense that it is concerned with how the social world is interpreted, understood, experienced or produced (Mason, 2002:4). Documentary research and interviews are the research methods used to surface the data required to answer the research questions. Using a form of thematic analysis, various themes emerged from the data and these are related to the research questions. The empirical data is analysed through the lens of the theoretical framework developed in Chapter 3.

The central purpose of research is understanding. While some of the findings surfaced by this research are factual, other findings may be subject to different interpretations. The analysis of such findings is, therefore, subject to the interpretation of the researcher, with the researcher bearing in mind that the responses of the research participants is what they believe or what they want the researcher to believe. Subjectivity is an integral part of the research due to the values of the research participants and the researcher (Robson, 2011).

3 RESEARCHING THE HISTORICAL ASPECT

Theoretically, historical structures are needed to explain the current actions of agents. Historical structures condition how people act today. Qualitative research normally includes a historical part. It is important to be aware of what has happened in the past in order to be in a position to better understand the present (Fielding, 2005).

Historical data in general can be collected from archives, books, publications and, if possible, by interviewing people who were there at the time. Analysing documents is somewhat fraught with uncertainty because consideration needs to be taken of who wrote them and the context in which they were written. When using documents for research, Prior (2003:26) explains how important it is to keep in mind the dynamics involved in the relationships between production, consumption, and content. This is why it would be ideal to substantiate or otherwise the documentary findings with interviews of people who were present at the time, and who were actually aware of the phenomena being investigated. The interviewee may reveal something totally different from what is written.

For the historical aspect of this study, however, it is not feasible or practical to carry out interviews. After all, even primary sources of data have their weaknesses, and just because someone has witnessed something does not make the witness' account completely accurate. The witness might have some particular motive for highlighting certain aspects of his/her experience rather than others (Gidley, 2004:250).

The historical research work was carried out during the period May 2010 to January 2011. Reference was made to historical literature concerning the governance of Malta. Appropriate authors were chosen, who are well known for their diligence and neutral political opinions. This ensured that their literary work is more reliable. Their work (Pirotta, 1996; Pirotta and Warrington, 2001) is valid for the study because it covers the same period of interest, that is, from 1800[2] to the present, and provides a basic knowledge of the social, economic and political background to the research context. From the information obtained from this literary work, it was decided to choose the year 1924 as the starting point for tracing the changes in legislation relating to government accounting[3].

In order to find the old legislation and subsequent changes, desk research was carried out at the archives held at the National Library in Valletta[4]. Using archives presents its own particularities. Bearing in mind that archives are socially produced within particular historical and cultural contexts, attention needs to be paid to different features of the archive, which are, according to Gidley (2004:260): the technologies which are used to produce files; the way in which documents are filed (sterilisation); and the way in which bits of files go missing.

Depending on the year of origin, these documents are available in paper format (typed or hand written) and/or on microfiche. The documents on microfiche are not always complete. The original 1924 legislation was traced; subsequent amendments; a 'new' 1948 law; the 1962 legislation, with all the amendments up to 2010. The 1962 legislation is still in force right up to this day. These laws lay down the requirements of government accounting reports, budgeting and auditing. It is observed that besides minor cosmetic changes, the requirements remained basically the same over the years. Even the format of how the law is written and

[2] Malta's history is a saga of different foreign rulers. The last ones were the British, who ruled Malta from 1800 right up to 1964, when Malta became an independent state.
[3] Malta obtained its first form of limited self-government in 1921. In 1924, Malta formulated its first Treasury and Audit Act. It was a dyarchical situation, as the British still maintained their power to govern the island.
[4] Valletta is the capital city of Malta.

divided into parts did not change. Over a period of 48 years, only two amendments are relevant for this research: the amendment of 1997 concerning the National Audit Office (NAO); and that of 2004, which confers a power to the Minister of Finance enabling him/her to perform changes in accounting methodology and to issue accounting standards.

According to Pirotta (1996) and Pirotta and Warrington (2001), the financial legislation enacted over time is practically based on the British Colonial Regulations. In order to confirm this, the Treasurer's Reports before and after the 1924 legislation were looked up and compared. These are published in the Government Gazette and available at the National Library. The content was also compared with the current Financial Reports prepared by the Treasury. It was confirmed that, besides minor changes, the format and content of the government financial reports are practically the same. In spite of the fact that Malta has seen so many changes over the years[5], the form of the government reports presented in Parliament remain unchanged.

4 RESEARCHING THE PRESENT SITUATION

The government website was gleaned to extract information regarding the structure, functions and operations of the Ministry of Finance, the Economy and Investment (MFEI)[6]. The Treasury Department's site is very descriptive as to the accounting system of the central government, including references to circulars and directives issued by the Treasury to the government departments, concerning the accounting reform.

[5] From part of the British Colony, different forms of self-government, an independent state (1964), a republic (1974), and now (as from 2004) an EU member state.
[6] As from March 2013, this Ministry has been divided into two, and the Ministry of Finance is separate from the Ministry of Economy and Investment.

Two informal preliminary interviews with government officials confirmed that the topic chosen is current. Reforms are being carried out and the intention is for government accounting to be based on the business model. The research plan is to first carry out documentary research to find out what is being done and who are the persons involved. This will identify the subjects of future in-depth interviews in order to substantiate the findings from the documents.

According to Richards (2009:20), it is common for a qualitative project design to include the use of multiple sources of data, with the aim of bringing many perspectives to bear on the question. Scapens (2004:269) calls the process of collecting multiple sources of evidence on a particular issue as *'data triangulation'*, whereas collecting evidence using different research methods could be described as *'method triangulation'*. The aim of such triangulation is to gather corroborative evidence, resulting in plausible and credible findings; that is, increasing the validity of the findings. Reliability of an account in recent history is enhanced if documentary evidence can be triangulated against oral sources (Gidley, 2004:253).

The minutes of two sessions of the Public Accounts Committee (PAC) were located after a search on the Government of Malta portal. During these sessions, held during 2009 and 2010, the accounting reform process was being discussed (PAC, 2009; 2010). The PAC is the scrutinising arm of Parliament, and both the proceedings of the meetings and minutes are available to the public. The analysis of these documents identified the participants in the meetings and their relative importance in the reform process could be assessed. Information concerning the current accounting system and the changes that it is experiencing was also gleaned, providing background knowledge for the interview process.

The research for the current situation involves data gathered from documentary research, corroborated with empirical evidence from in-depth interviews with the actors involved in the reform, in order to explore and explain the factors that are affecting the process. The interviews were held during the period October 2011 to September 2012.

4.1 The research instrument

The contents of the questionnaire[7] used during the interviews are based on Lüder and Jones' (2003) EuroCIGAR study, with additional emphasis on IPSAS adoption. The EuroCIGAR study has been cited in various literature as providing a framework for research because it clarifies what constitutes governmental accounting, and how it is to be described. It focuses on the technical content of the reforms, and addresses the core government (departments) because peripheral entities normally adopt business accounting methods, as is the case in Malta. The content of the questionnaire also compares well with the interview guide as suggested by Chan *et al.* (1996a:17-18).

The interview was first tested with one government official. Certain questions were amended and new ones introduced. With the help of this official, prospective research participants were identified, and the parts of the interview that would be relevant for each participant.

[7] Appendix A describes the content of the questionnaire.

The interviews were held at the offices of the government officials. Interviews with non-government officials were held at their offices. The interviews varied in length from one to two hours, and more than one interview session was necessary with some of the officials. The reason for this is because the interviews were semi-structured using the questionnaire as a guide. Open-ended questions give the interviewees the opportunity to expound on the subject according to their knowledge, while at the same time ensure that they are kept focused on the topic. Qualitative interviews refer to in-depth, loosely or semi-structured interviews, and are often used to encourage an interviewee to talk, perhaps at some length, about a particular issue or range of topics (Byrne, 2004). Burgess (1984) calls these types of interviews as '*conversations with a purpose*'. All interviews were digitally recorded, and then carefully translated and transcribed.

4.2 The research participants

The research participants have been carefully identified and selected from the actors involved in the accounting reform process, in order to comprehensively cover the behavioural variable as identified by Lüder's FMR model (2002). The research participants chosen are described as political reform promoters, stakeholders and reform drivers[8]. Sometimes it proved difficult to identify whether a participant is a stakeholder or reform driver. For example, the National Statistics Office (NSO) is classified as a reform driver but the NSO is a stakeholder as well. The National Audit Office (NAO) has been classified as a stakeholder, but it may also be considered as a reform driver. While Lüder's FMR model (2002) distinctly describes stakeholders and reform drivers, such classification may not be straightforward in practice.

[8] Appendix B identifies the research participants and divides them into the three groups.

The accessibility of the research participants by the researcher was facilitated by the fact that the government official who helped in testing the questionnaire is a university lecturer as well and thus a colleague of the researcher. There was, therefore, no problem to make the initial contact. This government official then identified other possible research participants. As the interviews progressed, some research participants identified other possible participants, and thus the sample '*snowballed*' (Saunders *et al.*, 2009) to include even retired public service employees who were actors in the reform process at some time or another. The small size of the public administration results in the top public service employees knowing each other on a first name basis, and this contributed to effective use of the snowball technique, but the researcher made it a point to contact each research participant herself so as not to compromise willing participation.

A total of 36 interviews were subsequently planned. All participants were contacted be e-mail and/or by telephone and were sent a participant information sheet. A total of 34[9] accepted to take part in the research, out of which, 28 interviews were actually carried out[10].

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[9] Each Ministry has a Director for Corporate Services (DCS) or a Director General Finance, who is responsible for the Accounting function at the Ministry, including the submission of accrual data templates to the Treasury. In October 2011 there were nine ministries. The nine DCS were contacted. Only one refused to participate - the DCS of the MFEI. In July 2012, the number of Ministries were increased to 12. The three new DCS were contacted and accepted to participate.
The Principal Permanent Secretary, who is the head of the Civil Service and Secretary to the Cabinet, claimed that he was too busy to participate and directed the researcher to the Permanent Secretary of the MFEI.

[10] Appendix C contains the interview schedule together with the codes used in the findings and analysis. It also provides hierarchical structures to illustrate the position held by each research participant in the government structure.

4.3 Limitations

The following are the circumstances of the six interviews that did not happen.

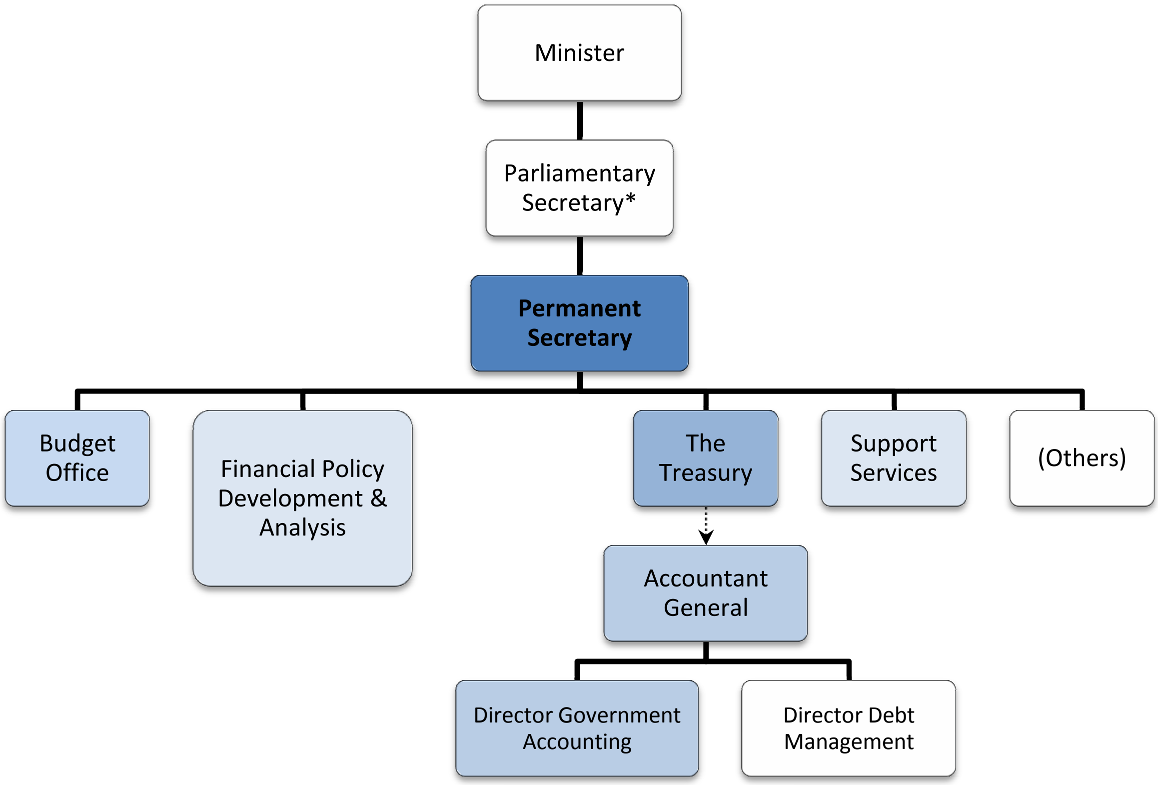
Two Directors for Corporate Services (DCS) had accepted to participate but then failed to confirm the meeting for the interview. These two directors were new appointees following the July 2012 reshuffle. Since nine other Directors had been interviewed, and the responses started appearing very similar, it was decided that it was not necessary to pursue these two directors because the trend of the responses indicated that further interviews would not contribute new information.

The ex-Minister of Finance who held office when the accounting reforms started in 1999, that is during the first phase of the reforms, was contacted at his office in Brussels, as EU Commissioner for Health. After accepting to participate, however, certain developments[11] resulted in his termination of office and the circumstances excluded the possibility of a meeting with him. The ex-Minister of Finance appears to be the main influential actor who had started the accounting reforms, and his drive, initiatives and influence were described by various other research participants.

[11] In September 2012, the EU Commissioner for Health resigned following accusations of bribery by OLAF. This led to a police investigation in Malta, and in early 2013, the person was recovering in a hospital in Brussels.

The Minister of Finance in the second phase of the accounting reforms (from 2004) is a political reform promoter. After accepting to participate in the research, the interview appointment was cancelled due to political events[12].

Figure 1: The organisational structure of the Ministry of Finance



*A Parliamentary Secretary was not appointed in the Ministry of Finance under the new administration of March 2013. This strengthens the position of the Permanent Secretary and his relationship with the Minister.

[12] The presentation of the Financial Estimates for 2013 was delayed. The Financial Estimates were subsequently not approved by Parliament and a General Election was called. The Minister of Finance contested the election for vice Party Leader and eventually was heavily involved in the ensuing electoral campaign.

However, two interviews (totaling four hours) were held with the Permanent Secretary (PS) of the MFEI. The position of PS is not a political appointment, but the civil servant is personally chosen by the Minister, on the basis of competence and mutual trust. The PS at the MFEI is the Chief Financial Adviser of the Government. He holds the top position in the hierarchical structure of civil servants in the Ministry (refer to figure 1); providing advice to the minister and, at the same time, acting in line with the Minister's directions. The interview with the PS is, therefore, taken to reflect the position of the Minister of Finance on the subject matter.

The Shadow Minister of Finance had also accepted to participate, but then did not maintain contact once the Electoral campaign started. The opinions of the Opposition regarding accounting reforms were still obtained from the interviews carried out with two members of the PAC. The Shadow Minister of Finance was considered as a reform driver, but it transpired that he was not appointed Minister of Finance under the new administration in government as from March 2013.

Under the new administration, the new Minister of Finance is the MEP ex-vice Chair of the Economic and Monetary Affairs Committee of the European Parliament. In his MEP post, he was considered as an important reform driver who could also best describe the situation that was developing in the EU Commission regarding IPSAS adoption. The MEP had accepted to participate in the study, but then failed to maintain contact, most probably due to the electoral campaign. In view of this lack of feedback, it was endeavoured to keep abreast of EU developments regarding the IPSAS by regularly exploring the EU's websites and by subscribing to relevant updates through Eurostat's website.

The General Election in March 2013 resulted in a change in administration. What this change may mean for the accrual accounting reform in Malta is not covered in this study. It could be the subject of future research. However, it is being pointed out that the new Minister of Finance, who took office in March 2013, retained the same PS. The influence of the political reform promoter who features in this study as the main actor, remains. This fact may not augur any changes in the current situation, but future research would need to assess the influence of the new Finance Minister, as a new behavioural variable, in conjunction with changes in contextual and instrumental variables that a new administration may bring and/or face in the future.

4.4 Analysis of the Interview data

Braun and Clarke (2006) present thematic analysis as a flexible qualitative approach to analysing data. Since thematic analysis is not tied to a particular theory and epistemology, it can be applied across a range of approaches (Braun and Clarke, 2006). The term 'themes' refers to patterns in the data; the approach entails the identification of these patterns, which are then analysed and reported. While Braun and Clarke (2006) argue that thematic analysis should be considered as a method in its own right, Boyatzis (1998) considers it more as a tool that can be used across different methods.

The interview data in this study is analysed using a form of thematic analysis, which is very theoretical-driven. The research objectives of this study and the underlying theoretical framework described in Chapter 3 influences and directs the analysis of the data. In particular, the theory underlying Lüder's FMR Model (2002) directs the analysis towards the identification of the contextual, behavioural and instrumental variables, and how these effectively interact to influence the environment making it conducive or otherwise to governmental accounting reforms. The research objectives concerning the IPSAS decision and the perspectives towards national accounting are also included in the analysis.

With hindsight, it is realised that the actual analysis starts during the interview process itself, as the interviewer notices recurrent arguments and ideas that arise during the interviews. Subsequent interviews are then modified intentionally by the interviewer to extract feedback about such themes. The role of the researcher is, therefore, very important in that it not only directs the flow of the interview but also affects the content of the data.

The transcription of the 28 interviews proved very time consuming but extremely important in order to become familiar with the data; note initial ideas; identify similarities and conflicts between the responses. It facilitated the generation of initial codes and the next step of going through the entire data set (that is, all the transcriptions), systematically coding interesting features, and collating the data relevant to each code. This was carried out by using a word document for each code, with the result that the entire data set was arranged into the various codes.

The codes themselves were then analysed and collated into potential themes. In this way, all the data relevant to each theme was gathered accordingly. The relationship of the data with the corresponding theme was checked and adjustments carried out accordingly.

The next two steps were carried out concurrently. These involved refining the specifics of each theme and creating a thematic map to link them to the research questions[13]. In this way, through the themes and codes, the thematic map provides the link between the research questions and the interview transcripts.

Some of the data extracted from the interviews is descriptive, for example, the explanation of a procedure. While other data may be subject to different interpretations. The analysis of such findings is, therefore, subject to the interpretation of the researcher. The role of the researcher in the interpretative analysis is emphasised.

5 SUMMARY

The objectives of this study is to understand the 'how and why' of government accounting reforms being carried out by the Central government of Malta. Descriptive and explanatory data are required to answer these types of questions, which were collected through a combination of documentary research and interviews as described in this chapter.

This research follows a qualitative methodology, since the purpose is to describe, analyse and compare accounting practices. The research is grounded in a philosophical position which is broadly ‘interpretivist’. While the meaning of factual data may be difficult to misinterpret, the meaning of certain data can be rather subjective as the meaning could be constructed by human beings as they interact and engage in interpretation (Robson, 2011).

[13] Refer to Appendix D for the thematic map and Appendix E for defined contents of each theme.

The whole research process is a learning experience. The interviews carried out and the empirical data gathered are an unforgettable experience, where it proved imperative for the researcher to discard the accountant's 'blinkers' and observe the political and social environment in which government accounting is immersed. The extensive literature that is related to the topic covers accountancy, economics, politics, sociology and psychology. Chapter 3 reviews a selection of the literature pertinent to organisational change and government accounting reforms.

CHAPTER 3: LITERATURE REVIEW

1 THEORETICAL FRAMEWORK

Figure 2: The Theoretical Framework

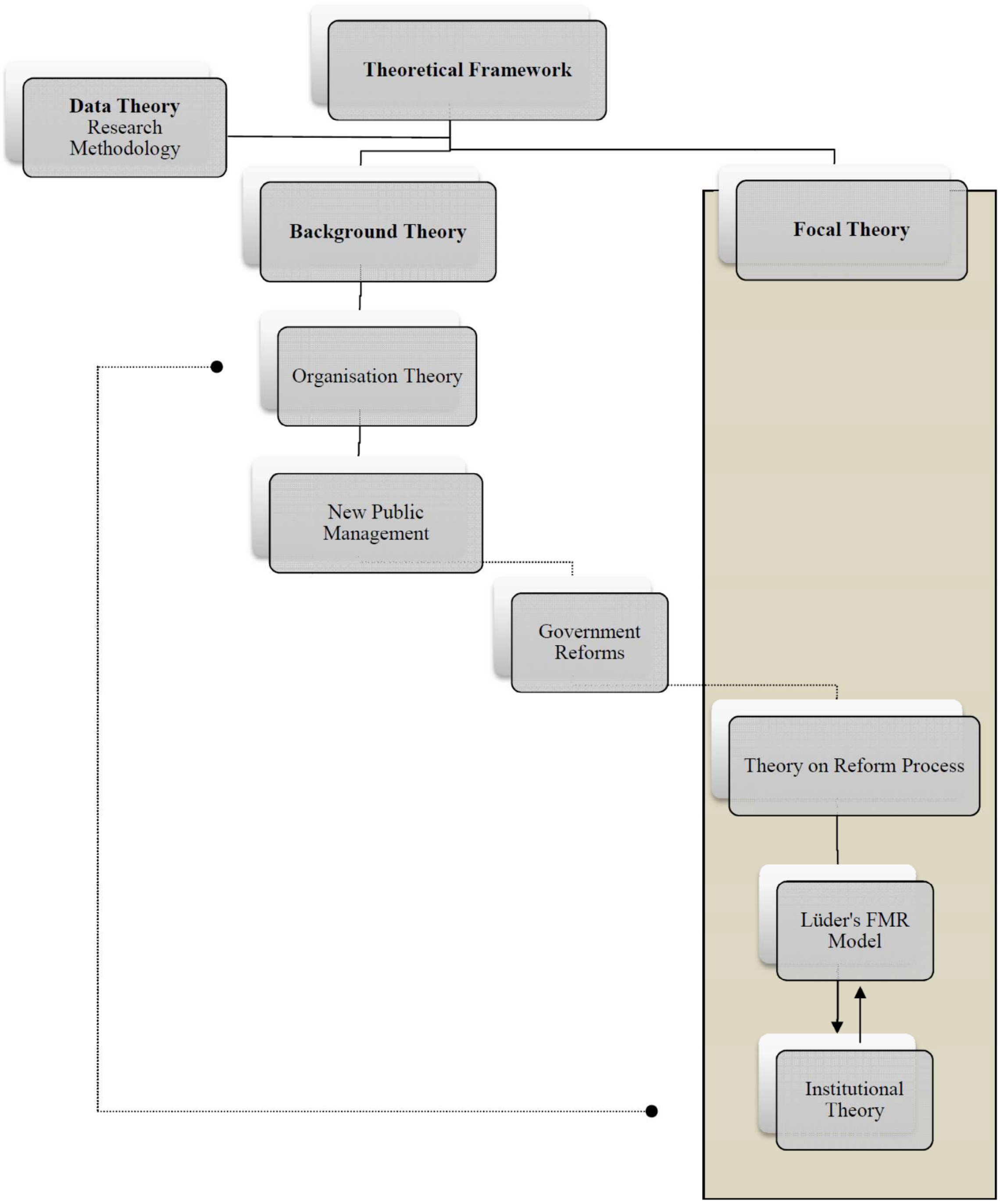


Figure 2 illustrates the theoretical framework. The data theory is outlined throughout the description of the research methodology in Chapter 2, since it '*gives the justification for the relevance and validity of the material*' that is going to be used to support the thesis (Francis, 1976, cited in Phillips and Pugh, 2005). This chapter presents the background theory and the focal theory, which are central in the analytical framework for the discussion and analysis of the findings in Chapter 8.

The background theory starts by identifying a suitable organisation theory for public administration and organisational change, leading to a description of New Public Management (NPM) ideology as this is considered influential in changing the structure of the public sector, affecting government accounting reforms worldwide. *'What developments, controversies, breakthroughs are currently exciting or engaging the leading practitioners and thus pushing forward thinking in the subject?'* (Francis, 1976, cited in Phillips and Pugh, 2005).

The purpose of focal theory is to explain in detail the subject being researched in order to examine arguments put forward by others and then apply own data and analysis to push forward the academic discussion (Francis, 1976, cited in Phillips and Pugh, 2005). This study is about the 'how and why' of government accounting reforms, and, therefore, the focal theory surrounds reform processes, in particular, Lüder's FMR Model (2002), and refers to Institutional Theory for certain aspects.

2 A SUITABLE ORGANISATION THEORY FOR PUBLIC ADMINISTRATION

'The systematic development of organisation theory has traditionally been associated with studies of private organisations, particularly business firms' (Christensen, 2003b:109). Over the past few decades an organisation theory more specifically geared to studies of public administration has developed (Scott, 2001). Public administration is an integral part of the political-administration system, and therefore, the focus is on the dynamic relationship between political and administrative actors in a democratic context (March and Olsen, 1989). Public administration is interested in public decision-making behaviour, *'that is, the authoritative allocation of responsibility and resources between actors and levels in the political and administrative system'* (Christensen, 2003b:110). This focus would distinguish organisation theory of public administration from theories that have primarily evolved in the context of private organisations.

Public administration organisation theory is not a homogeneous field. It embraces a number of different theories expounded both separately and in combination. *'Institutional theories started from simple ideas about 'economic man', 'administrative man' and 'social or cultural man',* (but) *have grown more complex over time'* (Christensen, 2003b:109). Christensen (2003b) describes four main types of public administration organisation theory, depending on the assumed driving force of the decision-making processes and their effect.

The seminal work of Gulick (1936), Simon (1945) and March and Simon (1958), primarily focuses on the importance of **<u>formal, normative organizational structures</u>** for decision-making and on the formal organization of units and roles. It also includes elements from social psychology.

Decision-makers, whether individuals or organizational units, have problems of capacity and with coping with large quantities of information and varieties of premises. Public organisations, therefore, have to be designed in ways that modify these problems. Actors have to select certain decision-making premises and reach 'satisfactory' decisions based on 'bounded rationality'. A decision-making structure of this kind channels attitudes and attention in certain directions, thereby also creating special roles and patterns of contact. This then presents the challenge of coordinating the specialised units and roles and to balance their varied decision-making behaviour (Gulick, 1936).

A number of different strands arise from this mode of thinking that the 'formal structure matters'. Using Dahl and Lindblom's (1953) concepts of political-administrative control and 'rational calculation', brings forth the hierarchical version which holds that the leaders of a public administration are homogeneous and have tight control over decision-making processes - they know what to do and exercise full control over the means to do it (March and Olsen, 1976). Another version assumes a heterogeneous leadership and actors and different kinds of means-end thinking, resulting in negotiations and compromises. This is what March and Olsen (1983) labelled 'Realpolitik' and Allison (1971) called 'governmental or bureaucratic politics'.

The second perspective on what influences decision-making behaviour is what can broadly be labelled 'formal theories', based on the premise of rational individual or group of actors seeking to advance their own interests through **utility-maximising behaviour**. Some formalised models in this theoretical tradition try to explain decisions by rational actors who have more complex decision-making strategies, based partly on institutional factors and formal constraints. Theorists who come under this label are interested in, for example: how formal rules and procedures inside political-administrative bodies shape rational decision-making behaviour; how markets and hierarchies can be blended; and how the environment can be made negotiable to modify insecurity (Hammond, 1996; Williamson, 1975).

The **cultural-institutional perspective** is closely associated with Selznick's work (1949, 1957). According to this perspective, public organisations gradually develop into institutions, infusing and adding values to the formal framework. This process of institutionalisation and adaptation gradually produces certain informal norms and values that go further in explaining decision-making behaviour than formal norms. Public administrative bodies develop different and unique cultures, characters or 'souls' through this process (Christensen, 2003b:111). This theory combines different types of institutional theories (Peters, 1999): theories of historical institutionalism (Steinmo *et al*., 1992), which emphasise historical roots and path dependency; sociological theories of institutionalism (Selznick); and theories of normative institutionalism, like March and Olsen's (1989) theory of appropriateness, where public institutions are seen in a broader normative democratic context as integrating, shaping and developing actors on a collective basis.

The fourth type of organisation theory described by Christensen (2003b) revolves around the belief that **the environment drives decision-making behaviour**. The focus is on the environment influencing public administration, even though the reverse effect exists. This type of theory can be divided into two parts.

One part is primarily concerned with the 'technical environment' and how the internal organisation of the public administration - its structure, function, roles and resource allocation - is dependent on relevant actors in the environment and their demands and organisation. Typical theories here are contingency theories and resource-dependency theories (Lawrence and Lorsch, 1967; Pfeffer and Salancik, 1978).

The other part focuses on the 'institutional environment' and stresses that a complex political-administrative system creates a demand for some simple 'rules of thumb' (Meyer and Rowan, 1977; Powell and DiMaggio, 1991). These are defined on a macro level through the creation of myths, that is, ideas based on some kind of social-constructivist tradition. It is assumed that certain organizational models, budget or planning systems, types of knowledge, etc., are 'appropriate' for public administrations (March, 1994). A structure of dominance is created for these ideas, often supported by public authority centres or professional groups 'certifying' them, and public organisations have to adopt them or at least give that impression.

Brunsson (1989) emphasises that a balance is required between the demand of the technical and institutional environments. This strengthens the legitimacy of public administration. Public leaders have to act, take decisions and deliver services, but they can also gain from 'double-talk', that is, talking as if they intend to act, even if they have no intention of doing so and have no idea of what to do if they run into problems of implementation (Goffman, 1974).

Christensen (2003b) emphasises that there is no clear-cut categorisation of these four types of theories. Theories may combine elements of bounded rationality, culture and myths, like the broad institutional theory of March and Olsen (1989, 1995); they may mix elements of structure and culture with internal and environmental factors, like Selznick (1957); or myth theories may be combined with structural elements, as Brunsson (1989) does.

But the four types of theories do focus on different levels (refer to Table 1). The theory of bounded rationality often focuses on the micro level and on individual decision-makers, while the formal framework in which these actors operate is the organisational or sub-organisational level. Social choice theories have some of this focus. Cultural theories combine theoretical ideas at the organisational level with elements from the task environment. The same focus is given by environmental theories of a technical nature. While myth theories often focus on phenomena at a macro level but relate these to effects and implications on an organisational level (Christensen, 2003b).

Table 1: Four main types of Public Administration Theory

Theory	**Driving force of the decision-making process**	**Level focus**	**How public organisations change**
Bounded Rationality (for eg. Simon, 1945)	The formal (normative) structure	Individual at micro level	Change is the result of intentions of actors. Revolutionary processes as a result of design and strategy
Formal, eg. social choice theories (for eg. Williamson, 1975)	Utility-maximising behaviour of actor(s) seeking to advance their own interest	Organisational or sub-organisational level	
Cultural Institutional eg. sociological theories of institutionalism (for eg. Selznick, 1948, 1949)	Norms, values and unique cultures, developed through a process of institutionalisation and adaptation	Combination of the organisational level and task environment	Change is gradual and evolutionary
a) Technical Environment eg. contingency and resource-dependence theories (for eg. Lawrence & Lorsch, 1967)	Relevant actors in the environment	Combination of the organisational level and task environment	Change is due to adjustment to the environment - emphasises uniqueness and divergence
b) Institutional Environment eg. myth theories (for eg. Meyer & Rowan, 1977)	Simple 'rules of thumb' decisions, defined through the creation of myths	Organisation at macro level	Change is due to adjustment to the environment - stresses isomorphism and convergence

The theories also vary in how they believe public administrative units become established and change (refer to Table 1). Bounded rationality and social choice theories both perceive such processes as the result of intentions of certain actors, such as political and administrative leaders. They are regarded as 'revolutionary' processes that are the result of design and strategy. However, the two theories differ concerning the importance of self-interest and the formal structure that shapes intentions and actions. Cultural theories see change processes as the gradual and incremental evolution of public units. The theories of both the technical and institutional environment have typical elements of determinism, that is, public administrations have to adjust to their environment and do not have much leeway. Selznick's type of cultural theory mainly emphasises uniqueness, variety and divergence in public administrations. While myth theories and certain other environmental theories, often stress isomorphism and convergence, in that public administrative units are becoming more similar (Scott, 1998).

'Organisation theories of public administration have grown more complex, both in quantity, diversity and even combinations of different theories' (Christensen, 2003b:113). This may reflect the increasing complexity of political-administrative systems and decision-making processes.

Civil service systems are more specialised than before, both horizontally and vertically (Christensen, 2003b:114). New and hybrid structures have developed both within the public sector and in its links with the private sector and society. Traditional political-administrative cultures have been partly transformed and new norms and values have appeared, blending or melding with the old ones. Public decision-making processes currently involve actors with more ambiguous mandates, involve more and different types of actors and there are more connections over time between levels and institutions. Decisions are more often changes in the implementation phase, either because of changing conditions or because actors would like to change the content of the policies. All this may lead to a differentiated set of theories that one can combine to understand the workings of public administration (Christensen, 2003b:114).

Conversely, the development of both theory and practice of public administration can be looked at by taking NPM as a point of departure (Christensen, 2003b:114). According to Chistensen (2003b), NPM is widely influential and has spread worldwide, albeit more in the form of ideas rather than actual practice in certain countries. Boston *et al.* (1996) stress that the reforms in New Zealand are theory-driven to a large extent. The theories behind NPM in New Zealand and other Anglo-American countries are primarily different versions of formal theories. They stress simplicity much more than complexity, for example, role differentiation between politicians and administrative leaders and the unambiguous chain-of-command. NPM theories attach important clear goals and means, efficiency and rationality. Christensen and Lægreid (2001) question, however, whether the simplification of theory also leads to the simplification of practice in the political-administrative system or whether it actually generates more complexity.

3 NEW PUBLIC MANAGEMENT (NPM) THEORY

Pollitt and Bouckaert (2004) introduce public management theory by attempting to answer 'why' and 'what is' public management reform.

According to Pollitt and Bouckaert (2004:6), public management reform can be thought of as a means to multiple ends, including: to achieve economies in public expenditure; to improve the quality of public services; to make the operations of government more efficient; and to increase the chances that policies chosen and implemented will be effective. Moreover, such a reform would enhance government accountability. Politicians can strengthen their control over the bureaucracy, and even gain from *'symbolic and legitimacy benefits'*:

> *Public management reform consists of deliberate changes to the structures and processes of public sector organisations with the objective of getting them (in some sense) to run better*. (Pollitt and Bouckaert, 2004:8)

Structural changes would include decentralisation and privatisation. Process changes would refer to how a service is delivered.

The public sector deals mainly with three functions: regulation; allocation of public resources; and income redistribution (Lane, 1997). One would expect that governments have always aimed to improve in order to better carry out their functions. So what is 'new' in the NPM ideology?

In the aftermath of the Second World War, OECD countries experienced a process of expansion in their public sectors (Lane, 1997). Economies recovered as the public sector expenditures (OECD average) grew from below 25% to over 45% of gross domestic product

(GDP) in a couple of decades. This growth, however, was not reflected by a corresponding successful measure of outcomes, whether economic or social impact results (Caperchione, 2000), and in the early 1980s, the effectiveness of various public sector programmes was being questioned. The public sector performance problem called for reform strategies. Such ideas in the 1980s can hardly be called 'new', because numerous ideas about budgetary reform and implementation were launched before, for example, towards the end of the 1960s and during the 1970s (Wildavsky, 1979, 1988, cited in Lane, 1997). Even with regards to reforms in other policy areas, research indicates that these may have evolved incrementally to consolidate past practices and experiences, and there was nothing revolutionary about the emerging ideology referred to as NPM (Page, 2005).

What appears to be 'new' in the 1980s reforms was the influence being exerted by the teachings of Chicago School economics, focusing on deregulation, privatisation and marketisation (Lane, 1997); leading to '*Reinventing Government*' (Osborne and Gaebler, 1993) which emphasises goals and achievement of objectives by public management, rather than as a system of impartial administration to govern in the name of equity and the rule of law (Lane, 1997). Osborne and Gaebler (1993) introduce the idea of internal markets within the public sector, calling for competitive, enterprising and market-oriented governments.

The call for improved performance in the public sector has been made in all key public sector operations: allocation, redistribution and regulation (Lane, 1997:9). This was also being expounded by international organisations like the International Monetary Fund (IMF) and the World Bank. Even the EU warned member states to curtail their government spending, introducing strict rules. The search started for new institutions in the public sector which result in improved state performance guided by new institutional economies (Alchain, 1977, cited in Lane, 1997). This lead to a change in the traditional structure and operations of the public sector.

According to Broadbent and Guthrie (1992), the public sector was traditionally seen as comprising two areas of activity: one being funded by taxation; the other incorporating those monopolies which supply services and utilities seen as part of the infrastructure of society. The public sector could be defined as that part of a nation's economic activity which is owned and controlled by government (Broadbent and Guthrie, 1992). The traditional view of the public sector included organisations providing services to the public that were publicly funded, owned and operated. Ownership and operation were crucial to the concept of the public sector (Broadbent and Guthrie, 2008:22). The government was involved in all aspects of the economy. Accounting and auditing focused on honesty of employees, compliance with legislation, and control of expenditure.

The NPM ideology, or 'managerialism', required a new outlook on public administration style promoting: efficiency; effectiveness; cost savings; outputs and performance accountability. More emphasis being on governance and internal control systems. Privatisation and corporatisation of 'marketable' services, particularly utilities, telecommunication and infrastructure, reduced the size of the public sector. And the public sector was re-defined as '*public services*', referring to:

> *… those activities which are enshrined within the notion of public good or service based on universality of access for the citizenry rather than the private provision through a market.* (Broadbent and Guthrie, 2008:22)

These changes invalidated some assumptions about state ownership and operation (Guthrie, 1993). The definition and boundaries of the public sector became blurred as direct government ownership and public funding were no longer required for the operation of a service (Broadbent and Guthrie, 2008). What effectively happened was that the private sector started getting involved in the provision of these public services as well.

> *Globally, it is now taken for granted that it is the provision of services that matters, rather than who provides them, and that what is in question is accountability and regulation for the nature of that provision.* (Broadbent and Guthrie, 2008:29)

As a result, the public sector is undergoing structural changes, while it is being urged to be more 'commercial' by introducing private sector approaches to service provision (Broadbent and Guthrie, 2008:24). The functions have not changed, but there has been considerable change in funding, governance and accountability for control and operation of these public services, as well as the accounting and auditing of them (Broadbent and Guthrie, 2008:24).

Different structures require different accounting systems, and accounting reforms have been central in the context of NPM philosophies (Guthrie, 1998; Ryan, 1998; Lapsley and Pallot, 2000; Christensen, 2002, 2007; Christensen and Parker, 2010). The accounting information system is one of the most frequently used tools to renew public administration and make it more efficient (Caperchione, 2000). The changes currently underway in the accounting systems of various countries are intended to bring accounting information systems more in-line with the new role taken on by governments in modern societies (Borgonovi, 1994, cited in Caperchione, 2000). This phenomenon is also referred to as 'New Public Financial Management' (NPFM) (Guthrie *et al*., 1999).

'Traditional' government accounting systems are basically cash-based and budget-oriented. The actual 'traditional' accounting system may vary between countries, but they have served their purposes for many years, giving the politicians the required control on budget allocations and spending. However, Caperchione (2000) highlights some common problems that include their short-sightedness; poor readability of financial statements; lack of usefulness for decision-making purposes; and the difficulty in assessing intergenerational equity (Anthony, 1983, cited in Caperchione, 2000:32).

The shift of accounting systems from a cash basis to an accrual basis is considered as an innovation but is not deemed as absolutely positive for government accounting (Monsen and Näsi, 1998). Accrual-based accounting is perceived as superior because it is used by the private sector (Lande, 2006). The proponents of NPM-based practices in the public sector believe that the adoption of accrual accounting would improve the financial accountability and asset management of government organisations.

However, the adoption of NPM-based practices in the public sector have not automatically resulted in improved efficiency and performance. Therefore, even accrual-based accounting systems have met with some criticism both from a conceptual perspective and also as to their practical benefits within public sector organisations (Carlin, 2005; Arnaboldi and Lapsley, 2009). Lack of technical understanding by potential users has also made accrual information underused for managerial purposes (Bogt ter and van Helden, 2000). Therefore, the transfer of business accounting concepts and techniques to non-business settings require critical consideration (Carlin, 2005; Connolly and Hyndman, 2006; Christensen, 2007). And

Christiaens and Rommel (2008) suggest that accrual accounting reforms are more suitable for 'business-like' parts of government.

According to Caperchione (2000:43):

> *The flaws of traditional governmental accounting systems are not enough to justify the behaviour of those who seek an answer to every need for information and fair management in accrual basis.*

Accounting is only '*a means to an end*', and therefore, there is no one accounting system that can be expected to suit all purposes. Moreover, according to Caperchione (2000), accounting cannot be reduced to a mere technicality and a reform in the accounting system needs to be considered in the context of the overall reform in the public administration, otherwise it will not produce the required results.

> *The potential usefulness of new information cannot be taken for granted, nor can its actual implementation in evaluation and decision-making processes. On the contrary, the reform of the accounting system is a process of change that should be managed carefully for the reform to become a governance tool.* (Caperchione, 2000:44)

4 THEORY ON REFORM PROCESS

Argento and van Helden (2010) refer to theoretical frameworks that can be used to explain reforms and reform processes, namely, those of Hood (1995), Greenwood and Hinings (1996), Lüder (2002), and Pollitt and Bouckaert (2004). This does not mean that they are the only models available. Other frameworks have been suggested.

For example, Ouda (2011) proposes a prescriptive model for the accounting reforms in central government. Ouda's (2011) framework aims to create a clear transition framework identifying the requirements of a reform that not only initiates but also successfully completes an accounting reform process: *'how to enter the tunnel and reach the end of it'* (Ouda, 2011:67). He considers previous models as merely explanatory models of the context of reforms. While this may be true, explanatory models are more applicable for this research that is trying to identify the how and why of governmental accounting reforms. Accounting reforms are initiated but this does not mean that the end of the tunnel is always reached. Perhaps a process is started just to appear to have started, and it may not be the intention of the actors themselves to actually reach the end of the tunnel.

This research, therefore, refers to explanatory models, but even the content of the reform is examined in order to avoid being like *'marine biologists who know more about the oceans than the creatures living in them'* (Chan *et al.*, 1996a, cited in Ouda, 2011:67). However, the content of the reform itself does not guarantee its success. This depends on the external environment, including political will.

4.1 Why Lüder's FMR Model?

Various models have been developed in an attempt to describe and understand government reforms. Lüder's FMR Model (2002) is preferred because it addresses financial management reform in particular, rather than public management in general. Lüder's FMR Model aims to assess the conduciveness of environmental factors for governmental accounting innovations. It has been widely used to identify the factors that explain the how and why of government accounting reforms, and thus fits neatly with the research questions of this study.

Lüder's Model has been extensively researched by CIGAR scholars[14]. Based on empirical evidence from country studies and cross-country comparisons, Lüder's original Contingency Model has been revised twice, in 1994 and 2001, by Lüder himself[15]. The last revision of 2001 has led to the development of the FMR Model that is being used in this research.

Lüder's model has been described as '*extremely rich and informative. It explains through the filter of contingency theory the reform implementation process and evolution*' (Lande, 2006:19). Regardless of future important contributions for CIGAR, Jorge (2003) states that Professor Lüder's work will always be considered as a major part of the basic CIGAR theoretical framework. According to Chan *et al.* (1996a), the model has been effectively serving the role of a paradigm for CIGAR:

> *… the contingency model has shown remarkable robustness and adaptability. Not only has it guided CIGAR, the model itself has been the subject of research.* (Chan *et al*, 1996a:9)

The availability of a comparative framework with such potentialities promoted a certain enthusiasm for CIGAR in different countries from all over the world and at various levels of government. Lüder's Model has been applied to a variety of countries with diverse political, economic and cultural environments, and, after nearly 25 years, it remains a guiding force for this area of research. This study adds to the repertoire of country studies by applying Lüder's FMR Model (2002) to central government accounting reforms in Malta - a valuable contribution as it is based on empirical research in the smallest EU member state.

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[14] See, for example: Chan, 1994; Chan *et al.*, 1996a; Godfrey *et al.*, 1996, 2001; Jaruga and Nowak, 1996; Monsen and Näsi, 1998.

[15] In his address at the Plenary Session of the 14th Biennial CIGAR Conference, held in Birmingham on 2nd and 3rd September 2013, Lüder described his current research on the Hessian New Administrative Management Project, and explained how he is using a simplified version of the 2002 Model, which basically re-introduces implementation barriers as a specific variable (as in his earlier models) (Lüder, 2013).

4.2 Lüder's Financial Management Reform (FMR) Process Model

Lüder's FMR Model (2002) is aimed to assess the conduciveness of environmental factors to governmental accounting innovations (Lüder, 2002:6). For the purposes of the model, innovations are defined as:

> *... conceptual[ly] not merely procedural changes of the accounting system to ensure the supply of comprehensive, reliable and meaningful financial information needed for accountability and sound financial management.* (Lüder, 1994:1)

Such an innovation can also be called a '*reform*'. The adoption of the accrual basis of accounting is often taken as a measure of reform (Chan *et al*., 1996a:14). This has been challenged by Monsen and Näsi (1998) on the basis that the underlying concepts of accrual accounting cannot be properly applied in governmental organisations. Lüder (2002) argues that whether accrual accounting in government means a change for the better or not depends on a set of other factors, including: the information needs; the features of the existing accounting system; the features of the accrual accounting system to be implemented; and the availability of resources to properly run the accrual system.

The first version of Lüder's Model was called Lüder's Contingency Model because in seeking to explain the occurrence of government accounting innovations, it was based on contingency theory. Lüder theorised that government accounting innovations are the result of complex interactions of contextual and behavioural variables. For example, the general public may be influenced by the accounting profession and the capital markets; the way that political leaders view financial accountability may be affected by financial crisis or scandals, and even according to the degree of existing political competition and the normal culture towards accountability. Lüder hypothesised that social, political and administrative structural variables have significant effects on the expectations and behaviours of both those who demand government financial information, and even those who supply it. Innovations are likely to occur when a particular configuration of these variables creates a favourable environment that overcomes implementation barriers (Chan, 2002).

Lüder's Model is fundamentally an economic model, embodying a supply and demand framework for government financial information (Chan *et al*., 1996a:3). The attitudes and behaviours of users and producers of governmental financial information are shaped by their respective environments (Chan *et al*., 1996a:3). Given the right environment, the interactions between demand and supply could stimulate governmental accounting innovations.

The original model developed by Lüder in 1989 has been expanded and refined over time to take into consideration empirical evidence arising from its application by various researchers undertaking CIGAR. Jorge (2003) provides a very detailed description of how the model evolved over time. Some of the major contributions to the model include Pallot's (1995) consideration of size of the jurisdiction; Godfrey *et al*.'s (1996) aid distortion; Jaruga and Nowak's (1996) feedback loops and consideration of sociological theories to complement contingency theory; Laughlin and Pallot's (1998) epistemic communities; and Godfrey *et al*.'s (2001) consideration of other theories of diffusion of innovations.

The revised model is illustrated in Figure 3, which displays the FMR Model as it is summarised by Lüder (2002:18):

> *The financial management reform process model (…) consists of two clusters of contextual variables ('stimuli' and 'institutional arrangements'), three clusters of behavioural variables ('reform drivers', 'political reform promoters' and 'stakeholders') and two clusters of instrumental variables ('reform concept' and 'implementation strategy').*

In Figure 3, '*feedback loops*' are distinguished from '*lines of influence'* and '*lines of impact*'. The feedback loops represent the '*consequences of the real world'*, which allow the behaviour and attitudes of key actors in the innovation process to be tied with the results, taking into consideration the possibility of a multi-stage reform process:

> *Depending on the size of a still existing gap between the outcome of the reform and the reform concept, the feedback either brings the process to an end or induces a subsequent reform loop with or without prior modification of the reform concept.* (Lüder, 2002:10)

Figures 4, 5 and 6 describe in some detail the contextual, behavioural and instrumental variables, respectively.

Figure 3: Financial Management Reform Process Model (Lüder, 2002)

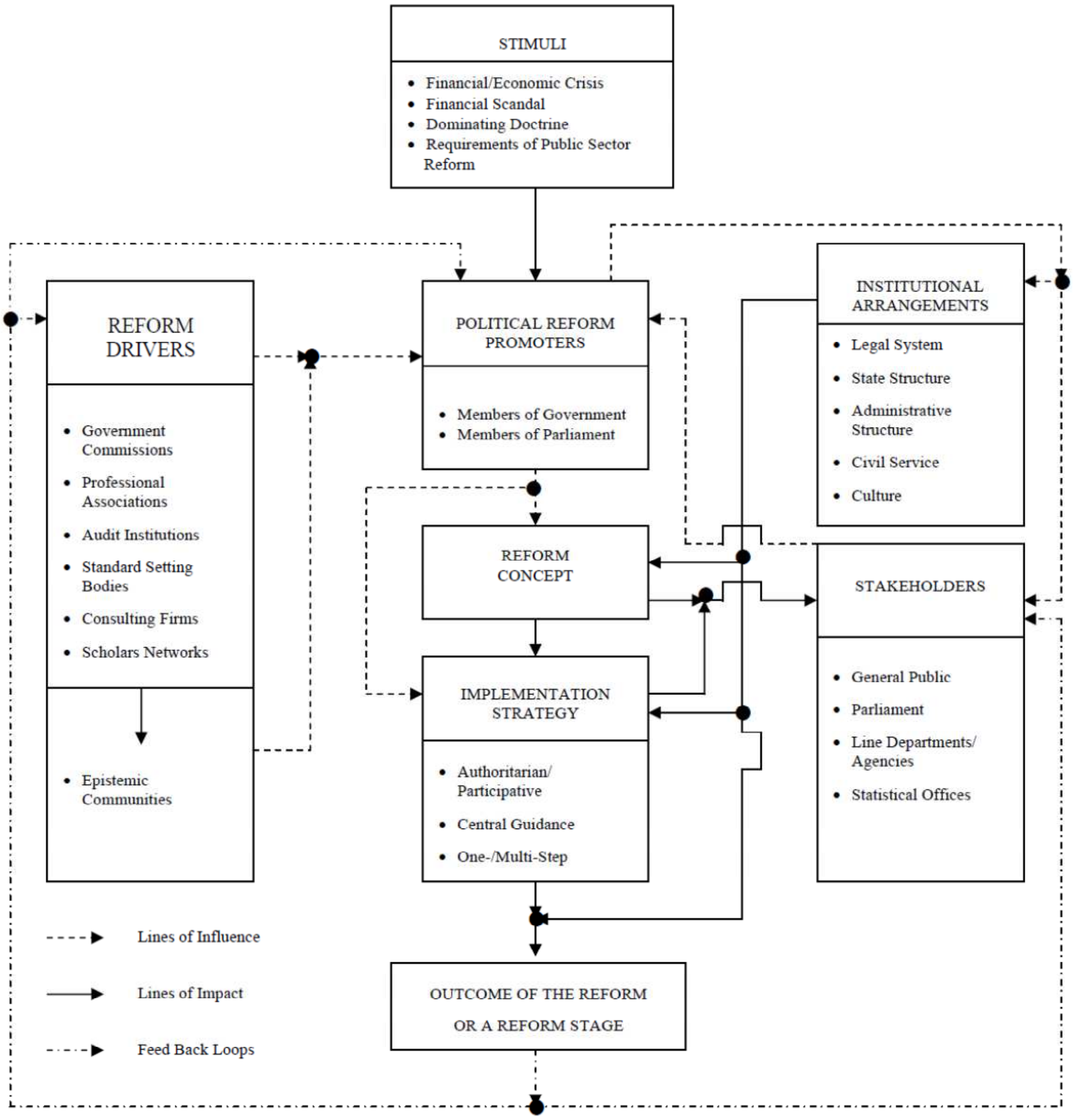


Figure 4: Contextual Variables

Contextual Variables	
Stimuli The stimuli are considered to have a direct impact on the politicians responsible for starting the reform. Fiscal or economic crisis (usually underlying fiscal stress), financial scandal, dominating doctrine, and the requirements of public sector reform, are identified as possible triggers of a governmental accounting reform. In the case of developing countries, *'endeavours to improve international reputation*' are also supposed to be a relevant stimulus for accounting reform (Lüder, 2002). Governmental accounting reform can be embedded in a larger reform of the Public Sector, for example, as part of an administrative reform.	**Institutional arrangements** This refers to societal, political and administrative structural variables of the model, including implementation barriers. The institutional arrangements are directly influenced by the behaviour of the political reform promoters, while they are indirectly influenced by the behaviour of the reform drivers and stakeholders. On the other hand, the institutional arrangements have a direct impact on the reform concept and on the implementation strategy. This reinforces the direct impact that the institutional arrangements have on the outcome of the reform. Different **legal systems** would be linked to different types of governance and some are more conducive to change than others. Models that apply the rule of law as the guiding principle for administrative action are less flexible than public interest models. In the latter models, the state *'is regarded as something of a necessary evil'* and *'officials must constantly be held to public account'* (Pollitt and Bouckaert, 2004:53). Other features of the legal system that affect government accounting reform comprise the electoral system and the flexibility of the budget law (Lüder, 2002:9). Lüder (2002) explains that **state structure** refers to such categories as *'unitary/federal'*, *'co-operative federalism/competitive federalism'*, *'one chamber/two chamber parliament'*. It also refers to the division of power between the electorate, the executive branch of government and the directly elected bodies and officials. According to Lüder (1992), a state structure combining *'unitary/one chamber'* with an unbalanced division of power favouring the executive may be conducive to government-induced reforms. But in order for reforms to be induced by parliament or other state organ, a more balanced division of power would probably be required, as elements of direct democracy play a significant role in the system (Lüder, 1992:116). The **administrative structure** refers to organisational characteristics of the administration and the division of power between organisational units, such as *'centralised and decentralised'*, *'concentration and fragmentation of financial management functions'*, *'existence of central organisational units at the different administrative levels'* (that are able to promote the reform in their area), and *'formal power position of the heads of central units and the head of line units*'. A decentralised structure with financial management functions concentrated in powerful central units should be supportive to government accounting reform (Lüder, 1992:117). The **qualifications of the Civil Service** in general, and accounting knowledge, are crucial factors for the mode, duration and cost of implementation. Lack of accounting skills may not only delay the implementation, but would also increase resistance to the change, thus endangering successful implementation. The **culture variable** incorporates social, political and administrative tendencies. This variable refers to certain characteristics like *'risk-taking vs risk-averse'*, *'individualism vs collectivism'*, *'level of transparency in political and administrative processes'*, and the '*responsiveness*' to the needs and demands of the general public. The most favourable reform climate is created under risk-taking, individualistic, open and responsive combination (Lüder, 2002:10).

Figure 5: Behavioural Variables

Behavioural Variables		
Behavioural variables specify the actors in the process. In the FMR Model, reform drivers, political reform promoters, and stakeholders have a distinctive role; thus separating the dynamic and static variables (Lüder, 2002; Lüder and Jones, 2003).		
Reform drivers	**Political reform promoters**	**Stakeholders**
These actors include government commissions, consulting firms, standard setting bodies, professional associations, audit institutions, and academic networks: *"(They) are recognised institutions and professionals in the reform field that promote the reform through advice, talks and publications aimed at making governmental accounting reform a political issue and influence political decision-makers in a specific way*" (Lüder, 2002:8). Reform drivers provide conceptual ideas for solutions to problems, be they actual problems or perceived ones. They provide motives for the political actors to engage in the reform. Also referred to as *'epistemic communities*', including experts who share the same views on the main features of the reform, and thus their influence on the reform process is strengthened (Laughlin and Pallot, 1998). The behaviour of Reform drivers influences the Political reform promoters, and thus all the reform process.	All administrative reforms require a 'champion', that is, a politician, normally a member of the government, who initiates a reform and has the power to enforce it. In the case of governmental accounting reform, this key role is normally played by the minister of finance or the prime minister, but it could also be any chief financial officer. The role is not entirely political, as the actor needs to be a professional to shape the reform concept seeking the advice of reform drivers. Usually, the views of the reform drivers and the political reform promoters regarding the reform process would be the same (Lüder, 2002). In order for members of parliament to be political reform promoters, a strong parliament is required, with the ability to enforce reforms even against the resistance of the executive (Lüder, 2002). The political reform promoters are affected by three clusters of variables: stimuli, reform drivers and stakeholders. The behaviour of political reform promoters directly influences the reform concept, the implementation strategy, the institutional arrangements and the stakeholders.	This group includes line departments/agencies, statistical offices, parliament and the general public. It is referring to institutions or positions that are affected by the reform, either in a positive or a negative way, but are neither reform drivers nor political reform promoters. The audit institutions may be either reform promoters or stakeholders. The stakeholders' views may differ from that of the reform drivers and the political reform promoters, but may be influenced by the latter. The effect that stakeholders may have on the reform process depends on their formal position and their discretionary powers. The behaviour of the stakeholders may influence the political reform promoters. Lüder (2002) assumes that the stakeholders' attitudes towards the reform depends on the reform concept and the implementation strategy, and on their chances to affect both. Some of the stakeholders may welcome the reform, expecting it to be in their interests, while others may oppose it if they expect negative effects. Successful reform would require the political reform promoters to lead the key stakeholders to at least a neutral position (Lüder, 2002).

Figure 6: Instrumental Variables

Instrumental variables	
Reform concept	**Implementation strategy**
The reform concept is the target that is being planned: innovations that allow the governmental accounting system to provide information useful for ensuring financial accountability and sound financial management. Lüder (2002) specifies that the reform concept does not refer to a simple change in procedure; the reform concept refers to more fundamental changes involving accounting concepts. The reform concept itself needs to be understandable and practically achievable. It also needs to be flexible in the sense that it reacts to feedback. The reform concept has a direct impact on the implementation strategy.	Types of strategies include authoritarian/participative, centrally guided or not, one/multi-step, with or without pilot testing, considerable/minimal discretion, with or without systematic staff training. Here, even the length of the implementation period is a factor. The implementation strategy chosen will directly affect the probability of success or failure of the reform and can also cause deviations between the original reform concept and the outcome of the reform.

4.3 Limitations of Lüder’s FMR Model

Previous CIGAR works have used Lüder’s Model to identify the factors that explain the how and why of government accounting reforms. The cumulative effect of all the variables included in the model should gauge the inclination of the country to successfully carry out the reform or otherwise.

However, according to Christensen and Yoshimi (2001), the ability of the model to make such predictions is limited because the extent to which the modules interact is not known. The empirical validity of the model is risky as it contains many speculative features (Jorge *et al.*, 2011). Lüder himself criticises the methodological approach applied as '*informed speculation*' (Lüder, 1994:3) because, for example, the empirical relevance of the environmental conditions and their relationships with the accounting system are not definitely settled. Vela Bargues (1996:48) explains that:

> *... the model has a probabilistic nature that does not permit to establish definite and immutable causal relationships between its variables.*

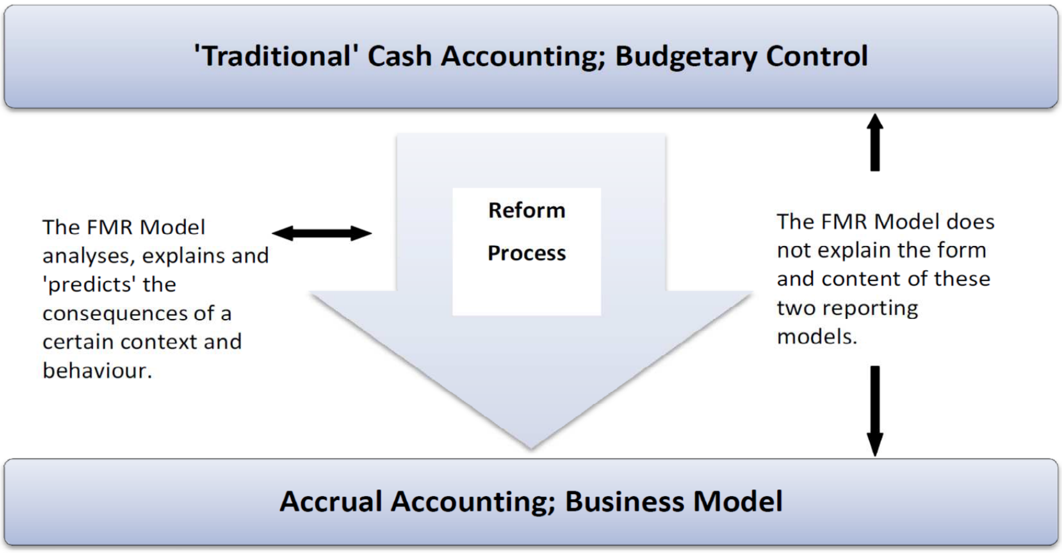
But as long as this limitation is recognised, it does not preclude the use of the model, bearing in mind that the objective is to gauge the extent of conduciveness of the variables for the governmental accounting reforms to achieve some kind of innovation.

Lüder also pointed out that the model might be incomplete since it may not contain all conceivable and relevant independent variables (Lüder, 1992:110). This limitation is being overcome over time as the model is applied in various contexts, and different researchers have identified possible relevant variables. Since the model is considered as the basic theoretical framework for CIGAR, the model is kept alive by the researchers themselves, and further research will identify more variables.

The model itself does not try to differentiate the weights of the various factors. Once again, this limitation is overcome as the model is applied over time and space. The variables themselves and the extent of their effect on the reform process change as the social and political context of governments and governmental accounting changes over time. This point was also identified by Chan (1994:20).

Another problem with the FMR Model identified by Jorge *et al.* (2011), is that it addresses the context and not the contents, of the reform process – focusing on the 'why' governmental accounting has changed or changes, rather than on the 'why' of the new accounting model (refer to Figure 7).

Figure 7: The FMR Model and the reform process



This aspect could be addressed using a suitable organization theory. But it should be recognised that this is going beyond Lüder's Model, because the model itself does not attempt to establish a link between the political, social, legal and cultural features of a country and the peculiarities of its governmental accounting system. In fact, Lüder (1994:1) assumes that the contents of the governmental accounting system are determined by the information needed, and not the environmental context. This assumption alludes that all countries having the same information needs would have conceptually similar governmental accounting systems. But later evidence seems to dispute this assertion. Referring to Godfrey *et al*.'s (1995) research that described how developing countries tend to distort innovations leading to hybrid systems in order to meet the requirements of donor agencies and international organisations, the authors had concluded by stating that:

> *This perhaps reinforces much of the political economy of development literature which would dispute the assertion that one accounting system suits all countries. It would appear from our analysis that the accounting system cannot be effectively imposed by international organisations and donor agencies by ignoring key variables like the administrative culture, staff formation systems and the implementation barriers of staff qualifications and aid distortion.* (Godfrey *et al.*, 1995:29)

Lüder's Model addresses the effects of the governmental accounting context on the conduciveness to reform processes. It does not address the contents of the accounting system itself. Nevertheless, the Model is an important comparative governmental accounting theory, providing some explanations for the 'why' of governmental accounting changes towards more informative accounting systems. What makes an accounting system more informative is a debatable issue. Is it the accrual basis?

5 LOOKING THROUGH THE LENS OF INSTITUTIONAL THEORY

Lüder's Model appears to be based on the premise that the accrual basis is superior to the cash basis. The CIGAR Network does not hold an official position, but most CIGAR scholars have had a normative tendency in believing, for example, in 'a more informative public sector accounting' (Lüder, 1992). According to Chan (2002), positive research seeks to answer the question 'what is' and not 'what ought to be'. For example, positive research would seek to understand why a government uses the cash basis of accounting. Government accounting is a social and institutional practice, like other types of accounting, and is therefore a product of rational calculations of costs and benefits by self-interested stakeholders (Hopwood and Miller, 1994). The choice of accounting policies by government can be studied as the result of political and market processes, as in private sector accounting (Watts, 1992). If it is accepted that public officials are motivated by self-interest, then their behaviour for holding short-term planning horizons due to frequent competition in elections should not be condemned. In doing so, they are responding to the incentives provided by the rules of the game in the political system (Chan, 2002:27). Chan (2002) calls for a robust positive theory that could explain or predict the survival of new ideas in a particular environment, especially in view of the strong recommendations for a wider adoption of IPSAS; this in order to create more harmonised government accounting systems.

The sociological branch of institutional theory tends to explain why modern organizations are homogeneous and which institutional factors are likely to influence and diffuse this evolution (DiMaggio and Powell, 1983). DiMaggio and Powell (1983) suggest the concept of *isomorphism* (similarity) to explain administrative change within an organization. *Isomorphism* is defined by institutionalists as a constraining process that forces one organization to resemble other organizations that face the same set of institutional pressures. DiMaggio and Powell (1983) distinguish three important mechanisms - coercive, normative and mimetic - by which institutional effects are diffused through a field of organisations. They emphasise structural isomorphism as an important consequence of both competitive and institutional processes (Scott, 2001:43).

The institutional theories first identify the position of the organisation in its social environment, and how it interacts. As organisations strive for competitiveness and legitimacy, these theories analyse the evolution of the organisation through the filter of multiple interactions that are exerted on it, in a similar manner as is done by contingency models (Lande, 2006).

These interactions of the organisation with its social environment lay down boundaries on organisational practices. These practices are then recognised by the institution: they become *institutionalised,* and become the standard. These institutional standards are then adopted by the organisation. In this way, it would be possible for the organisation to acquire legitimacy by adopting a position that conforms to institutional practices (Lande, 2006). This process of how organisations change in their search for competitiveness and legitimacy is illustrated in Figure 8.

Figure 8: Interaction between the organisation and its social environment

(Source: Lande, 2006:20)

Social theorists have identified three vital elements of institutions: regulative systems, normative systems and cultural-cognitive systems (Scott, 2001:51). These three elements form a continuum moving '*from the conscious to the unconscious, from the legally enforced to the taken for granted*' (Hoffman, 1997:36). Scott (2001:51) calls them the *'three pillars of institutions*'. Table 2 outlines the principal dimensions for each element that have been brought forward by various theoretical arguments and assumptions.

Table 2: Three Pillars of Institutions

	Pillar		
	Regulative	**Normative**	**Cultural-cognitive**
Basis of compliance	Expedience	Social obligation	Taken-for- grantedness; shared understanding
Basis of order	Regulative rules	Binding expectations	Constitutive schema
Mechanisms	***Coercive***	***Normative***	***Mimetic***
Logic	Instrumentality	Appropriateness	Orthodoxy
Indicators	Rules; laws; sanctions	Certification; accreditation	Common beliefs; Shared logics of action
Basis of legitimacy	Legally sanctioned	Morally governed	Comprehensible; Recognisable; culturally supported

(Source: Scott, 2001:52)

The Regulative Pillar gives prominence to regulatory processes: rule-setting; monitoring; and sanctioning activities. Regulatory processes involve the capacity to establish rules, inspect others' conformity, and manipulate sanctions - rewards or punishments - in an attempt to influence future behaviour. The primary mechanism of control, employing DiMaggio and Powell's (1983) typology, is coercion: *'force, fear and expedience are central ingredients of the regulatory pillar'* (Scott, 2001:53). The harsh effects of these elements are often moderated by the existence of rules, whether in the guise of informal mores or formal rules and laws (Scott, 2001).

The regulative and normative pillars can be mutually reinforcing. For example, when authority is used to legitimate coercive power by a normative framework that both supports and constrains the exercise of power (Scott, 1987). Normative systems include both values and norms, so they define goals and systems, *'but also designate appropriate ways to pursue* *them'* (Scott, 2001:55). Normative systems restrict social behaviour, but at the same time, they empower and enable social action, by conferring rights and responsibilities; privileges and duties; licenses and mandates. They also give rise to roles - both formal and informal - where the values and norms of particular individuals would become normative expectations of how specified actors are supposed to behave:

> *The expectations are held by other salient actors in the situation and so are experienced by the focal actor as external pressures.* (Scott, 2001:55)

Neo-institutionalists take seriously the cognitive dimensions of human existence:

> *In the cognitive paradigm, what a creature does is, in large part, a function of the creature's internal representation of its environment.* (D'Andrade, 1984:88, cited in Scott, 2001:57)

Therefore, in order *'to understand or explain any action, the analyst must take into account not only the objective conditions but also the actor's subjective interpretation of them'* (Scott, 2001:57). The mechanism involved is described as '*mimetic*' because things are '*said*' without words. In many circumstances, compliance occurs automatically, simply because '*this is the way we do things here*' and other types of behaviour are inconceivable. Repetitive patterns of action gradually become habitualised and objectified, and this can be recognised in the operations of institutional frameworks that provide prefabricated organising models and scripts (Goffman, 1974, 1983, cited in Scott, 2001). Meyer and Rowan (1977, 1991) and DiMaggio and Powell (1983) emphasise the extent to which wider belief systems and cultural frames are imposed on or adopted by individual actors and organisations.

5.1 The three pillars of institutions and the adoption of accrual accounting

> *Organisations require more than material resources and technical information if they are to survive and thrive in their social environments. They also need social acceptability and credibility*. (Scott et al, 2000: 237)

According to Lande (2006:20),

> *the adoption of accrual accounting ... can be analysed as a conscious or unconscious wish on behalf of the organisation (State or local governments) of being in conformity with the institutionalised standards and, in this way, attaining legitimacy.*

The three pillars of institutions described by Institutional Theory elicit three related but distinguishable bases of legitimacy, as shown in Table 2 (Scott, 2001:60). The basis of legitimacy moves from legal sanction under the Regulative Pillar, to being morally governed under the Normative Pillar. While the legitimacy of actions under the Cultural-cognitive Pillar is based on the actions being understandable, recognisable and culturally supported.

5.1.1 Coercive Isomorphism (the power of the law)

The legislative framework that is required for a government to reform its accounting and introduce accrual accounting would be a determining force of coercive isomorphism. But Lande (2006:21) asks:

> *What sanctions are incurred by public governments in the event of non-compliance with the law and accounting practices?*

Would a qualified audit report submitted to Parliament pose a credible threat? There may be some political damage as a consequence, but the sanctions are only symbolic and would not result in formal coercive pressure (Lande, 2006).

International organisations, like the World Bank and the IMF, can acquire the power of coercion through their control over governments that need resources from them in order to survive. This power can be used to reform economic and financial policies, and also to initiate accounting reform to implement accrual accounting (Lande, 2006). As Lande (2006:22) points out, the mechanisms of coercive isomorphism can thus be analysed through the resource dependence theory (Carpenter and Feroz, 1992, 2001, cited in Lande 2006).

5.1.2 Normative Isomorphism (peer legitimacy)

Normative isomorphism is seen when practices are standardized through a body of issued rules, admitted and recognized by professionals. Normative isomorphism plays a determining role when a government enacts a legislation which results in the adoption of a conceptual framework and a set of standards issued by an independent standard-setter. Especially if the accounting framework would include concepts largely shared with the private sector, like the principles of true and fair view and prudence, which concepts have been ignored by the public sector, as the latter is more accustomed to refer to budgetary principles (Lande, 2006).

The role of international accountancy organisations like the International Accounting Standards Board (IASB), the International Federation of Accountants (IFAC) and the IPSASB, is also significant, especially through the terminology used that is directly inspired by that used for the private sector, and which is used by each country to establish their own accounting standards. Lande (2006) maintains that the adoption of a conceptual framework is a means of peer recognition by the use of a common language admitted and recognized by all.

The official position of the country is made '*easily readable by its partners because it adopts conventions currently in force at the international level*' (Lande, 2006:24).

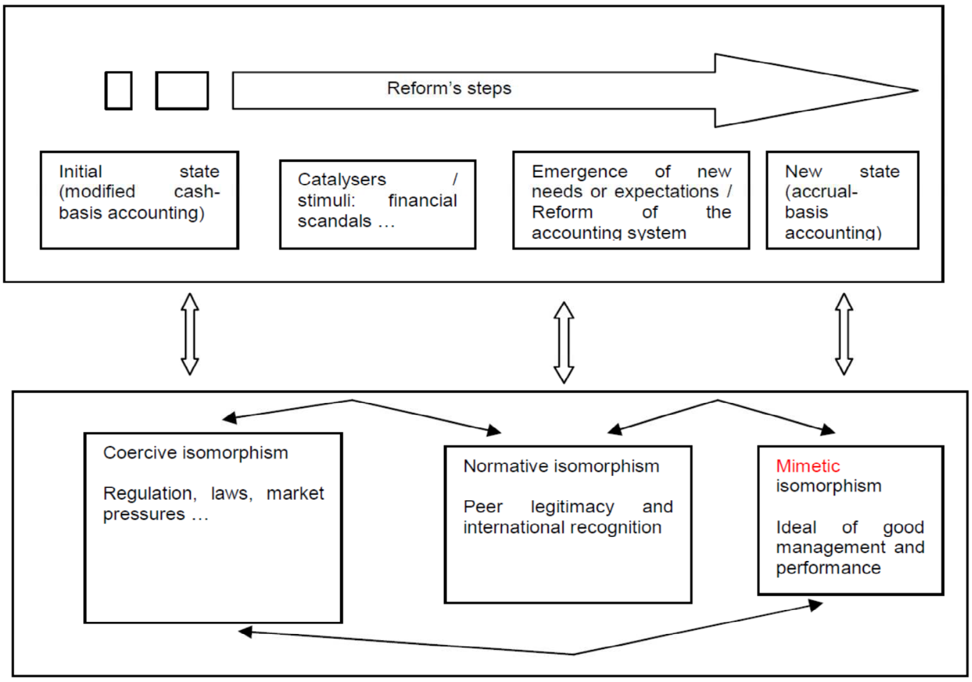
The mere availability of the IPSAS does not exert any coercive pressure, but they can gain peer legitimacy, for example, on their adoption by international and supranational organisations. Normative isomorphism also results when these international bodies link the availability of grants and loans with the adoption of these accounting standards by the government concerned. The fact that the feasibility of IPSAS adoption is now also being considered by the EU for its member states is increasing their legitimacy in the eyes of sovereign governments.

5.1.3 Mimetic Isomorphism (doing what is deemed as ideal)

The accrual-basis of accounting is often perceived as an essential means to be assured of greater financial transparency and carries a pledge of more effective and more efficient management. This assumption is an idea largely shared in the public sector. Mimetic isomorphism is observed in the perception that the adoption of the same set of standards is a way for public organisations to be as powerful as private ones, while the numerous financial disasters that have happened in the private sector are disregarded (Lande, 2006).

Mimetic isomorphism makes the role of the epistemic community rather ambiguous. Because of its composition (researchers, auditors, consultants, associations of accountants, etc.), the epistemic community influences the process of standardization while being a force in proposing the choice of the standards to be adopted or developed. According to Lande (2006), however, when proposals that are not in conformity with the '*code*' or with the standards in force are carried out (Lande and Scheid, 2003) they are not considered very credible by the remainder of the epistemic community because they deviate from '*generally accepted positions*'. Lande (2006) persists that the suggestion of accounting principles or policies distinct from those of the private sector is regarded as a way of thinking against the dominant current and as a lack of realism or pragmatism. Lande (2006:26) concludes, therefore, that the principle is to adopt the dominant position and not to innovate. In the end, the adopted position must be in conformity with the generally accepted position in order for it to be '*credible*' and considered as legitimate. The fact that advice is sought from external experts will ensure such legitimacy.

Figure 9: Isomorphism impact on the reform's steps



(Source: Lande, 2006:27) (adapted)

Accrual accounting is considered as the norm for the reform concept in Lüder's FMR Model (2002) (Lüder and Jones, 2003:54). The whole accounting reform, including the reform concept, is subject to the pressures of contextual, instrumental and behavioural variables. Other mechanisms or pressures are present in association with these contingent variables – coercive, normative and mimetic isomorphism. As illustrated in Figure 9, these three isomorphisms interact among themselves and modify the actors' expectations, the accounting system and the organization itself. According to Lande (2006), an interacting system is observed, with each organization or institution or corporation interacting according to the perceived social environment and contributing to modify this social environment.

Lande (2006:26) observes that if the forces or pressures that are exerted explain these movements of reform in favour of accrual-basis accounting, then this isomorphism is not perfect, because, there are different definitions of accrual-basis of accounting in various countries. However, '*will we see new accounting standards or even new accounting systems deviating from the generally accepted models?'* (Lande 2006:27)

From an institutional perspective, accounting is part of the institutionalised and rationalised structure of a society (Miller, 1994:11). In order to be able '*to understand fully how particular ways of accounting have emerged, and why such significance is accorded to them*', Miller (1994:20) emphasises the importance of moving beyond the boundaries of the organisation and *'examine the social and institutional practice of accounting'*.

The urge for legitimacy is an underlying theme in institutional development. As innovation spreads, a threshold is reached where the adoption of particular practices provides legitimacy rather than necessarily improves efficiency or performance (Meyer and Rowan, [1977] 1991). Legitimacy is defined by Suchman (1995:574) as:

> *a generalised perception or assumption that the actions of an entity are desirable, proper or appropriate within some socially constructed system of norms, values, beliefs and definitions.*

Scott (1987) argues that legitimacy can be achieved by conforming to current conventional practice and external pressures. According to Selznick (1957:17), new practices become '*infused with value beyond the technical requirements of the task at hand*'. Technical explanations are sometimes used to hide political and cultural factors (Meyer and Rowan, 1991:44).

Although the implementation of new accounting and reporting practices in the public sector have often been viewed as a means of improving productivity and efficiency of public sector organisations, the emphasis has been directed to the symbolic power and legitimation roles of accounting information (Carpenter and Feroz, 1992:613-615). However, it is in the pursuit of enhanced public sector efficiency and accountability, as intended outcomes, that efforts have been made to import private sector management practices in the public sector, such as the use of generally accepted accounting principles (Carpenter and Feroz, 1992:613).

6 SUMMARY

Four main types of public administration theory are identified by Christensen (2003b), depending on the assumed driving force (influences) of the decision-making processes and their effect (refer to Table 1). These four theories can overlap but focus on different levels. They also vary as to how public organisations become established and change.

The development of both theory and practice can be looked at through NPM. The ideas of NPM have spread, but not actual practice. Regulation, allocation of public resources and income redistribution are the three functions of the public sector. Public sector activity grew but its effectiveness has been questioned.

The increased involvement of the private sector, and more business-like provision of public services, could have been the underlying pressure leading to private sector approaches being adopted in government financial reporting. Proponents of NPM-based practices believe that the adoption of accrual accounting would improve financial accountability and asset management of government organisations. Advantages are not automatic, however, and accrual-based accounting systems have faced both conceptual and practical criticism.

6.1 Lüder's FMR Model and Organisation Theory

The four broad categories of organisation theory (as summarised in Table 1) are not clear-cut; the elements may be combined, and this is what Lüder's Model appears to be doing. The distinction of the behavioural variables into reform promoters, stakeholders and reform drivers, sprouts from bounded rationality theory. Even the importance given to institutional arrangements considered as contextual variables is based on this theory where 'the formal structure matters', and even on formal theories that are based on the premise of 'utility-maximising behaviour'. The cultural-institutional perspective underlies both the institutional arrangements and the stimuli as identified in Lüder's Model. The fourth type of organisation theory revolves around the belief that the environment drives decision-making behaviour; the feedback loops in Lüder's Model illustrate the effect of the environment on the reform process. Brunsson (1989) emphasises that a balance is required between the demand of the technical and institutional environments; Lüder's Model takes both types of environments into consideration.

While each type of broad category of organisation theory tries to relate to a rate of change in a public organisation, Lüder's Model takes elements from all categories, and therefore, a predicted propensity to change will depend on the effect of all the variables. As already stated, the predictability of Lüder's Model has been criticised because the extent to which the modules interact is not known.

Lüder's Model identifies the variables affecting a financial management reform process, and attempts to predict whether favourable factors will overcome implementation barriers so that innovations occur. The Model has, therefore, been designed as a consequence of accounting reforms that are suggested by promoters of NPM ideology. The reform concept itself is taken to be accrual accounting methodology. Why is this accounting methodology deemed 'appropriate' for public administrations? A structure of dominance is created, supported by professional groups, and public organisations have to adapt them, or appear to do so. This 'myth' is in line with organisation theory that focuses on the institutional environment (Meyer and Rowan, 1977; Powell and Di Maggio, 1991). For this reason, institutional theory is referred to, bringing the analysis full circle. The analysis of the findings in Chapter 8 attempt to establish how the three pillars of institutions - regulative; normative; cultural-cognitive - play a role in Lüder's Model.

6.2 Concluding Note

Change is the underlying theme of this study. Organisation theory has developed over time to reflect changes and complexities in public administration. Reforms in public administration and government accounting systems are said to be inspired by NPM ideology. On the other hand, NPM ideology appears to be driven by institutional theory (Boston *et al*., 1996). Organisational theory forms the backdrop of the government reform models that have been developed to study changes in administration. One such model is Lüder's FMR Process Model (2002).

Lüder's FMR Process Model (2002) is used to assess the conduciveness of an environment towards a financial management reform process. The model is holistic in that it combines elements from the four broad categories of organisation theory. After the findings from this research are described in the next four chapters, Lüder's model is applied in the Maltese context. Institutional theory is used when discussing the limitations of the Model. Lüder's model is re-visited in chapter 8 and linked with institutional theory to better describe the government accounting reforms in the Maltese context.

CHAPTER 4: HISTORICAL BACKGROUND AND THE CURRENT SITUATION

1 INTRODUCTION

The aim of this study is to describe and analyse the 'how and why' of government accounting reforms in Malta. The purpose of this chapter and the next is to describe the current accounting system used by the Government of Malta, and to present findings that answer the first set of research questions presented by this study, being:

- What are the factors or variables underlying the change process while it takes place?
- Who are the main actors effecting and/or affecting the change process?
- How are the reforms being implemented?

This chapter starts with the historical background and leads to the current situation of governmental accounting in Malta. The relatively small size of the country of Malta is highlighted through the map in Figure 10 and the demographic and economic indicators in Table 3.

Figure 10: Map of Malta in the Mediterranean Sea (Source: worldatlas.com)

Table 3: Key demographic and economic indicators (as at December, 2012) (Source: NSO, 2013)

Official Name:	Republic of Malta
Area:	316 km^2
Shoreline Malta:	200.0 km
Shoreline Gozo and Comino:	71.2 km
Capital City:	Valletta
Official Languages:	Maltese and English
Monetary Unit:	euro (€)
Population	421,364
Population density (persons per km^2)	1,333
Employed population	172,701
Number of employees in:	
Government Departments	31,181
Companies with Public Sector majority shareholding	1,842
Independent Statutory Bodies	8,735
Whole Public Sector	41,758
Public Sector employees as a % of employed population	24.2%
Unemployment rate	6.4%
Retail Price Index Inflation Rate	2.42%
GDP (at market prices)	€6,829.5 million
Balance of Payments current account	€109.4 million
Imports of goods	€6,178.3 million
Exports of goods	€4,431.1 million

2 HISTORICAL BACKGROUND

2.1 A British Colony (1800 - 1964)

Foreign rule is one of the factors that have affected the history, politics, social life and economic activity of Malta. Under British rule, Malta served as the main British naval servicing base in the Mediterranean Sea (Pirotta, 1996). During times of war, commercial activity around Malta's harbours expanded, increasing wages and the standard of living. In times of peace, the Maltese had to look at their own industry and were expected to shoulder not only the burden of their institutions but also that arising from the defence of their Island[16]. The British invested heavily in the Island, and thus issues on public funds were the centre of attraction. Government accounts were audited in Malta by the Services Commissariat Auditing Board, which also audited the accounts of Britain's fighting services. The audited accounts were then forwarded for inspection to His Majesty's Treasury Commissioners for Auditing Public Accounts in London.

The Public Service and the departmental system of government administration were founded by the first British Governor of Malta in 1813[17], who was also the first Accountant General (Pirotta, 1996). The NAO was established in 1814. The government's budgeting system was introduced in 1827, when the British Parliament decided that the financial requirements of a colony was to be regulated 'in anticipation' and financial assistance would only be provided on the basis of acceptable financial estimates[18] (Bartolo, 1975).

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[16] From 1812 onwards, any surpluses accruing to the Maltese government in any given year were to be transferred to the Military Chest (Pirotta, 1996).

[17] Retaining the centralised administration system established by the Knights (1530-1798).

[18] The budget for next year had to be presented to the Colonial Office at the end of each year.

A form of Representative Government was granted to the Maltese for the first time in 1849. Governors and public officers were to remain accountable to the Colonial Office in London, but now they would be subject to greater scrutiny in Malta itself. In 1885, the first Maltese official was appointed as Auditor-General, and he was trained at the Colonial Audit Department in London. British policy pressed forward the anglicization of Maltese education and administration. Conflict over this issue eventually crystallized into what became known as the 'language question'; and in 1903, Britain revoked the Constitution and Malta reverted to the status of a Crown Colony.

Due to heavy expenditure in public works, Malta's financial position deteriorated seriously in the first decade of the twentieth century, culminating in the riots of June 1919. It was decided that Malta should be given a modified form of responsible government led by an elected Ministry. Under the 1921 Constitution, control of the Island was divided between the Maltese Imperial Government and the Maltese Government (Cremona, 1963, in Pirotta, 1996). The aim was to give the Maltese as "*great a control over their purely domestic affairs*" (Mason, 1985 in Pirotta, 1996) as was consistent with the interests of the fortress and the colonial authorities[19].

In November 1924, a Bill "*to regulate the receipt, custody and payment of public moneys and to provide for the audit of accounts*" was read in Parliament, resulting in the Treasury and Audit Act, 1926. Until then, Colonial Regulations regulated government accounting and

[19] As Mason (1985, in Pirotta, 1996) puts it, diarchy was intended to hand over the steering-wheel while retaining in colonial hands control over the accelerator and the brake.

auditing. The Bill embodied and gave legal force to those sanctions of the Colonial Regulations which dealt with the audit function and the workings of the Treasury[20].

The language question and a continuous power struggle instigated by political patronage were the highlights of local elections. But Britain was increasingly nervous about Italian influence in Malta. In November 1933, the British Government suspended the Constitution and reinstated Crown Colony government. In 1934, the use of Italian was completely abolished from the Courts and was substituted by Maltese (Cassar, 1991, in Pirotta, 1996). By 1935, Malta had drifted into an undeclared state of emergency due to the impending war.

Malta always tended to prosper whenever there was a threat of war in the Mediterranean. British defence spending in Malta increased and unemployment was drastically reduced. By 1939, the standard of living was higher than ever before (Austin, 1971, in Pirotta, 1996). The second world war brought the British and Maltese communities closer, and in 1943, the British Government gave an undertaking to restore self-government at the end of the war.

Under the new dyarchical constitution which came into effect at the end of 1947, the Auditor was appointed by Ministers and he was answerable to them. He was required to carry out a detailed audit by both the Colonial Regulations and the re-enacted Treasury and Audit Act, 1948.

Self-government generated an expansion of administrative activity and organization, initially on account of the post-war reconstruction scheme and, from 1955, in preparation for Malta's

[20] The first financial legislation of 1926 was based on British Colonial Regulations. This law was re-enacted two times over the years - in 1948 and in 1962. The government's financial legislation, however, did not change to reflect the change of status of the country over time.

Constitutional Integration with Britain (Pirotta and Warrington, 2001). Disputes between the Maltese and British governments, as well as among Maltese political parties, created political instability which may have discouraged sound policy making and administration. Malta experienced both an expansion of public finance, as well as chronic fiscal insecurity. This awkward combination encouraged extraordinary heavy expenditure, but discouraged financial planning (Pirotta and Warrington, 2001).

Periodic breakdowns in the Anglo-Maltese relations very often centred around the fortress which continued to exert its influence. However, as the extent of the British Empire receded, the importance of Malta as a fortress declined, and British defence cutbacks fuelled one crisis after another (Pirotta, 1996). The crisis in 1958 arose as a result of the British decision to privatise the naval dockyard in Malta and to lay off thousands of Maltese workers from its naval establishments. This led the Maltese Government to resign in April 1958, and Britain was once again forced to withdraw the Constitution and to govern the Island directly.

The period between April 1958 and September 1964, was a time of intense debate mainly concerning Malta's constitutional status vis-à-vis Britain and the nature of the Islands' political system. In 1959, the post of Accountant General (AG) was created and he inherited all powers and duties of the Treasurer – a public servant, head of the accounting function of Government. The Auditor was re-styled 'Director of Audit' under the 1959 Constitution, but he remained a public officer, subject to appointment and control by the Governor.

A 'State of Malta' came into being under the Constitution of 1962. It signified a significant improvement in constitutional terms, however, Malta was not yet a sovereign state or a dominion, but not quite a colony. The Financial Administration and Audit (FAA) Act, 1962, imposed extensive reporting obligations on the auditor. The Minister of Finance did not make General Financial Regulations (GFR) until 1966, so that Colonial Regulations remained the principal procedural guide – and they were not altogether relevant to certain new classes of financial transactions.

2.2 The Period of Development (1959 – 1989)

A period of development surrounded Malta's independence in 1964, led by the government's role as an investor, entrepreneur, trader and producer, as well as policy-maker and pace-setter. The historical paternalism of Maltese government reached its peak during the so-called 'development decades' from 1959 to 1989 (Pirotta, 1996). As a result, public administration grew more complex, the powers wielded by ministers and officials multiplied, and government became more centralized in an effort to maintain the pace and coherence of administration. The centralised administration devised by the Knights[21] and the British to govern their fortress provided a ready foundation for the ambitions of Malta's sovereign governments (Pirotta & Warrington, 2001).

In legal and organisational terms, the public sector became heterogeneous. In principle, various forms of government entities were set up to distance regulatory and adjudicatory functions from ministerial control, or to enable public enterprise to operate flexibly under market conditions. In practice, there was little consistency in the arrangements. Some

[21] The Order of the Knights of St. John, a military and religious Order, ruled Malta between 1530 and 1798. Like the British who succeeded it, the Order regarded Malta as a fortress state, but it also used Malta as a base from which it could manage its vast estates spread around Europe. The Order enhanced the Island's administrative structure for this purpose.

enterprises, both successful and not, remained departments of the public service[22]. Some public corporations developed subsidiaries to run one element of their operations[23]. Public officers provided administrative support to certain bodies, while others were authorised to employ staff directly (Pirotta and Warrington, 2001).

Since 1980, annual audit reports consistently refer to international developments and standards. In the Maltese context of paternalist government, the auditor also recognised the importance of control over employment levels in the public sector and the efficient utilisation of manpower[24]. The scale of operations, the authority vested in officials, the range of goods and services in the public domain, the variety of legal, political and managerial regimes – these factors created difficulties.

Signs of cumulative administrative distress were highlighted by a constitutional crisis (1981-1986)[25], and the politicians agreed that a comprehensive reform of Malta's governing institutions and public administration was necessary. The decision to join Europe also contributed to the need to adapt internal structures with European standards.

2.3 Governmental Reform (1989 -)

A newly-elected government in 1987, appointed the PSRC in May 1988 to examine the organization of the public services and to make recommendations as to how the Public

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[22] For example, the Government Lotteries and the Milk Marketing Undertaking.
[23] For example, Water Services.
[24] Audit Report, 1983: par. 15
[25] The General Elections of 1981 had elected a Labour Government because it had the larger number of representatives, however, it did not hold the majority of the first-preference votes. In protest, the representatives of Nationalist Party boycotted the parliament and the Opposition did not attend Parliamentary sessions. The Constitution was later amended to remove the re-occurrence of such an anomaly.

Service can efficiently respond to the changing needs for effective government (PSRC, 1989: Appendix 1). The Commission's report triggered governmental reform extending from the delivery of public services to the working of the Constitution and the independence of the NAO (Pirotta and Warrington, 2001).

Steps were taken to improve the relationship of the public sector with the citizens, including the use of ICT throughout the system of public service provision to encourage citizen participation in public life and for the services to reach greater efficiency levels. Decentralisation was undertaken to change a traditionally highly centralized administrative structure. This resulted in the setting up of various statutorily-independent entities, some of which managed to decrease their reliance on central budgetary funds, while others were not so successful. The increased involvement of the private sector in the provision of public services was also sought through public-private partnerships (PPPs). The objective was to improve public services through best use of human and technical resources.

The implementation of these measures revealed the inadequacy of the 1960's financial legislation on public finance. A new legislative framework was required to consolidate existing reforms and to cater for the modernisation of management of public finances, especially by reducing inefficiencies and wasteful use of public funds. In 1988, the NAO agreed with the Commission’s recommendation that:

> *Public Service reform should also encompass a full-scale revision of the financial management legislation so as to bring it into line with modern accounting methods, including automated accounting and other financial management systems.* (Audit Report, 1988, par.23)

The first step was to computerise the cash-based government accounting system. The change to accrual started later, in 1999.

3 THE CURRENT GOVERNMENT ACCOUNTING SYSTEM

3.1 The Departmental Accounting System (DAS)

The DAS is the first computerised government accounting system used by the Government of Malta. Its implementation took eight years.

The government issued the tender for the implementation of a cash-based computerised accounting system in 1992. The tender was awarded to a private audit firm, namely, Grant Thornton. The firm used the Sage Sovereign[26], and converted the accrual accounting package into a cash-based one. The principles of double entry were still maintained, but other add-ons were required to bring it in line with government requirements, commitment tracking in particular. A Unix based programme was purchased to cater for multi-usage. The MITA[27], as the government agency responsible for the system's operations, purchased the customised package from the audit firm.

The DAS implementation process started in 1993. After development and testing, the system was introduced in 20 government departments (out of 60) in 1996. At departmental level, the new system was run in parallel with the manual system, while the Treasury continued using the old system. The consolidated Treasury function was introduced one year later. In late 1999, MITA started planning for the implementation throughout the Central Government, and

[26] Sage Sovereign is an off-the-shelf accounting package, produced and distributed by Sage plc, a software company based in the UK.
[27] The Malta Information Technology Agency (MITA) is the central driver of Malta Government's Information and Communications Technology (ICT) policy, programmes and initiatives.

this was complete in 2000. According to a MITA Manager (Interview 11), *"we were a group of 12 people on the go, non-stop"*.

3.2 The double entry in the current accounting system

The backbone, which is used as a repository, is the Sage Sovereign with a multi-user function. Due to the overlaying development, the user only sees the DAS functions, but the ledgers can be accessed. Apart from some journals, double entry is done automatically. The functionality starts at the front end through the processes that the users have as part of their work. The functions available through the overlaying are explained in Table 4.

Every department has the Sage Sovereign and the DAS, meaning that every department has its own individual books of account. The user does not have the actual system but the software to connect his/her PC with a server. All transactions are done on the server.

At the end of the day, each department sends its electronic data to the Treasury. The Treasury is referred to as 'the consolidated' because it consolidates the departmental information to issue the government report. The consolidated data is a replica of the departmental sets.

The coding structure facilitates the amalgamation of the datasets. At departmental level, the code of each line item consists of the account number, the cost centre and the responsibility centre. The code moves up one level in the consolidated because the responsibility centre is dropped, while the department code becomes the cost centre, and the cost centre of the department becomes the responsibility centre. From the consolidated dataset, the financial report can be issued monthly, quarterly or annually.

Table 4 : The DAS Functions

DAS Function	Description
Commitments	This is used for purchasing. A purchase order is raised and the system checks with the budget amount and controls. The funds are blocked, and will remain so until either the commitment is cancelled or the invoice is received, posted and moves for payment. If a commitment is not acted upon, the funds will not be carried forward at the end of the year. When the invoice is posted, the purchase ledger is updated. When the invoice is paid, the cash book and the purchase ledger are updated. So the system is not purely cash-based, but at front end it is. The departments have details of their creditors, but the reporting is done cash-based.
Income routine	When income is received and a receipt is issued, the user has to decide which account is going to be credited. The sales ledger in the backbone is practically not used, because the major revenue-generating departments have their own accounting systems. These systems are not replicated in the DAS.
Transfer and adjustment	Used for journal entries.
Multi payments	This is another means of payment for expenses not supported by an invoice. In this case, the backbone is not updated immediately because the department has to await authorisation for payment from the Treasury before it updates the DAS from its end. The same time gap exists for recording income receipts.
CBM payments	Used for payments done by bank transfer.
Petty cash	Petty cash.
Schedules	This is a means of accounting for payments from the public account but through other systems, for example, the Treasury Pension System and the Government Payroll System. This function is also used to record transactions between departments.
Funds	These are the budgetary controls. The budget amounts are entered towards the end of the year, after the Financial Estimates are approved by Parliament. The budget amounts are not part of the double entry but only a set control of values. In the case of expenditure, the estimate becomes a budget amount. In the case of revenue, it remains an estimate. A budget is a limit that cannot be exceeded according to the law and regulations. Since a budget expense line item cannot be exceeded, a transfer may be required from one line item to the other. A virement is simply a budget transfer and is not recorded as a transaction. Authorisation from the MFEI is required to effect a virement exceeding €50,000.

Part of the consolidated dataset is the bank reconciliation statement. The electronic procedure consists of issuing the cash book from the DAS by exporting the data from the consolidated dataset; importing data from the other systems and updating the cash book; and matching cheque numbers and amounts with the bank statement details imported from the Central Bank. The reconciliation is a function of the Treasury.

The accounting system is menu driven and has inbuilt funds controls. Each account will include the amount allocated by the original budget, the revised estimate, warrants and virements. The revised estimate is used in the case of amendments to the original budget. The warrant is the routine used when the MFEI issues additional funds, known as supplementary estimates. Each account includes commitment tracking[28]. The bottom line will always show the amount of funds available for that line item.

3.2.1 Budgetary Controls

The budget is not part of the double entry in the current cash accounting system but is treated as a control. When the Appropriation Act is issued, the budgeted amounts are entered in the budgetary control system within the DAS, but this is not part of the double entry. Each account is split into two: budgetary controls and transactions. They are segregated because the

[28] A 'soft' commitment becomes 'hard' when the purchase order is issued; when the invoice is posted, the hard commitment moves to 'approval for payment'; 'post' means that the transaction has been sent to the Treasury; and it becomes a 'paid transaction' once the Treasury issues the cheque.
A commitment is described as soft when the tender is issued. At this point, both the supplier and the actual amount would still be not known. Soft commitments are not taken as an accrual because the process of receiving bids and awarding the tender is still pending. Once the contract is entered into and the payments are being called upon, then the contract can be taken as an 'expenditure payable' - it becomes a 'hard' commitment. According to the ex-Budget Office Director, this distinction between a soft and hard commitment makes the system "*refined*" (XBO, Interview 25)

budget is not actual funds. The system calculates variances and a report can be issued comparing the budgeted amount with the actual.

3.2.2 Year-end procedure

> *Basically, there is no year-end procedure ... First of all, no balances are carried forward. And secondly, they* (the Treasury) *continue working on them for some three months, while they already have transactions for the current year ... we create new datasets for them* (the Departments) *at the end of the year. Each year, they start afresh.* (MITA2, Interview 11)

Payments are recorded up to December. The Treasury issues the first summary Financial Report in March, and in the meantime, it continues working on the old dataset adjusting for transactions between departments and checking certain transactions with the Central Bank. The final transaction entered is the State Contribution concerning the government's part of national insurance contributions collected during the year. Certain departments generate a net surplus, for example, the Inland Revenue, Customs, VAT, and the Government Property Division. Other departments have more expenditure and produce a deficit, for example, Education. At the end of the year, these surpluses and deficits are transferred to the Consolidated Fund. The balance on the Consolidated Fund is then transferred to the new year. The full Financial Report is issued in June.

The Departments start each year with a blank page because they are given a new dataset. A manual process needs to be followed to create a new account for each below-the-line item and enter the balances on these accounts[29].

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[29] Below-the-line accounts are used to record items that do not pass through the consolidated fund, for example, advances. Sometimes, until the year-end balance on the below-the-line account is confirmed, half of the balance is temporarily transferred to the new year so that the department can continue working on the item.

3.3 Criticism of the current accounting system

The end users in the departments perceive the year-end cut-off as the major disadvantage of the DAS:

> *... at year end, the system fails, because it is as if no commitments have been done. The DAS records commitments within the year, from January to December. You can print these out using the report generator, but you have to input them again in the system, come January.* (DCS4, Interview17)

The fact that a new dataset is provided at the beginning of the year also limits the search facilities and "*its reporting facilities are not very flexible, especially when you request certain data for a number of years*" (DCS7, Interview 23). Another disadvantage is that the purchasing system is not integrated with the stock system (DCS9, Interview 28). The DAS uses the MSDos mode, which is quite outdated and not very user-friendly (DCS8, Interview 26), however, the users appreciate that it has been developed over time, with new controls on procurement introduced gradually into the system (DCS4, Interview 17).

In fact, it appears that only the internal auditors appreciate the reporting possibilities in the DAS:

> *The DAS has weak spots but it has many good things. No one knows how to use it: its functions and reporting functions ... They say it is obsolete, but in reality, it serves us well ... But we are the only department interested in extracting information. Management only feels the obligation to input the information, and does not regard it as an available tool.* (IAID, Interview 21)

The users have now *"got used to it, and ... find it very reliable"* (DCS4, Interview 17), but it is unanimously criticised for the way that the year-end cut-off clears away any allocated funds that are not used. The users feel that this hinders proper management because they cannot plan ahead for more than one year. The users have the expectation that this 'cruel' cut-off will end with an accrual-based accounting system:

> *With an accrual basis, for sure there will not be this problem because you would know what funds you have for three years and you may carry forward your funds. But we cannot do this under the current system. We are at the mercy of the MFEI.* (DCS4, Interview 17)

The users are overlooking the possibility that this is an application of the annuality rule in budgeting, which may still be applied even if an accrual-based accounting system is used. For example, even though accrual-based budgets are prepared in the UK, the government still adopts a strict interpretation of the rule of annuality because money that is unspent at the end of the year must be paid back to the Consolidated Fund (Jones, 2012). As shall be shown later on, this issue is one of the main contentions of the Budget Office and the PS for opposing the introduction of an accrual-based budget. It may also be one of the reasons why the draft financial management legislation was not finalised but sent back to the drawing board.

4 AN OUTLINE OF THE ACCOUNTING REFORMS

4.1 The beginning of the reforms

As already described in section 2.3, accrual accounting for the Government of Malta has been under discussion from at least the 1980s (IAID, Interview 21). Modern accounting methodologies were suggested as a management tool during the public service reforms (PSRC, 1989), while the Audit Report of 1994[30] specifically recommends the adoption of an accrual accounting system by the public sector.

[30] Audit Report, 1994: par.1.10.6-10

In 1993, the Local Councils were formed and these were required to start using accrual accounting systems from 1995. Government entities were also required to adopt this "*modern*" accounting system. It was only the Central government that procrastinated.

It appears that the Minister of Finance during the 1990s held the vision to implement accrual accounting at central government level. In 1999, he set up the Accrual Accounting Task Force just for this purpose and appointed the Director General Special Projects as Chairman. The Task Force was the main steering committee, from which three committees emerged to deal with each important aspect of the reform, being the accounting standards, the legislation, and the accounting software specifications.

The members of the Task Force were the MFEI represented by the Director General Special Projects (as chairman); the Treasury represented by the Accountant General (AG), the Director Government Accounting (DGA) and an official from the Accrual Accounting Working Group (AAWG); the Internal Audit and Investigations Directorate (IAID); the Financial Management Monitoring Unit (FMMU); the MITA; the NAO (as observers); and a representative from the Malta Institute of Accountants (MIA) (NAO2, Interview 4). The work of the Task Force was based on the premise that:

> *The Government is committed to a policy of instituting modern financial methods in its management of public finance ... to provide a basis for constructive long-term financial projections and planning. The Government's commitment to better financial management has resulted in the decision to implement accrual accounting throughout all the departments.* (Camilleri, 2005)

The Task Force emphasised that accrual accounting is a management tool that helps and facilitates the financial management function, and was not a methodology that would solve Government problems (Camilleri, 2005). The Task Force believed that the success of accrual accounting implementation will be assessed by the extent that the defined strategic and tactical objectives of Government are achieved (Camilleri, 2005).

4.2 The initial reform work

The Minister for Finance showed a personal interest in the project and the chairman of the Task Force was an energetic "*driver*": "*it was like a big explosion ... there was a huge drive*" (MITA1, Interview 27) and the reforms progressed at a steady rate.

During the first six years, the Task Force managed to introduce various accounting disciplines that provided a basis for the implementation of the accrual accounting methodology (Camilleri, 2005), including training; formulation of policies and circulars; preparation of guidelines and various studies; reviews of the IT system; and the re-organisation of the Treasury Department. The Task Force had also worked on the required underlying financial legislation and had prepared a draft law in this respect. The Lands Department started a project to compile a complete record of the lands that the government owns (GT, Interview 14). This project is still in progress (DGA, Interview 2).

4.3 The trial financial statements

The preparatory work of the Task Force included the compilation of financial statements under partial accrual accounting rules for all Departments commencing financial year ended 31st December 2002. These financial statements are for internal evaluation and have the objective of gradually developing the opening balances that would be required for the full implementation of accrual accounting in Government (Camilleri, 2005).

The trial financial statements have continued to be prepared. Towards the end of 2011, the Treasury was finalising the trial financial statements for the year ended 31st December 2010 (DGA, Interview 2). "*These reports have improved over time*" and are now "*more accurate*" (XDGS, Interview 8). The Treasury has a dedicated AAWG to continually chase the departments for their returns; highlighting omissions and helping them to improve the quality of the accrual data being submitted (DGA, Interview 2). However, the Director General Strategy and Operations (Interview 19) described the accrual data being collected through the Treasury circulars as "*sporadic*", and stated that there is no system that ensures that the information required is being supplied across the board.

4.3.1 The AAWG and the Departments

The DCS refer to the compilation of the quarterly accrual data templates as "*the accrual accounting project*". It is perceived as a project owned by the MFEI and the Treasury, and the DCS' point of reference is the AAWG within the Treasury.

The compilation of the templates is seen as a theoretical exercise, and is not a system that the DCS work with (DCS8, Interview 26). Only one DCS (Interview 28) claims that he finds the accrual data collected on the templates very useful for managing the department's creditors.

Some problems were encountered when the system of templates started but the departments found required support and guidance from the AAWG, and now find that the process has become smoother (DCS6, Interview 22).

According to the DGA (Interview 2), the AAWG holds discussions with the DCS to show them the impact of their recording on the financial statements. The Director (Interview 2) stated that the DCS "*enjoy and benefit from these discussions, and they are also made aware of the importance of keeping proper records*". But the AG (Interview 13) said that these discussions are only held with the accounting officers actually compiling the templates and not with the DCS.

Following a Treasury training session held in June 2012, the DCS are now more aware of the objective of the templates exercise, that is, the role it has in the compilation of EU statistical reporting (DCS9, Interview 28). One DCS (Interview 26) expressed concern that this would be the ultimate aim of the whole exercise and wished for more communication between the ministries and the central level:

> *My fear is that it stops there ... They have to say something because we wouldn't know what the central has in mind. We are always waiting for accrual accounting. We have this uncertainty in that we are working with this system - granted, the DAS can be a bit more user friendly, but it is what it is.* ***And we are always waiting for something that perhaps would not materialise****. We need some clarity.*

The DCS mutually feel that they require guidance and training, and that there should be more dialogue with the MFEI at central level. While recognising that reporting is the prerogative of the Treasury, the departments have never received a set of the trial accrual-based financial statements:

> *No feedback is received re-accrual accounting reform from the Treasury. The only feedback is how we are doing on the returns. A pity, when you consider the number of man hours involved!* (DCS4, Interview 17)

4.3.2 The process of compiling the Trial Financial Statements

The trial accrual-based financial statements are not official, not audited, and used only for internal consumption (MITA2, Interview 11). The cash-based data is issued from the DAS and amalgamated with the accrual data collected from the templates. A Treasury Accountant (Interview 3) calls it a "*hybrid system*" because there is no double entry of accrual accounting but involves "*taking a cash-based system, and patching it up to accommodate accrual*".

In this process, each department is treated as a reporting entity and the budgeted amounts are posted in the accounts (MITA2, Interview 11). The budget is considered as expenditure for the Consolidated (government) and revenue for the Department. Unused funds are shown and called ‘forfeited budget funds’, because at the end of the day, a department is only spending its budget funds and has no profits. The ‘profit’ can only be calculated at government level when the revenue earning departments are consolidated with the spending ones.

The trial financial statements use reserves to record movements that do not affect the surplus/deficit. Besides loan repayments, borrowings, creditors and accruals for below-the-line items, reserves reflect the movement in fixed assets. The total amount spent is debited to the expenditure account. From the cash flow template, the amount referring to capital expenditure is then credited in the expenditure account and debited to a reserve. The department then prepares the template for fixed assets, and the movement for the year is debited in the fixed asset account and credited in the reserve (refer to Figure 11). Technically, therefore, the balance on the reserve should be nil, but it is not, due to two problems identified by a Treasury Accountant (Interview 3), being the incomplete property register[31] and the lack of a defined leasing policy[32].

Figure 11: Recording Non Current Assets in the Hybrid System

Total Expenditure Account	
Total expenditure for year	Capital Expenditure from cash flow templates ①

Reserve (Non current assets)	
Capital Expenditure from cash flow templates ①	Capital Expenditure movement for the year from templates ②

Non Current Assets Account	
Balance b/f Capital Expenditure movement for the year from templates ②	

[31] The Government Property Department is in the process of preparing a dataset showing the value of all the property owned by the government. This work has not been finalised, and therefore, the departments have incomplete information about the assets they hold. In the meantime, a department may incur expenditure to improve its property. This is shown as a fixed asset by that department. When the Government Property Department eventually gets around to valuing this particular property, it would need to take into consideration the improvements that have been carried out by the department using that particular asset. Eventually, these reserves should be netted off at consolidation level, but a lot will depend on the valuation used by the Government Property Department (TA, Interview 3).

[32] Leasing is the other problem (TA, Interview 3). It is vital for a leasing policy to be laid down to distinguish between a finance lease and an operating lease. The department heads should be informed as to what to flag as capital expenditure (TA, Interview 3).

The accrual data is collected according to the requirements of the MGAS (now IPSAS). Some responsibilities have been delegated to the departments, for example, the requirement to identify whether expenditure is capital and to specify the category (TA, Interview 3; MITA2, Interview 11).

According to a Treasury Accountant (Interview 3), the preparatory work being done on the preparation of these trial statements serves two important purposes: it should facilitate the change over whenever the new system is acquired because the Treasury is "*building up the opening balances that would be required and refining them*"; and in the meantime, the Treasury is teaching the accrual methodology to the departments:

> *It would be useless to have a new system and the users do not know what to input, and are not aware of the effects of incorrect inputting. This is not simply a change of a system, but a change in the methodology - the way that you are working.* (TA, Interview 3)

The MITA was responsible for preparing a compliance report on the trial financial statements, but as from 2009, this report is being prepared by the Treasury itself (MITA2, Interview 11). The report explains how the financial statements are being compiled and describes how compliant the financial reports are with accrual accounting standards (MITA2, Interview 11). The compliance report stipulates that the financial statements are prepared subject to the information that is given by the departments on the accrual data templates (MITA2, Interview 11).

The Assistant Auditor General (NAO2) (Interview 4) thinks that the trial financial statements previously had many gaps regarding stocks, creditors and fixed assets, that would have resulted in a qualified audit report had they been audited. But he has observed an improvement over the years and *"the figures are now making more sense"* (NAO2, Interview 4).

The DGA (Interview 2) persists in pursuing the project and considers the work as part of her duties because she does not want to be caught on one foot should some higher official suddenly decide to really implement the new system. As at November 2011, the DGA (Interview 2) was considering the introduction of private audit firms to scrutinise the process and to strengthen it by making it more transparent.

A PAC member (Interview 6) criticised the Treasury for not being transparent in the work that it is doing. The Treasury had explained its work to the PAC, but he considers it high time for these statements to be audited, published, and discussed in Parliament.

4.4 The rate of the reform process

According to Camilleri (2005), the level of success in the implementation of accrual accounting would depend upon the commitment of both the Government and the employees within the Departments towards the project. The ex-Director General Special Projects (Interview 8) pointed out that as at 2005, the foundations required for the introduction of accrual accounting were ready, and the next step was the issue of the tender for the IT system, but "*it appears that the government does not want to invest in the system*".

When the process had started, the partner of the consulting audit firm (Interview 14) had felt that there was a clear commitment from the top that accrual accounting is to be implemented. He does not think that the original plan was for the project *"to exceed 12 years and still be shaky"* (GT, Interview 14)

The MITA (Interview 27) described how with the change in the Minister of Finance in 2004, "*the motor got stuck a little*". The "*steering people*" changed, and everything went back under review again. According to the MITA (Interview 27), the Minister's successor "*wanted to start a new chapter*" and *"even the role of the Task Force became questionable."*

In fact, according to the Treasury (Interviews 2, 13) the Task Force did not meet again after the chairman's retirement in June 2009. The successor is the Director General Strategy and Operations within the MFEI, but the Task Force has never met with him.

The NAO2 (Interview 4) thinks that perhaps the terms of reference of the Task Force have been concluded and so this is no longer relevant. He has the impression that all the process is stationary. According to his records, the last meeting of the Task Force was held on 17th June 2009, while that for the MGAS Committee was in November of the same year (NAO2, Interview 4).

According to the AG (Interview 13), "*unfortunately, the Task Force is not functioning at all*", and it has not issued any more directives. In the meantime, the Treasury has carried out a lot of work to consolidate the function of the AAWG, which has now become even more demanding with pressures from the EU Commission regarding the IPSAS: "*What we are* *pushing for now especially are the IPSAS*" (AG, Interview 13). In fact, the IPSAS Committee was set up on 31st August 2011 to take care of technical matters and pass on its opinions to the Task Force, which would then inform the PS to issue a circular so that implementation starts in the departments:

> *The idea was to have the two boards working in sync ... but it appears that none of the committees are functioning at present* [November 2011]. *None of them have delivered.* (DGA, Interview 2)

The Director Financial Policy appears to be in charge of the IPSAS project and he declared that his unit "*should be able to start focusing more on purely financial reporting*" but "*there are immediate priorities*" (DFPDA, Interview 12). He hopes that the "*MGAS Committee*" will start meeting more often, and referred to a meeting held towards the end of 2011 where the IPSAS issue was discussed (DFPDA, Interview 12). According to this Director, the NAO were present at the meeting, but the NAO (Interview 4) does not have a record of attending. Perhaps the Director Financial Policy had referred to an informal meeting.

The work on the legislation appears to have come to a halt. The AG had set up a committee to go over each clause of the draft legislation. According to the NAO's records, the last meeting of this committee was held in February 2009. The AG (Interview 13) confirmed that he had passed on the Treasury's suggestions to the MFEI, but he was not sure which directorate was now responsible for the legislation.

The Corporate Financial Management Project Board had "*managed to do a very good business requirements document after over 60 meetings*", according to the AG (Interview 13). But once again, the AG pointed out that all the work and effort appears to have somehow found a "*bottleneck*" at ministry level:

> *The tender has not been issued. Whether it's expensive or not, whether for other motives, I don't know. What I know is that I completed the project. I delivered. Somehow the system is not here yet.*

The NAO2 (Interview 4) confirmed that this particular committee had completed the system specifications in May 2010 and stopped meeting. According to the auditor, it was estimated that the new software would cost tens of millions. But besides the system being expensive at a time when the government is endeavouring to reduce the deficit, he identified other possible reasons why the reform may have stalled. In particular, he referred to Malta's accession in the EU in 2004 and euro adoption in 2008 as two events that required the concentration of MFEI personnel and the focus on the accounting reform was temporarily lost. The fact that a key person or committee was not appointed to take charge of the reform may be another reason why the process appears to be "*happening in spurts*" (NAO2, Interview 4). After a couple of years concentrating on something else, the process would need to be kick-started again, and perhaps the Task Force lost the energy that it previously had due to the passage of time (NAO2, Interview 4).

The PAC Chairman (Interview 5) is concerned that the effort on accrual accounting is decreasing instead of increasing, and according to him, "*there is a lot of stage work that could be on paper but in reality is not there*". He also referred to the half-hearted way that the Task Force was treated, which never developed due to minimal financing: "*if you don't invest, it would die a natural death, as in fact happened*" (PAC1, Interview 5). While a PAC member (Interview 6) commented that during PAC meetings when the work on accrual accounting was discussed, he had felt a heavy complacency from certain top officials involved in the reform: "*there is no real agenda; there is no will; they just can't be bothered*".

The partner of the consulting audit firm (Interview 14) describes the project as an "*orphan*" but does not think that it will be aborted; the question is rather 'when'?

> *In appearance, it seems that the project will be executed - and **in fact this 'appearance' can be delayed forever**.*

He also referred to the generic lack of knowledge regarding accrual accounting and the confusion that may be caused when having to deal with the ESA95. He emphasised that unless a champion/driver/owner is appointed to take care of the project, it will take a very long time to be implemented, if ever (GT, Interview 14). Similar to the NAO2, he thinks that it is a matter of priorities when the MFEI is extremely overstretched, "*with various initiatives, and they are grossly under staffed*":

> *I think that the last thing they want on their plate is to do this accrual accounting. Even the meetings that were held lately, it's like they are done very quickly, just to record that a meeting has been held, and it appears that there is no drive.*

The heir to the accrual accounting project describes his responsibilities at the MFEI as "*you name it all and there is no limit ... and amongst many things, there is this accrual accounting*" (DGSOS, Interview 19). The Director General Strategy and Operations (Interview 19) confessed that his work on the project was limited to monitoring the stage reached by the Treasury rather than actually seeing what still needs to be done. He confirmed that there definitely was no intention for the new financial legislation to be approved in 2012 as it is still being discussed. With regards to the IT system required to replace the DAS, he said that even though the appointed committee had drawn up the specifications, it was still work in progress which "*has stopped at the stage where we are seeing how the tender should be issued*" (DGSOS, Interview 19). The result is that the accrual accounting reform is not considered as "*top urgent*", at least as at May 2012, as confirmed by the Director General Strategy and Operations: *"there are no deadlines at this stage"*.

4.5 The new Public Finance Management Act

4.5.1 Work done on the new legislation

One of the primary objectives of the Task Force was to address the legal aspect of the reform. The legislation needed to be brought up to date since it only referred to a cash-based accounting system.

The ex-Director General Special Projects (Interview 8) confirmed that the first version of the Act had been drafted in 2002 by a director at the MFEI, who had integrated various Maltese laws and regulations. His own task was "*to spread some accessories over it*", for example, to make provisions that allow the carry forward of unspent votes; to introduce the concept of the three-year rolling budget; and to make timely reporting a legal requirement. Procedures were replaced with concepts, but certain details were still required in the legislation otherwise they would be ignored by the civil servant (XDGS, Interview 8).

The draft of the new legislation was handed over to the AG, who appointed a new committee to review each clause (XDGS, Interview 8). The Treasury, the NAO, and the IAID were amongst the members of this committee. While acknowledging that the draft legislation had been prepared by very competent persons, the DGA (Interview 2) confirmed that it was scrapped, and only its "*skeleton*" was used during discussions. The AG (Interview 13) described how the Treasury had started chairing the committee since no one else was available at the MFEI. The Treasury made its suggestions and then passed the work on to the MFEI when new directors were appointed (AG, Interview 13).

According to the PS, the new legislation was **not** nearly ready in 2002. "*It was a patched up piece of work*" and did not consider certain issues like a fiscal framework. It is important to "*avoid gold-plating*" and not to go from one extreme to another: "*the problem is that you cannot give shocks to the system*" (PS, Interview 9).

4.5.2 The new legislation and the NAO

The NAO2 (Interview 4) thinks that the draft financial management act was never enacted because it drastically changes the current legislation.

One of the NAO's concerns regards the issue of who should audit. The draft had provided that the government departments appoint private audit firms to audit their accounts while the NAO would only audit whole of government accounts. The NAO had objected to this provision, because it felt that it should be the decision of the NAO whether to appoint private audit firms and the audit of government departments should remain the responsibility of the NAO:

> *The most important thing is for the NAO to maintain absolute control of the audit process.... The external auditor is responsible for whole of government accounts.* (NAO2, Interview 4)

This wholesome responsibility could either mean that the NAO would require more human resources to carry out continuous auditing of the departments and ministries, or it could contract out (NAO2, Interview 4). According to the NAO2 (Interview 4), contracting out would be more feasible, just as long as the NAO maintains absolute control and even appoint the private audit firms itself. This is the system applied for the audit of local councils.

Another issue concerned timing. One of the recommendations was that if a Ministry had an accrual accounting system in place and was on the right track, then the NAO would audit that particular Ministry, while the other ministries would be audited on a cash basis. The NAO did not agree, insisting that all ministries should start applying accrual basis simultaneously and officially issue accrual-based reports at the same time: "*we have to audit everything. There are no half measures*" (NAO2, Interview 4)

The NAO2 agrees that the present law needs to be changed, in particular the requirement that the NAO audits the government accounts and reports before the expiry of 12 months after the end of the financial year. This can remain applicable for whole of government, but for departments and ministries the requirement could be similar to local councils, that is, to present audited accounts by March/April (NAO2, Interview 4).

4.5.3 Gradual changes vs major overhaul

According to the PS (Interview 9), "a *fiscal framework gives you a certain rigour; a certain discipline of how to do things*". He confirmed that modern financial management concepts need to be considered, but he does not think that this requires "*drastic changes*" to be made to the current legislative framework. The NAO2 (Interview 4) agrees that "*tinkering with the law*" is the best way in order to avoid confusion.

Other officials believe that the current legislation is too old and needs a total overhaul to make the departments more efficient using modern approaches (PAC1, Interview 5); to introduce modern principles (DFPDA, Interview 12); and to reflect the current situation of the country with its international commitments (NAO1, Interview 15). Even the AG (Interview 13) thinks that "*the current legislation requires a very big overhaul*", and the biggest challenge is that the FAA Act tackles budgeting and appropriations besides accounting.

4.5.4 Defects in the current legislation

When the FAA Act was written in 1962, there was no idea of accrual accounting for government, therefore, "*there is no legislative backing for the accounting reforms*" (DGA, Interview 2). According to the DGA (Interview 2), its main defect is that it does not refer to internal controls. Two major complaints of the PS (Interview 9) concern the "*dreaded supplementary estimates*" and the "*infamous direct orders*".

The PS (Interview 9) intends to remove the facility of supplementary estimates[33] and replace it with a predetermined contingency that is factored in the budget estimates. It does not make sense to him that after the budget is prepared, a "*safety valve*" is provided to everyone so that they can spend as much as they like and then the excess is "*rubber-stamped*" by Parliament at the end of the year. This cannot be achieved by simply amending the law to remove the supplementary estimates. The PS believes in introducing directives and standards gradually over a period of a few years in order to strengthen the underlying framework before taking the final drastic step:

> *Why? Because at the end of the day, if you want something sustainable, unless this is built on discipline, it will not work. This is where we want to go. Then once we have built substantially, and we are approaching - stop the supplementary.*

[33] Article 25 of the FAA Act permits supplementary estimates. It gives the Minister of Finance the power to authorise expenditure from the Consolidated Fund for any purpose, if no amount has been appropriated for that purpose, or if the amount authorised is insufficient. Subsequently, the Ministry of Finance "asks" for Parliamentary approval for this additional expenditure.

Direct orders are used when a department or ministry first spends money and then seeks MFEI approval retrospectively. Direct orders have no legal basis because approval is required before and not after incurring expenditure. The PS (Interview 9) claims that the use of direct orders has decreased since they have started being published in the annual audit report. He wants to instil the mentality that the MFEI will not approve such law breaking, and that eventually the law will be changed to introduce personal liability for these actions: "*transparency and accountability will definitely stop all playing around and nobody will do it*".

The PS (Interview 9) claims that the MFEI is introducing more discipline on both reporting and planning. The departments, ministries and government entities are required to submit their reports by a deadline, and if this is not adhered to, their funds are delayed. Adherence to business plans and budgets is being strictly applied, and if a project is not included in the estimates, it is not allowed to start. The PS believes that certain financial management principles that are presently upheld are "*good and still valid*", but can be strengthened by introducing a framework that enhances accountability.

4.5.5 Update the budgetary process

The carry forward of unspent allocations was one of the provisions in the draft legislation, but as described further in the next chapter, the PS is the main objector of this provision. This could be one of the reasons why the draft legislation was scrapped.

The AG (Interview 13) thinks that the biggest obstacle in implementing a new financial management act is the change required in approaching the budget cycle. While insisting that the presentation of the financial estimates to Parliament should remain cash-based, he deems it important to adopt accrual-based budgeting as well. At present, the whole budget cycle concentrates on the consolidated fund, that is, the revenues and expenditures in the estimates, while the accrual element is considered only at year-end. The AG considers it important to entrench the accrual element within the budget cycle as "*it has to be something continuous*".

The AG (Interview 13) thinks that the MFEI lacks the necessary expertise in drafting a financial legislation, and the mind set of certain high officials needs to be changed.

4.5.6 The reporting entity definition

While the legislation does not specify the definition of the reporting entity, according to a Treasury Accountant (Interview 3), the definition can be inferred from the definition given for 'accounting officer' and the various provisions that describe the responsibilities of the department heads and the AG[34]. The NAO2 (Interview 4) confirmed that the reporting entity is not defined in the legislation:

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[34]Article 2 of FAA defines ‘accounting officer’; Article 12 of FAA mentions the duties of the accounting officers; Article 49 of the FAA mentions the measures against fraud and irregularities and the duties the Heads of Departments, the Auditor General in accordance with NAO Act and the IAID in accordance with the IAID Act; Article 4 of the GFR includes the duties of the AG; Article 5 of the GFR includes the duties of the AG with regards to material irregularity; Article 6 of the GFR includes the responsibilities of accounting officers; Article 91 of the GFR states that the Heads of Departments are responsible for providing the list of accounting officers to the AG and the Auditor General; Article 92 of the GFR states that the Heads of Departments are responsible for certifying the accuracy of collections of revenue or other public moneys; Article 102 of the GFR states the responsibility of the Heads of Departments to report cash losses; and Article 105 and 106 of the GFR lists the responsibilities of the Heads of Departments in relation to stores.

> *Each vote is a reporting entity and should produce financial statements. …this does not emanate from the legislation. The FAA Act and the* GFR *mention that the department head should maintain proper records, but then point to the Treasury as the reporter and the preparer of financial statements.*

The various circulars and directives always put the onus of reporting on the department head. The DGA (Interview 2) is concerned that a head of department may challenge the Treasury regarding the process of collecting accrual data since the law does not identify the department as a reporting entity. She acknowledged the importance of such a definition that should be included in the new legislation.

The ex-Director General Special Projects (Interview 8) explained that this problem was anticipated in the draft legislation which defined "*Department, Agency and Units of Government*" as "*an administrative unit of Government*", and had also defined "*what government is*" (quoting from Part 1 Section 2 of the proposed Act):

> *"Government" as used in this Act, includes all ministries and departments, local authorities, bodies corporate and other entities whose powers, functions and duties are conferred and assigned under the Constitution or any law, or whose funding is wholly or partly financed from public funds.*

4.5.7 Is a new legislation required to introduce accounting reforms?

According to the DGA (Interview 2), the Minister's ability to enforce the accounting reforms would be strengthened if he has appropriate legal back up. A minimal framework is required, which can be fleshed out with subsidiary legislation to clarify problems and issues encountered as the reform progresses. According to this Director, if a comprehensive legislation is attempted, the work of the drafting committee may stall due to the complexity. This coincides with the PS's views on "*gold-plating*".

The AG (Interview 13) is not going to wait for a new legislation in order to implement the IPSAS because these can be introduced by a regulation. He questions the importance of legal requirements, since even the transmission of accrual data from the departments to the Treasury is a process that is only supported by a circular, and the departments are not legally bound to the process:

> *We are going to ride the wagon of the Public Administration Act. In this act, the Principal PS has the power to issue directives which to a certain extent become law. So what we can do is to issue a directive under this Act, with the reporting requirements that we need from the departments. In this sense, we will have more power.*

Even the Deputy Auditor General (NAO1) (Interview 15) believes that an amendment would be sufficient to introduce accrual accounting, but a complete overhaul of the current legislation is required "*if we want to have something wholesome ... and enhance fiscal discipline*".

4.6 The planned accrual accounting system

From the outset, the planned accrual accounting system was one that would be able to concurrently generate the current cash management accounting reports (Camilleri, 2005). The system would generate financial statements for each Department under both cash accounting and accrual accounting rules. Initially, the accrual accounting information would be used for internal financial purposes only, while the cash accounting data and reports would continue to be utilised in the traditional sense.

As at 2005, the vision held by the Task Force was very wide and planned for the introduction of accrual-based multi-year budgets, with increased departmental responsibility and accountability (Camilleri, 2005). The Task Force envisaged the new IT system as a business intelligence engine that incorporates information resource management principles and enhances analysis of information to support better decision-making (Camilleri, 2005).

4.6.1 MITA and the new IT system

The MITA[35] is heavily involved in the accounting reform as a consultant and is represented on both the Standards Committee and the committee responsible for designing the IT specifications (MITA2, Interview 11).

The MITA is not a small organisation. It has solid expertise on government systems but it is not its policy to write software. MITA's human resources are absorbed in other work in line with its macro objectives and "*it pays to outsource everything ... so that the work can be executed in the required timeframe*" (MITA1, Interview 27). It would not be worthwhile to write an accounting software programme for the government because accrual accounting methodology is standard and software packages are available off-the-shelf (PS, Interview 9; MITA2, Interview 11; MITA1, Interview 27). So "*why re-invent the wheel?*" when the supplier can change the parameters of the package to suit the buyer's requirements (MITA2, Interview 11).

[35] The Public Service Reform in the early 1990s split the Management Systems Unit into two: MITTS, a limited liability company, focusing on the IT requirements of the public sector; and the Management Efficiency Unit, concentrating on business process reforms within government. The latter has now been downsized and its remit is limited to the OPM, while the MITTS was reverted back to a government agency, the MITA, in 2008. The MITTS had focused on development of systems and technologies at micro level. MITA's objectives are now at a higher level, looking at national strategy and its implementation at a macro level. Both the MITTS and the Management Efficiency Unit were represented on the Task Force (MITA1, Interview 27).

According to the NAO2 (Interview 4), it would also be unethical for MITA to undertake the project itself since it was involved in the preparation of the specifications of the required IT system. The tender will be issued as a public tender according to the government's procurement regulations.

4.6.2 The tender story

The Director of Contracts has recommended an open tender with a transparent scoring system[36]. The Committee responsible for the IT specifications also prepared the tender documentation. The tender was ready on two occasions: in 2004 and in 2010 (MITA1, Interview 27).

The tender was complete in 2004 when the previous Minister of Finance resigned. "*Then everything stopped due to change of players*", and subsequently, the new Minister of Finance required the tender to be updated (MITA1, Interview 27).

A project board was set up on purpose for the procurement of the solution which was called the 'Corporate Financial Management System'. The tender was reviewed from scratch for a period of two years, during which departments and heads of sections were consulted. The tender was ready in May 2010 and the board presented the document to the PS and the

[36] Originally it was intended to issue a negotiated procedure, which is still a public tender, but negotiations are done with the shortlisted applicants before the tender is actually awarded. "*This procedure can be very effective, but for public scrutiny, it can be less transparent and therefore risky*" (MITA1, Interview 27). The open tender would still be subject to a review and a qualitative assessment, but this will be done after the contract has been awarded (MITA1, Interview 27).

Minister of Finance. The Minister agreed in principle and the PS wrote officially to the Board that it could move on (MITA1, Interview 27).

However, the Minister of Finance then decided that the specifications were "*extravagant*" and he asked the Board to remove some parts that were considered as extra. The AG (Interview 13) thinks that the Minister of Finance has always held the wrong impression that things should be kept simple and that an off-the-shelf package would suffice. The DGA (Interview 2) mentioned as one example that the board was being asked to limit the tender to applicants that had the required government experience, but the board did not agree with this limitation and wanted the opportunity to be available to everyone. The IAID (Interview 21) referred to innuendoes surrounding the procurement, and the board members felt that they did not want to cater for a system that "*one or the other supplier had to offer*".

Apparently, internal conflicts arose within the MFEI, and some members of the Board resigned (AG, Interview 13; DGA, Interview 2; IAID, Interview 21). But the MITA (Interview 27) felt obliged to follow the MFEI's directions and "*downsized the specifications*".

On a quarterly basis, the Procurement Outlook on the MITA's website indicates to suppliers the tenders that are going to be issued. The prospective tender for the government's financial management system, as amended by the MITA, featured on the Procurement Outlook for the second quarter of 2011, but the actual tender was never issued and was subsequently removed from the website. According to the MITA (Interview 27), up to June 2011, there was a drive from the top to move ahead, but then the priorities of the government changed due to the financial squeeze being experienced following the crisis. During 2011 and 2012, the tender got stuck due to other priorities of the government.

During the interview (January 2012), the PS (Interview 9) confirmed that the specifications were ready and it was a question of when the tender can be issued. While the MITA (Interview 27) stated that (as at September 2012) it appears that "*the spirit has risen again*" due to EU pressure.

According to the AG (Interview 13), however, "*the IT system is only the tip of the iceberg*", and in his opinion, the IT system is not really needed to implement accrual accounting. As already described, the AG thinks that the IPSAS can still be implemented without changing anything in the system. Even the DGA (Interview 2) holds the same view because the ultimate objective of reporting to the EU is being achieved.

4.6.3 Interested suppliers

According to the DGA (Interview 2), the interest of the private sector in government operations will be re-ignited once it becomes aware that the government is considering a new IT accounting system. Private audit firms will team up with their IT partners and will be interested in the tender (DGA, Interview 2). The partner of the audit firm (Interview 14) that was involved in the DAS implementation stated that they have been waiting for the tender for the past two years.

The DGA (Interview 2) confirmed that large IT software companies used to "*pester*" members of the board. The Treasury informed its superiors that it was being approached in this way, and it was instructed to stop communications with external parties. When the tender was being designed, the board did not refer to any one particular system and was not biased towards a particular IT company. The DGA stated that the board never watched any demonstrations.

But according to the Director General Strategy and Operations (Interview 19), it would be normal for a review to be carried out of what is available on the market, and confirmed that the bulk of this work was done by the MITA.

4.6.4 The Cost of the new IT system

As from 2010, reform expenditure is being capitalised in the Financial Estimates (refer to table 5). Previously, it was being considered as recurrent expenditure. The AG (Interview 13) confirmed that the reason is because previously the expenses had related to training, while now "*we are talking about procurement and implementation of the system*". A Treasury Accountant (Interview 3) confirmed that the capitalised amounts are mainly MITA consultancy fees. The AG pointed out that the acquisition cost of the new IT system would run into millions and not as indicated in the Financial Estimates. According to the NAO (Interviews 4, 15), the estimated cost of the new IT system and its implementation ranged from 20 to 40 million euro. The NAO1 (Interview 15) stated that this large quotation was for the basic requirements and not for some "*extravagant*" specifications.

The government had considered applying for EU funds to finance this project but apparently funds are not available for this purpose (NAO2, Interview 4; PS, Interview 9; AG, Interview 13). The PS (Interview 9) acknowledges that funding is a problem, but this can be carefully planned because since the system will be introduced in modules, it is not required to purchase the whole system outright. According to the AG (Interview 13), cost is not a problem and "*if you want funds, you will find them*".

Table 5: Extracts from Financial Estimates, 2007 to 2013

Year	Approved Estimate	Actual Expenditure
	€	€
Programmes & Initiatives MFEI - (5011) Accrual Accounting		
2005		10,780
2006	93,174	35,972
2007	46,588	51,504
2008	47,000	48,908
2009	55,000	6,301
Capital Vote MFEI - (7273) Public Finance Management System		
2010	100,000	84,803
2011	500,000	44,524
2012	100,000	1,545
2013	50,000	

(Source: Ministry of Finance, Annual Financial Estimates, 2007 to 2013)

The ex-Budget Office Director (Interview 25) considers such an expense a waste of financial resources. Since the EU, the IMF and credit agencies, are satisfied with the current patched-up system, "*do we need to incur an expense of millions so that we can say that we are holier than the pope?*" The government would only be giving money to the private sector, and the cost should also factor in the need to maintain the system. He acknowledges that the DAS is old, but according to him, the government should consider simply acquiring a new version, which perhaps would have the adjustments that the NSO carries out integrated within the system.

According to the ex-Budget Office Director, this would mean that only the current supplier needs to be approached to carry out such work, and a public tender need not be issued.

4.6.5 The users of the new IT System

According to MITA (Interview 27), consolidation of the whole IT system is required for the accounting reform to be successful. The system will import the data from the independent systems on a daily basis, and it will be up to the central level to decide the frequency of financial reports: "*the central level will not depend on the manual inputting of data from the large departments like the Inland Revenue and VAT*" (MITA1, Interview 27). The system will provide a certain autonomy and flexibility, and the information will be provided online:

> *For the first time the government will be in a position to access information that has been updated within the last 24 hours by everyone.* (MITA1, Interview 27)

According to the MITA (Interview 27), over a period of four years, the improved technology will increase the number of users of the IT system across whole of government from 2,000 to 5,000. Accounting, procurement, managers and directors, will all have a role in the technology. The reporting functionality will be personalised for the director, senior and executive management, thus including the decision-maker as a participant in the technology.

But the PS (Interview 9) thinks that the problem goes beyond systems and there is no point in having a sophisticated system that produces reports which are not read and used. According to him, the problem is the user and not the system:

> *We should not reduce the problem to one of systems. This would be a very big mistake. Given that systems are not as sophisticated as we wish them to be, but they are there. The quantity of data in the DAS is tremendous, but it was never used because there was no one who could use it.*

The views of the PS are, therefore, in line with Caperchione (2000) in that the change from cash to accrual accounting is not a simple technical exercise, and that "*the potential usefulness of new information cannot be taken for granted*" (Caperchione, 2000). In order to be useful, there has to be the expertise to properly use the output from the system. To date, this expertise appears to have been lacking.

5 SUMMARY

This chapter starts with the historical background of the administration of Malta, and leads to the reform in public administration in the late 1980s. The cash-based government accounting system is described, together with the government accounting reforms effected to date.

Since 1999, the MFEI has undertaken a project to replace the cash-based accounting system with an accrual-based accounting system. The Task Force was set up to oversee the introduction and implementation of the accrual-based accounting system according to a defined implementation project plan.

It was envisaged that an accrual-based accounting system was to be in place in all government departments by the end of 2005, because the new financial legislation was in its final phases; the MGAS were compiled and training was being provided; and the necessary amendments to the DAS were being tackled[37]. The situation after thirteen years is that the introduction of a full accrual accounting system in Government Departments has not happened; work is still being done on the finalisation of the new legislation; the MGAS have been abandoned for

[37] According to the "*National Programme for the Adoption of the Acquis*" of 2002, prepared by the Ministry for Foreign Affairs for the EU pre-Accession Agreement.

IPSAS; training is still being continuously provided; and a tender for the required computerised accounting system has not been issued. In the meantime, the Treasury is preparing trial financial statements based on a modified-accrual basis, but only for internal use.

CHAPTER 5: PROPOSED GOVERNMENTAL ACCOUNTING REFORM AND THE UNDERLYING ISSUES

1 REFORMING GOVERNMENTAL ACCOUNTING

The findings described in this chapter are derived from the questionnaire used as a basis for interviews with government officials. The questionnaire is based on Lüder and Jones' (2003) EuroCIGAR study.

1.1 An overview of the accrual accounting system

A clear political decision has been taken on the implementation of accrual accounting in central government when the Accrual Accounting Task Force was set up in 1999 (MF Circular No. 14/99; DOI, 2001; PS, Interview 9; AG, Interview 13). According to the NAO2 (Interview 4), this was a policy decision, not based on a legislation or a particular requirement.

The decision has been re-iterated in recent years as the reform was mentioned in the Budget Speeches of 2010[38] and 2013[39]. According to the DGA (Interview 2), reference in the Budget Speech constitutes *"an official declaration."*

[38] Delivered by the Minister for Finance to Parliament on 9th November 2009, where the Minister stated that a call for tenders was going to be issued for the procurement of an accounting system for Government.
[39] Delivered to Parliament on 10th December 2012, where the Minister referred to the new fiscal framework.

As is the trend in most countries (Lüder and Jones, 2003), reforms in accounting systems of local government started earlier. The Local Councils were set up in 1993 and were required to adopt an accrual accounting system as from 1995. Both the PS (Interview 9) and the AG (Interview 13) confirmed that the decision for reforming the national government accounting system had nothing to do with Local Councils. The regulations for Local Councils require their financial statements to be audited by private firms. This may have contributed towards the requirement for them to adopt an accrual accounting system, *"but this is not the primary factor"* (DGA, Interview 2):

> *It is now a policy that when a new agency or entity is created, accrual accounting is adopted immediately … in order to reduce problems … since we have decided to adopt accrual accounting in the public sector … we entrench it in their legislation.* (PS, Interview 9)

The Ex-Director General Special Projects (Interview 8) thinks that the new Minister of Finance in 2004, even though an accountant, may have been disillusioned with the use of accrual accounting in Local Councils during his previous experience as mayor. According to this ex-Director, this may have negatively affected the reforms at central level, which did not stop, but were "*successfully suffocated and placed on the back burner."*

According to the DGA (Interview 2), the process to change the national governmental accounting system started following the report of the PSRC in 1989. The Public Service reform was spread over four pillars: human resources; IT; finance; and embedded culture (PSRC, 1989).

It is the opinion of the AG (Interview 13), however, that the thrust to start compiling accrual-based data for central government occurred when Malta applied for EU membership, and the requirement to report accrual-based data to the Commission loomed in the very near future.

The accrual-based trial financial statements are prepared by the Treasury for internal use. These financial statements are not presented to Parliament and are not audited. Revenue arrears data is audited because it is required as part of the annual Financial Report by the FAA Act. While the data for inventory is only checked for compliance with the circulars, and only a sample is audited (NAO2, Interview 4).

The Government's annual Financial Report has not changed since 1999, except for some "*cosmetic changes*" like the inclusion of bank accounts and the distinction between quoted and unquoted investments (DGA, Interview 2; NAO2, Interview 4).

The state of each reform phase for the national government[40] are identified in Table 6 and described in the following paragraphs in this section.

Table 6: Phases of accrual accounting reform at national government level

Phases of reform process	**Started**	**Completed**
Idea	X	
Development of concept	?	
Experimentation (Pilot projects)	X →	
Norm Setting	X →	
Implementation	X	

It is generally accepted by all the interviewees that the **idea** exists to carry out accounting reforms at national government level. But there appears to be no consensus about the state of the **development of the concept**. For the NAO2 (Interview 4), the concept has been

[40] At Local Government Level, there were no development of concept or experimentation phases. Commercial accounting was entrenched in the legislation and implemented.

developed, while for the DGA (Interview 2), the concept is still undergoing development. The AG (Interview 13) stated that the Treasury does have a clear target but he is not sure whether this coincides with the target of the PS. It appears, therefore, that the Treasury Officials are more aware of the uncertainties surrounding the expected outcome of the reforms, while the NAO may have distanced itself from the actual decisions and arguments.

According to Lüder and Jones (2003), the development of concept phase is not necessary if no special concept for governmental financial accounting has been developed, and if the idea is to adopt commercial accounting with some modifications. The findings described in Chapter 4 reveal that dual reporting is intended, but accrual-based budgeting is still a controversial subject. Uncertainty appears to surround budgetary accounting and not financial accounting.

*"**Experimentation** has started with the preparation of the trial financial statements"*, stated the NAO2 (Interview 4), referring to experimentation prior to the introduction of the new system[41]. The DGA (Interview 2) described the work being done by the AAWG as "*pilot projects*" since this monitors the quality of the financial statements. This piloting can only be complete when the new IT system is in place, and the figures in the trial financial statements are used for the opening balances in the new accrual accounting system.

As to **norm setting**, the ongoing work on the new financial legislation is described in Chapter 4.

[41] Lüder and Jones (2003) distinguish between experimentation carried out prior to the decision on the introduction of the new system, to improve the information basis for the pending decision, and that carried out after that decision, as part of the implementation phase, to test the design details and/or to give the staff the chance to get accustomed to the new system before it is put into operation.

Both the NAO2 (Interview 4) and the DGA (Interview 2) perceive the completion of the specifications for the required new IT system as the first step taken towards **implementation**. But the issue of the tender is still pending, and therefore, the Treasury cannot proceed with the implementation.

1.2 The Statement of Financial Position: measurement focuses and valuation bases

Same as Chan (2003) and Lande (2006), Lüder and Jones (2003) point out that in government accounting practice, it is rare to observe a purely cash-based system of accounting and budgeting, and various extents of accrual can be observed depending on the extent of recognition of assets and liabilities, as shown in Table 7.

Table 7: Various levels of recognition of assets and liabilities

Accounting System	Assets	Liabilities
Modified cash accounting	Monetary assets: cash and equivalents, loans and investments of the year	Monetary Liabilities: Borrowings of the year
Modified accrual accounting	Financial assets = monetary assets + receivables	Financial liabilities = Borrowings + payables
Accrual accounting (for governments/public sector)	Financial assets + most physical assets (+ some intangible assets)	Financial Liabilities + most provisions
Full accrual accounting (for firms)	Financial assets + all physical assets + all intangible assets	Financial liabilities + all provisions

(Source: Lande, 2006, in Jones (Ed.), 2011, Public Sector Accounting, London: SAGE. Vol. 4 , Page 17)

In order to deal with this variety of accounting systems, the EuroCIGAR study limited the term 'accounting basis' to define when an item is measured in the accounting system, and the term 'measurement focus' was coined to include also what is measured within the accounting system. As a result, measurement focus is described using four different classes of assets and four different classes of liabilities, thus distinguishing 16 possible measurement focuses[42] (as illustrated in Table 8). Table 8 includes the classification of the Financial Report as currently prepared, and the expected target(s) of the government officials.

Table 8: Measurement focuses

LIABILITIES	**ASSETS**			
	Monetary assets (cash and equivalents +loans +investments)	Monetary assets + Receivables	Monetary assets + Receivables + most physical/intangible assets	Monetary assets + Receivables + all physical/intangible assets
Monetary liabilities (Borrowings)	***Current Financial Report***			
Borrowings + Payables				
Borrowings + Payables + most provisions			***AG, NAO2***	***DGA***
Borrowings + Payables + all provisions				***PS (MFEI)***

The Financial Report of the central government laid down in Parliament uses modified cash accounting, since monetary assets and monetary liabilities are disclosed (Financial Report, 2011).

[42] Lüder and Jones (2003) point out that the distinctions are not always precise, but:-

- "Financial assets + all physical assets + some intangible assets" requires recognition of all substantial assets belonging to IPSAS 1, par. 88, (a), (b), and (e).
- "Borrowings + Payables + all provisions" requires recognition of all substantial provisions defined in IPSAS 19, par. 22.

According to the DGA (Interview 2), the target reform is for accrual accounting (for governments/public sector), but disclosing 'all' physical assets and not 'most', since *"we have never discussed what assets to exclude."* More daringly, the PS (Interview 9) claimed that once the system is fully working, the target is to have "*a full accrual accounting system"*. The AG (Interview 13), however, does not see a full accrual accounting system as realistically achievable, mainly due to asset valuation problems and the lack of standards and policies. Even the NAO2 (Interview 4) described a full accrual accounting system as a *"theoretical (debatable) target."*

The DAS does not provide for all the data required to compile the current Financial Report. The borrowings and the balance on the main public account are extracted from DAS, but then the departments that hold other bank accounts have to submit relevant bank details to the Treasury.

The DGA (Interview 2) pointed out that receivables and payables data is not produced from the DAS but is gathered from the departments using templates as required by the circulars.

> *The data for fixed assets is still missing … and these require a lot more work.* (PS, Interview 9)

The data for fixed assets is being compiled by each department according to the circulars. Historical cost is used where this information is available. As to heritage assets, these will either be valued at a nominal cost (PS, Interview 9) or simply disclosed (DGA, Interview 2). According to the NAO2 (Interview 4), it would be pointless and misleading to actually value heritage assets since the government has no intention of disposing of them.

According to the PS (Interview 9), all liabilities including contingent liabilities are known. Contingent liabilities for future pensions have been estimated and will be disclosed, even though not required by IPSAS 19, because according to the PS, the crystallisation of such issues need to be taken into consideration when assessing the sustainability of public finances. The main problem he anticipates concerns the valuation of expropriated assets that have never been settled, since the actual liability will only crystallise once a settlement is reached.

When the new system is in place, all the data will be extracted from the system (DGA, Interview 2). The specifications that have been designed refer to an integrated system with different modules for financial assets and liabilities management, cost management, receivables and payables, fixed asset management, cash management, stock control, purchase orders, service orders and budgetary control.

The historical cost basis is used for the valuation of monetary assets and monetary liabilities in the current modified cash-based system. Impairments on financial assets are also accounted for (DGA, Interview 2).

The historical cost basis is also used for the accrual data and capital expenditure collected using the templates, but in cases where the original cost cannot be traced, the head of the department is required to get a *"management valuation"* from a professional (internal or external) (DGA, Interview 2).

The DGA (Interview 2) anticipates that the valuation methods that are being employed now during the reform process, will continue to be used when the system is fully implemented.

However, she thinks that it is still too early to discuss the depreciation policy that will be in place because *"we are still at the stage of capturing and measuring our assets"*. A depreciation policy paper has been prepared based on the revaluation model, but the paper has not been issued as a circular.

The DGA (Interview 2) expects that an asset and liability recognition policy will be specified, which will be the same across the board to ensure harmonisation of departmental reports. The PS (Interview 9) pointed out that asset valuation problems will still arise and it is not just a question of issuing a policy.

1.3 The Statement of Financial performance: disclosure issues

According to the DGA (Interview 2), it is intended to follow the structure for the Statement of Financial Performance as given in IPSAS 1[43], and that expenses will be disclosed both by function and by nature. This is already being done in the current Financial Report because it is required by the legislation.

[43] At the time of the EuroCIGAR study (2003), the Operating Statement in IPSAS 1 was required to show three balances for surplus/deficit, being:

- Surplus/deficit from operating activities
- Surplus/deficit from ordinary activities
- Total surplus/deficit.

IPSAS 1 was subsequently amended and this anomaly removed. The Statement of Financial Performance is required to show one total, being "the total surplus/deficit".

1.4 The Statement of Cash Flows: disclosure issues

The trial financial statements are presenting both formats of the Statement of Cash Flows, as allowed by IPSAS 2, using the direct and indirect methods. The DGA (Interview 2) is of the opinion to choose the format that is more popular on the international scene, while the NAO2 (Interview 4) feels that it would be better to choose the direct method since it is more simple and more understandable by politicians.

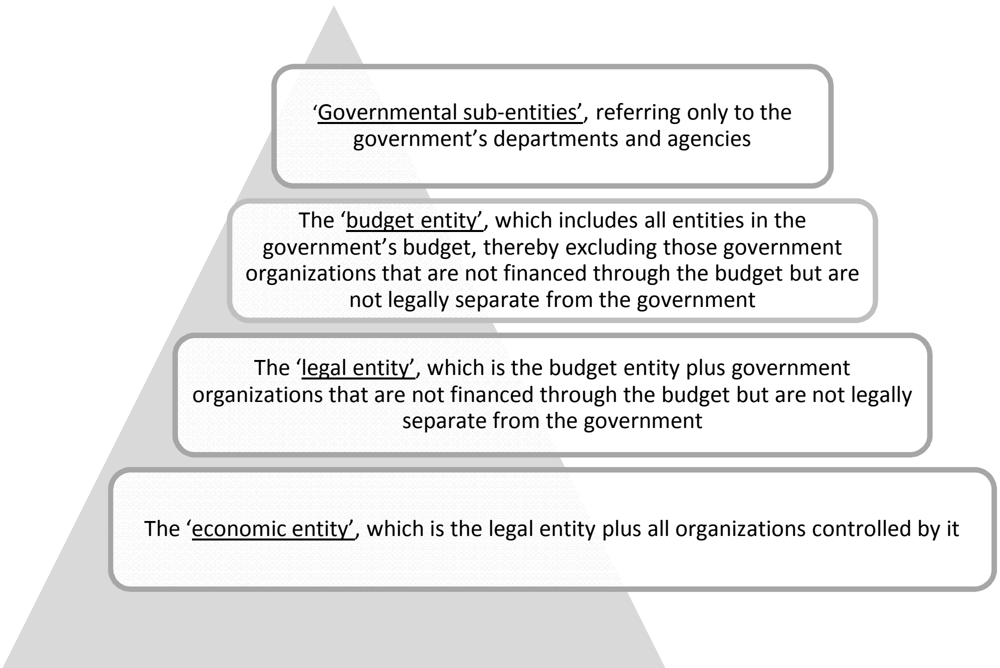
Both the NAO2 (Interview 4) and the DGA (Interview 2) believe that there are no problems to classify activities into operating, investing and financing activities, because this classification exercise is already being done during the experimentation phase, and is being checked by the AAWG at the Treasury.

They then disagree as to linking the Statement of Cash Flows with the annual budget. While the Director (Interview 2) thinks that they should be kept separate, the auditor (Interview 4) stated that the change in cash and cash equivalents would provide the link with the cash budget.

1.5 Consolidated Financial Statements and the Reporting Entity

Lüder and Jones (2003) describe four categories of reporting entities, as illustrated in Figure 12.

Figure 12: Categories of reporting entities



As already explained in Chapter 4, the reporting entity is not defined in the current financial legislation. According to the AG (Interview 13), "*a reporting entity is a department as such*", that is, a cost centre in the DAS. The trial financial statements prepared for year ended 31st December 2009 contained 60 different sets of financial statements:

> *A reporting entity is one that in the budgetary estimates has a vote. There are about 49 line departments in the trial financial statements; nine ministries; and the President's Office and the House of Representatives. These two are like line departments, but are consolidated at Ministry Level. This is then consolidated for central government.* (DGA, Interview 2)

The Treasury (Interviews 2, 13) intends to produce a full set of individual financial statements for each level of reporting entity, but the DGA (Interview 2) is not sure about the publication of financial statements at the various levels of consolidations. The NAO2 (Interview 4) perceives audit implications with regards to increase in work load for the NAO, because ideally, the financial statements should be audited by vote and by ministry. There could also be timing problems requiring the contracting out of some audits, as described in Chapter 4.

Lüder and Jones (2003) point out that IPSAS 6 and 7 require line-by-line consolidation of controlled entities and application of the equity method for investments in associates. IPSAS 6 defines control by highlighting power and benefit conditions. The critical issue is to define what "*controlled entities*" are.

The AG (Interview 13) was not willing to define control and controlled entities, stating that this would be a decision of the MFEI and not the Treasury. This stand was supported by the DGA (Interview 2) who insisted that the remit of the Treasury is limited to the government departments and the ministries, and excludes the entities controlled by the Ministries as "*these prepare their own accounting statements and will remain separate*".

The DGA (Interview 2) confirmed that IPSAS 6 will not be adhered to completely. Even at Ministry level, it is not the intention to consolidate all institutions that are legally separate from the government, like, for example, the Central Bank, even though they fall within the definition of a controlled entity according to IPSAS 6. But it is too early to specify a policy of exclusion, as this would be the responsibility of the IPSAS Committee once it starts functioning properly (DGA, Interview 2).

While acknowledging his lack of awareness of detailed IPSAS requirements, the NAO2 (Interview 4) reiterated the importance of adhering to IPSAS unless it proves to be impossible. Another exception that he highlighted concerns consolidation, where he stressed the overriding importance of the ESA95 rules even if this would mean a qualification in the audit report. This concurs with the attitude of the AG (Interview 13), who, while recognising that there are differences between government accounting and ESA95 reporting, he will endeavour to minimise these differences by keeping to the same consolidation rules and only consolidate the entities that form part of the General Government as defined in the ESA95:

> *When it comes to consolidation, I would do this in the same way that the NSO do it. So I would only consolidate those entities that form part of general government.*

The AG considers the general government concept as ultimately the most important in the short and medium term. Eventually, the whole of government picture would be considered, but he anticipates this to be *"extremely difficult"* (AG, Interview 13).

The economic entity is the vision of the PS (Interview 9). He described the central database (the Financial Data Repository System [FDRS]) held at the MFEI, where all the financial information about departments, ministries, local councils, entities and corporations is input. A monthly consolidated report for the whole of government is extracted and analysed. But the PS recognises the FDRS as a temporary solution and sees the scope of developing the financial accounting system to produce whole of government consolidations. According to the AG (Interview 13), "*as a country, we can go for the economic entity*", but only as to collection of data. According to him, the FDRS is only issuing aggregated data and not consolidated reports.

The ex-Director General Special Projects (Interview 8) doubted whether the Task Force had drafted a policy paper on consolidation, but he confirmed that the aim was to consolidate up to the legal entity excluding the Central Bank and Airmalta[44]. He referred to the process of changing the various financial year end dates of corporations and local councils to 31st December, which was done throughout the years to facilitate eventual consolidation. But the Task Force never tackled the consultant's proposal to apply common accounting standards across the board (GT, Interview 14). The PS (Interview 9) does not anticipate any problems in consolidation when entities use different standards, referring to the existence of "*bridge tables"*. The issue of different standards for various government entities is re-visited in chapter 6.

The consolidated trial financial statements only include the government departments and the ministries, that is, the "governmental sub-entities" category but excluding the agencies. The Treasury will only consolidate up to this level for the annual Financial Statements because this is its remit and this is the only information that is currently available on the DAS (AG, Interview 13; DGA, Interview 2).

The corporate financial management system that is being planned could eventually include the Local Councils and the Extra Budgetary Units (EBUs) and this would bring reporting closer to the General Government Sector as defined in the ESA95 (the budget entity) (AG, Interview 13). Without referring to the ESA95 definition of general government, the PAC Chairman (Interview 5) expects consolidation up to the budget entity, because even though EBUs and Local Councils have their individual sets of accounts, he would need a more

[44] Airmalta plc is a quoted limited liability company and 98% of its shares are held by the Government of Malta.

"*holistic picture of how each euro of public funds is being spent*". While according to a PAC member (Interview 6), the most important thing is to identify the reporting entity in order to exercise better control.

Some of the DCS (Interviews 17, 22, 23) interviewed are convinced that the MFEI is already performing some sort of consolidation to get an overall picture of the country's performance and financial position. In their opinion, a set of consolidated financial statements would make the government more accountable to Parliament, but they "*do not think that ordinary citizens would be interested in these financial statements*". One DCS (Interview 7) could not understand the scope for consolidating because this would be like going back to when all operations were centralised. In his opinion, a consolidated report would hide the fact whether an entity is producing a surplus or a deficit, when this information is of utmost importance for the government and even the public:

> *I don't see why we would need to consolidate because the scope is to increase management efficiency and target problem areas, rather than to get a balance sheet for the whole of government.* (DCS1, Interview 7)

The interviewees unanimously agreed that increasing management efficiency is more important than the consolidation issue for the accounting and reporting reform. Management information for planning is more important, especially if long-term budgeting is improved.

2 REFORMING BUDGETARY ACCOUNTING AND BUDGETING

2.1 Budgetary Accounting

A fundamental use of government accounting is for budgeting and budgetary control. One DCS (Interview 17) stated that the departments are not a business and do not require a profit and loss account: what they need is a planning tool to check their performance with the budget and to know exactly the funds needed in order to get by.

As explained in chapter 4, budgeting in government is controlled directly by the technology: the system does not allow the user to raise invoices if the budget limit is exceeded. Any overruns should be justified and approved beforehand.

The budget remains an important control tool, and the budgeting module was considered as crucial during discussions about the specifications of the new IT system (DGA, Interview 2). In the opinion of the DGA (Interview 2), the financial and budget systems need to mirror each other. But the Budget Office (Interview 18) affirms that spending against the budget remains a dominant measure of performance and tool of control, and that the cash balance on the consolidated fund is monitored on a monthly basis.

It is the opinion of the NAO2 (Interview 4) that a government would be tempted to consider only the cash effect:

> *… and in reality it has to do this because at the end of the day, it can only do what is permitted by the amount it has available to spend, regardless of outputs and outcomes.*

Due to the limited time frame of the politicians' mind-set, *"the temptation is to look only at cash in and out in a year"*, but the auditor stressed the importance of multi-year budgeting, which would provide more control over the structured deficit by ensuring that the expenditure on capital projects is sustainable.

2.1.1 The budget horizon

The annual budget is prepared by the Budget Office and not by the departments or ministries.

Ministries used to prepare three-year business and financial plans, but this system was stopped in 2008. The three-year business plans was an idea introduced by the government consultants in the nineties (BO, Interview 18). The departments were preparing very attractive three-year plans, but at the end of the day, these had to fit in the overall framework of the Central Government (BO, Interview 18). Some of them spent a lot of money to prepare these plans, even using outside contractors, but according to the ex-Budget Office Director (Interview 25), this was a pointless exercise and a waste of resources.

The three-year business plans were replaced with one-year financial plans at departmental level in the case of revenue expenditure. The Budget Office (Interview 18) feels that these are easier and sufficient because they eliminate certain speculations. But a DCS (Interview 17) commented that he cannot understand why the three-year plans were removed because they had provided useful management information, even at central level.

An annual circular is issued to each Ministry requiring next year's plan for all the departments and a consolidated plan. An incremental approach is used since departments are encouraged to start by assuming that next year's requirements will be the same as for the current year and then indicate any possible changes - both savings and more expenses (BO, Interview 18). After taking into consideration the increase in wages and salaries, the Budget Office endeavours to maintain the funds allocated to each expense line item at the same level each year. In this way it will be effectively requiring the departments to curtail their operations due to decreasing purchasing power (XBO, Interview 25).

At central level, the Budget Office has detailed three-year projections. The three-year financial plans published in the Financial Estimates are based on such projections (BO, Interview 18). The MFEI presents its detailed three-year projections to the EU and the IMF, and are also available to the NSO (XBO, Interview 25). According to the ex-Budget Office Director, the ministries do not ask for these three-year projections, and if they did, he does not think that the MFEI would give them these details. He believes that the MFEI cannot afford to lose its flexibility, and it would if it gives out such details which may be considered as "*promises*" by some officials.

It would also prove not practical to give the departments three-year projections because sometimes even the one-year budget is not guaranteed albeit authorised by Parliament. If the MFEI needs to revise the estimates at some time during the year, the departments would then query how future projections would be affected, and this would "*create a Babylon*" (XBO, Interview 25).

The argument is different for capital projects. Three-year forecasts are prepared by the departments for projects. Funds promised on capital projects are not withdrawn as this may also cause political harm, according to the ex-Budget Office Director (Interview 25). The Ministries may have many projects in the pipeline, but they try to prioritise before they prepare the capital expenditure forecast for the MFEI, otherwise *"you ask for a cake, but they give you a small doughnut*" (DCS8, Interview 26).

2.1.2 Accruals in the budget

According to the Budget Office (Interview 18), the annual budget is purely cash-based and no adjustments are done for changes in accounts payable and other financial assets and liabilities.

However, the DGA (Interview 2) stated that payments to creditors and commitments are taken into account when the budget is prepared, but these are not recorded separately in the budget. This point was also emphasised by the ex-Budget Office Director (Interview 25), and even by the AG (Interview 13), who stated that the Budget Office started recognising the effect of accruals ever since the country started sending Excessive Deficit Procedure (EDP) notifications to the EU.

The MITA (Interview 27) confirmed that "*today, accrual budgeting is done but it is not formalised*". The government enters into long-term commitments and each year then it has to record, carry forward, and honour the balance on its commitment:

> *The budgeting process cannot* ***not*** *be accrual-based because it already is … You can't say that the principle will not be introduced because the principle is already there.*

The current budget system does contain an element of accruals but only for long-term capital commitments. As described in Chapter 4 (section 3.3), the DCS would appreciate something similar for revenue expenditure. But this appears to be an issue with the Budget Office and the PS. Perhaps this is why the Budget Office was so adamant in describing the annual budget as purely cash-based.

The current budget system does not always make a distinction between current and capital expenditure. For example, "Programmes and Initiatives" may include an element to be spent on fixed assets, and "Improvement to property and equipment" is classified under recurrent expenditure. The distinction between capital and revenue expenditure appears to be an inherent problem and there are no hard and fast rules being followed, in spite of a Treasury Circular on the subject. The distinction is fundamental if an accrual-based budget is being considered (Jones, 2012).

2.1.3 Accrual Budgeting and control

According to the DGA (Interview 2), accrual accounting and budgetary accounting will be integrated in the new system, and the budgetary accounts will be part of the double entry system. She also confirmed that the balance sheet will be extracted from the accounting system in order to reduce errors.

The Budget Office (Interview 18) stated that it is possible that accrual accounting affects budgeting, but it is still under discussion. The Budget Office accepts that the accounting system and the budgetary system should be complementary in order for there to be comparability, but it is not really convinced about the utility of accrual budgeting at departmental level.

The AG (Interview 13) thinks that the adoption of accrual-based budgeting is the biggest obstacle in the implementation of the new financial legislation. The PS (Interview 9) sees a contentious discussion surrounding unspent allocations. He thinks that in order to use accrual basis for financial estimates, "*one would have to accept the rule that whatever is not spent in one year is left there*"; he prefers the present rule that unused allocations are removed as in this way one could exercise total control, and in his opinion:

> *There is no way that you can manage a national financial system without having absolute control at central level.* (PS, Interview 9)

According to the PS (Interview 9), the current budget system already contains an appropriate element of accruals for capital expenditure because commitments are taken into consideration for projects in progress, but similar concepts cannot be introduced for recurrent expenditure otherwise "*you would lose control on your financial situation*". The PS, therefore, upholds a dual system of accrual financial accounting and a cash-based budget:

> *I don't think that we should go for accrual budgeting, but this is a discussion that still needs to be made. And a dual system exists in many countries. What we are doing is not any different from everyone else.*

According to the NAO2 (Interview 4), it would be necessary to prepare both a cash-based and an accrual-based budget. He thinks that it is important not to deduct anything from the present system and accrual accounting will be an "*add-on*". He has "*no doubt that politicians would prefer a cash budget*", due to understandability and clarity about financing (NAO2, Interview 4).

According to the Budget Office (Interview 18), the cash-based budget is essential for parliament to base its resource allocation decisions:

> *I cannot see how you can operate without the cash budget. Even in the private sector, cash forecasts are extremely important.* ***If*** *the accrual-based budget is prepared, parliament can then decide whether to refer to it or not.*

According to the Budget Office (Interview 18), "*it would be difficult to conceptualise what control is being exercised*" if only an accrual-based budget is presented, and politicians would retain control if the cash budget is still presented to them.

A PAC member (Interview 6) asked whether politicians may fear losing control "*in terms of ways and means of how to hide things"*, but according to the PAC Chairman (Interview 5), it is not a question of losing control, but rather a question of whether one is ready to take the plunge to be more responsible, expose oneself to more criticism, and risk one's political objective to be re-elected.

Various debacles have taught politicians that being totally honest may have disastrous consequences. Perhaps this is the underlying reason why the effort not to be so transparent is more urgent than any fear they may have in losing control over the purse strings. After all, as the ex-Director General Special Projects (Interview 8) pointed out, the control of politicians is already limited since they can only spend up to the limits approved by Parliament. If accrual accounting is introduced, it has always been planned that the traditional cash-based budget will remain for parliament, and accrual-based reports would be made available for those politicians who are interested. So in this case, it is not a matter of losing control over the budget and government finances as suggested by Jones and Lüder (2011), but rather the fear to be too transparent. However, transparency can also indirectly lead to loss of control (XBO, Interview 25).

It appears that no one considers that Parliament should be concerned with authorisation of changes in accounts payable and receivable. It is the opinion of a PAC member (Interview 6) that it is irrelevant who authorises such changes; what is important is that the process is transparent. While the NAO2 (Interview 4) thinks that the level of receivables should be a decision of the department head because they would hold appropriate knowledge of the situation. In the case of payables, the Treasury and the MFEI could issue circulars as guidance, but the final responsibility should also lie with the department head. The Treasury and the MFEI cannot decide everything and should act only as "*regulators*", but of course, this would depend on the level of system centralisation that is desired (NAO2, Interview 4). The Budget Office (Interview 18) agreed that direction should come from the Treasury, but both Treasury Officials (Interviews 2, 13) confirmed that the Budget Office is already exercising control on the level of creditors: "*it is not engrained in their procedure, but the thinking is already there*".

According to the PAC Chairman (Interview 5), the budgetary reforms that he expects is in the set up of who actually prepares the budget. The budget is prepared by the MFEI and not by an independent body. Current practice accommodates the government in that it can manipulate the estimates to suit its party's motto:

> *The estimates as presented now have a political aim fitting neatly in a political cycle. This needs to stop … More emphasis should be made on projections … Year in year out, these projections are missed completely.* (PAC1, Interview 5)

The PAC Chairman (Interview 5) is therefore also admitting that politicians are more interested in the budget itself rather than its realisation. As a member of the opposition, one would expect that he would be more interested in the latter:

> *The government side is interested in the budget itself, whereas the opposition is interested in budget realisation.* (NAO2, Interview 4)

The Budget Office (Interview 18) thinks that politicians should be interested in the both the budget itself and its realisation:

> *The budget itself needs to be attainable and credible and it is in the interest of all politicians that the budget does not create any problems. There would be repercussions on the sustainability of the financial framework of the country if the budget is not achieved.*

The DGA (Interview 2) described the budget as "*a short-term succession plan for the individuals in parliament*". According to her, all politicians have more interest in the budget because they are there for sensationalism and they use the budget as a tool for marketing: "*What can I give to my voters?*"

2.2 Budgeting Principles

Lüder and Jones (2003) highlight and explain the budgeting principles shown in Table 9. According to the Budget Office (Interview 18), these principles are all being upheld, with some modifications. The modifications were not made in anticipation of the introduction of accrual accounting, but were needed due to the development of certain structures and policies (DGA, Interview 2; BO, Interview 18).

Table 9: Budgeting Principles

Budgeting Principle	
Unity	This means comprehensiveness – the government brings together all of its financial transactions into one document, known as its budget.
Universality	Also known as the gross budget principle. Revenues must not be allocated to particular items of spending in advance; and revenues cannot be set-off against spending.
Annuality	The budget is to cover a single and complete year.
Specification	Detailed specification of what can be spent.
Balanced Budget	This can mean revenue equals spending; or revenue plus borrowings equals spending; or ordinary revenue equals ordinary expenditure and borrowings equal investments.

(Source: Lüder and Jones, 2003)

Unity and universality are two principles that have been modified due to the growth of government entities (BO, Interview 18). Corporations are excluded from the central budget because they prepare their own budget. The overall effect of other government entities is reflected in the central budget, but only line items are shown for each entity, with the amount of funds allocated to them. The detail is then shown in the budget of the particular entity.

The gross budget principle is also being maintained in that there is no setting off; any grants received are reported as revenue; and even "programmes and initiatives" are reported gross. There is one exception to this principle because revenue can be allocated in advance to particular items of spending through the use of the Treasury Clearance Fund[45] (BO, Interview 18).

[45] Article 32 refers to the Treasury Clearance Fund, which is held to account for the receipts and payments of court and other deposits. The moneys from this fund can be used to pay certain refundable expenses. The Minister does not need parliamentary approval to use these funds. These moneys can be invested, and interest received, changes in value of investments, and gains/losses on disposal of investments, are then transferred to the Consolidated Fund (except in the case of deposits on account of foundations or trusts).

Even annuality is not strictly upheld, according to the DGA (Interview 2), because a legal notice exists that permits the carry forward of unspent balances through the use of a below-the-line account. But in recent years, the MFEI has been restricting the use of such accounts in practice (DCS8, Interview 26).

With regards to specification, one DCS (Interview 28) finds the fact that departments are allocated funds for each line item instead of one lump sum as in the case of entities, as a limitation on their operations. While he understands that the present method enables the MFEI to exercise more central control, he thinks that "*there are issues that need to be centralised, but there are other issues that can be decentralised*" (DCS9, Interview 28).

According to the Budget Office (Interview 18), the balanced budget means revenue equals spending. But specifying ordinary revenue to equal ordinary expenditure, and borrowings to equal investments, makes sense as well, "*and this should result in a surplus*".

According to the DGA (Interview 2), it has always been the practice to start from the target deficit and work backwards to determine the tax revenues, therefore, accounting would determine the tax. But the ex-Budget Office Director (Interview 25) claims that the emphasis is always on control of expenditure. It is never desirable to introduce new taxes as this would have a negative effect on the economy (XBO, Interview 25).

In February 2012, a change in the Constitution was proposed in Parliament to introduce the balanced budget requirement at national level. According to the PS (Interview 9), this relatively new concept has advantages and disadvantages. He explained that the fiscal framework used in the past three years has "*strengthened the rules of the game*". The EU's Fiscal Treaty gives latitude for a deficit, but this rule in the Constitution would essentially mean that the level of expenditure is capped, leaving no sector as "*untouchable*". According to the PS, the balanced rule in the Constitution would leave only two alternatives: increase taxes, in order to maintain the high costs of health, education and pensions that are provided free to all at the point of delivery; or reform the core costs of these 'free' services.

His opinion is that, in technical terms, the balanced budget would be "*the best thing that ever happened*", but political games and promises would need to stop *"because you cannot expect to continue operating in the same way as before"* (PS, Interview 9). While acknowledging that a balanced budget would be a big challenge, the Budget Office (Interview 18) considers it as achievable if expenditure is controlled with the input of everyone: "*by being more efficient and doing more with less; and by decreasing tax evasion"*.

2.3 Output Measurement

According to Lüder and Jones (2003), output measurement, in practice, has tended to focus on actual results, but its foremost place is naturally in budgeting, in which case accrual budgeting would be required to fully realise the benefits.

The Budget Office (Interview 18) does not exclude the possibility of output measurement in budgeting, with the results being published by the departments themselves and not as part of the budget document, so that the departments are more responsible and accountable.

A member of the PAC (Interview 6) expects to see more control on outputs and outcomes, and the NAO2 (Interview 4) considers it ideal to have performance measures and performance indicators to monitor outputs and outcomes. Some departments actually do have some measures in place but these are only used internally and are not done in a systematic way. There is much room for improvement as these measures can be included in the financial statements and audited[46] (NAO2, Interview 4).

The Budget Office (Interview 18) is not excluding the possibility of control of outputs and outcomes, but not as a substitute for detailed control of revenues and spending. The Budget Office, however, ponders on the dilemma it will face as to what action it can take if such targets are not achieved:

> *Would this warrant a decrease in the allocated funds? What is the effect on the quality of the service? Who will suffer from such sanctions in the end?*

The Budget Office (Interview 18) feels that the only thing that it can do is investigate the reasons why a target is not achieved, but the public service is very complex and there may be many uncontrollable factors: "*would external users care about this?*"

[46] The indicators need not be financial, but should be quantifiable, and these could even be audited. The use of non-financial performance indicators bridge the gap between non-profit and profit oriented entities. Indicators can be used by the government as a guide for health, education, etc., and also for accountability. You see the key objectives of a department or ministry and extract the key performance indicator. This information could substitute the objective of the Income Statement. The compliance auditors check that the ratio is correct while the performance auditors would assess improvements ... The most important aspect of accrual accounting is that it provides more data on which decisions can be based. But to supplement this you have KPIs that can assist in decision-making, so that the government will see the areas where it needs to concentrate. (NAO2, Interview 4)

3 CONTEXT OF THE REFORMS

3.1 The process of setting new accounting norms and rules

Table 10 shows the different types of legal instruments which may affect government accounting in Malta. The degree of detail increases as one moves down the hierarchy of instruments. EU Directives are transposed into national legislation, and then circulars and instructions are issued to departments.

Table 10: Hierarchy of government accounting law in Malta

Binding nature	**Instruments**	**Institutions**
Mandatory	Statute law Ordinances Regulations Directives and circulars Guidelines and instructions	Parliament Cabinet/Minister MFEI Office of the Prime Minister (OPM), MFEI, Treasury Treasury
Voluntary	Recommendations	The NAO

There is no Government External Body that issues guidelines on government accounting law in Malta. The accounting of the government is the responsibility of the Treasury. The FAA Act and all the directives/circulars/guidelines are compulsory. "*We do not issue anything that is voluntary*", stated the AG (Interview 13). The GFR require all accounting officers to abide by circulars/notices issued by the MFEI and by the Treasury.

The NAO2 (Interview 4) referred to the MGAS which were guidelines issued by the MFEI that were not compulsory, and in fact were only used by the Treasury when preparing trial financial statements. The only recommendations that exist are those that the NAO includes in its reports, and such recommendations are not mandatory.

Both the NAO1 (Interview 15) and the AG (Interview 13) confirmed that "*as wide a consultation as possible*" is required whenever a new law or legal notice is being drawn up. For example, should a legal notice concerning the adoption of IPSAS be issued, external bodies, like the MIA, would be consulted more as a formality and not much feedback would be expected "*because they are more geared for the private sector rather than for government*" (AG, Interview 13).

3.2 Central Guidance

The MFEI provides central guidance for the accounting reform through the Task Force. As described in Chapter 4, progress was made during the period when the Task Force was chaired by the ex-Director General Special Projects (NAO2, Interview 4). This MFEI official "*owned*" the project and had the support of the Minister of Finance of that time. But when he retired in June 2009, the project lost its direction.

According to the AG (Interview 13), the Task Force is not operating anymore and "*it only exists on paper*". The NAO (Interviews 4, 15) confirmed that the Task Force is no longer holding meetings, and that it appears that it has exhausted its assignment even though accrual accounting has not actually been implemented. The Treasury (Interviews 2, 13) is now giving more importance to the IPSAS Committee, which needs to start meeting more often and provide "*central guidance*".

The Ministries perceive the Treasury as the owner of the reform. The NAO1 (Interview 15) sees the accounting reforms "*spearheaded*" by the Treasury, as the accountant of the government. In the opinion of the ex-Director General Special Projects (Interview 8), "*the Treasury needs to be more enthusiastic*" and a responsible person with a financial background should be placed *"in charge of the project on a full-time basis*".

The NAO2 (Interview 4) expects central guidance on items of a technical and administrative nature to be provided by the MFEI, and then implementation is activated by the Treasury since it is responsible for the accounting system (NAO2, Interview 4). The NAO1 (Interview 15) does not like this distinction between the MFEI as policy maker and the Treasury as implementer (NAO1, Interview 15). He fears that this distinction is becoming more pronounced when the Treasury should take on a more proactive role even in policy making. It is the opinion of the NAO1 (Interview 15) that any committee taking policy decisions should be driven by the Treasury due to its experience and expertise, and it would not need to refer to external sources.

This distinction between the MFEI and the Treasury as decision-maker and implementer, respectively, was constantly emphasised by the AG. He was adamant that "*policy should be divorced from execution*" and that the Treasury cannot be expected to be "*two arms at the same time*" (AG, Interview 13). The AG understands that the expertise of the MFEI is not being focused on what happens in the departments, while the Treasury is regarded as the expert in this field. He feels that the Treasury is being expected to take policy decisions because the MFEI lacks knowledge in accounting areas. The AG believes, however, that the reform project does not involve solely accounting but the whole system of budgeting and financing matters.

On the other hand, the PS (Interview 9) regards the Treasury as part of the MFEI, and stated that the Government Accounting Directorate within the Treasury has the structural capacity to be responsible for the accounting standards:

> *The accounting systems of the public sector, the accounting structure and the chart of accounts are maintained by the Treasury. The standards are a Treasury remit.*

3.2.1 The participation of the private sector

The NAO2 (Interview 4) referred to the constituency of the Task Force which had included one member who was external to the government, namely, a representative of the MIA. But apparently, this person never attended the meetings (NAO2, Interview 4). However, certain studies had been carried out by private audit firms, which had issued guidance papers for the government, for example, regarding valuation of fixed assets (NAO2, Interview 4; XDGS, Interview 8; MITA1, Interview 27).

According to the MIA's technical officer (Interview 1), the private sector is interested in government accounting because it is financing the public sector through taxes. According to the partner of the consulting audit firm (Interview 14), there was a lot of discourse about the project at one time, and it raised a lot of interest even at Institute level. The MIA had a public sector sub-committee that was chaired by an accountant working in the civil service who also represented the IAID on the Task Force (GT, Interview 14).

The inclusion of non-government members on such an advisory board that is guiding the accounting reforms is considered "*healthy*" but to a certain extent. According to the PAC Chairman (Interview 5), persons who are external to the system can identify shortfalls more easily, while people who are internal to the system tend to get accustomed to it. However, while the outsider can highlight what needs to be done, the insider will be aware of the limitations, for example, due to the regulations. Both an external view and the opinion of someone who knows the system very well are, therefore, required.

The NAO2 (Interview 4) highlighted that while the internal civil servants may not have such a wide experience on accounting, there is the danger that private sector people may only see the commercial side of things and would not take into account the government aspect. This view was confirmed by the NAO1 (Interview 15):

> *The private sector can give important input to the government, as long as we bear in mind that the focus is different.*

The AG (Interview 13) is in fact disillusioned by the input of the non-governmental member on the Task Force and he did not find their input really practical especially when it comes to deciding the policy that the government will adopt:

> *Lack of expertise was on their part. They did not understand the system of how the government works. Their input was more of a technical nature - academic-technical input, I would call it, rather than practical.* (AG, Interview 13)

The DGA (Interview 2) agreed and would only include the private sector "*to be able to make use of their expertise*", because at the end of the day, "*we have to apply it for our sector, and in this sense we are more knowledgeable*".

The NAO2 (Interview 4) thinks that the participation of at least one person from the private sector is important for technicalities rather than to make the reform process more accountable and transparent. Accountability and transparency of the reform process can be achieved by a wholly internal group made up of adequate and responsible individuals (NAO2, Interview 4).

A PAC member (Interview 6) commented that the input of the private sector is obviously required because of their knowhow in the working of accrual accounting, given that *"for the public service on its own, accrual accounting is not a salient point*". But what is more important than the issue of private sector involvement is to have a structure that delivers results, and not a confusion of committees "*that get mixed up and end up producing nothing, even with the input of the private sector*" (PAC2, Interview 6).

3.2.2 The involvement of the NAO

The NAO (Interviews 4, 15) supports the accounting reform and has regularly mentioned the change to accrual accounting in its annual audit reports. According to the NAO1 (Interview 15), enhanced accountability is the reason for the accounting reforms, and it would be pointless to change the accounting system without improving fiscal discipline and accounting competence.

The NAO officials (Interviews 4, 15) like to use the term "*active observers*" to describe the position they take when participating on government committees. According to the NAO1 (Interview 15), it is important that the NAO is involved in the government accounting reform process, first of all so that the Office is aware of what has happened when it comes to audit, and secondly, due to the useful contribution it is in a position to give from its experience in the functioning of the departments. As "*active observers*", the auditors feel that they distance themselves from any conflict of interest in the future. This is achieved by reviewing all circulars and guidelines issued by the Task Force; and by giving their opinions without endorsing decisions and by not instigating changes/studies.

The Treasury officials (Interview 2, 13) appreciate the position of the NAO in that "*it cannot suggest or dictate policy*". The participation of the NAO is considered as important and the representatives on the committee participate in the discussions, and offer their advice in their personal capacity as accountants (AG, Interview 13). According to the DGA (Interview 2), the NAO officials hold a very high level of commitment and always give their advice freely.

On the other hand, the PAC does not hold such a high opinion of the NAO. The PAC Chairman (Interview 5) describes the NAO as "*more reactive rather than proactive*", due to its constitution. A PAC member (Interview 6) feels that the NAO is "*straight-jacketed within convention that it has inherited … they are more concerned with compliance"*. According to a PAC member, the NAO waits for the government to act and does not anticipate and carry out certain things in advance.

For example, while the NAO has seen the trial financial statements, it has never audited them. The NAO (Interviews 4, 15) appreciates that if ever there is a change to accrual basis, the first thing that would require its attention is the data used for opening balances. While the NAO2 (Interview 4) thinks that in theory it makes sense for the NAO to carry out unofficial audits at this stage to pinpoint any shortcomings, "*in practice, there may be other pressures like the use* *of human resources for work that is not apparent*". The NAO1 (Interview 15) confirmed that this would be a problem for the NAO, and all the staff in the Financial and Compliance Unit would have been absorbed on doing this work since 2002, when the actual date of changeover is still unknown.

The NAO2 (Interview 4) is sure that should these trial financial statements be audited, the audit report would definitely be qualified since gaps of information exist regarding inventories, creditors and non-current assets. Arrears of revenue are the only accrual data reported and audited as required by the FAA Act.

The PS (Interview 9) finds it "*insulting*" should the auditor issue a qualified report, and it would be an incentive not to do any changes. He does not consider it proper for the auditor to create problems with Parliament and the Press when the government is trying to improve its operations (PS, Interview 9).

On the other hand, the AG (Interview 13) is not bothered with the possibility of a qualified audit report, and sees it as a positive thing especially should the auditor put forward suggestions for improvement. He does realise, however, the political consequences of a qualification. The partner of the consulting audit firm (Interview 14) stated that a qualified audit report for government is "*no big deal*" when one considers that, in the US, the auditor disclaims the report on the US Defence Budget due to inaccessible information.

Another audit issue arises if authorities and entities are included in the whole of government accounts. Some of these authorities and entities already prepare audited financial statements, but if they are consolidated, then the NAO would be responsible for their audits as well. If this happens "*the NAO would need to increase by at least five times*" (NAO2, Interview 4). The NAO has issues regarding the new legislation and the question as to who should audit, as outlined in Chapter 4.

The NAO's involvement in the reform process will increase due to the EU's requirement that the NAO will accompany the Eurostat delegation during future missions, and the NAO will be required to audit "upstream data" (DGA, Interview 2). This development is described in Chapter 7.

3.3 The main stimuli that triggered the reform

According to a PAC member (Interview 6), governmental accounting reform activities is a worldwide phenomenon triggered mainly by the change in nature of the role of government over the last 50 years, with the government becoming increasingly more of an agent in economic development and economic running. Most of the countries attempted to modernise, and government action became more project-oriented, creating hybrid organisations with a lot of interaction with the private sector and international organisations. In spite of PPPs and similar organisations that cropped up, government expenditure expanded and still amounts to roughly 50% of the GDP, "*so there was a push to control this big beast*". As the government role became more complex and multi-faceted, the traditional cash-based accounting system was proving to be "*very clumsy, very unaccountable, and it doesn't give you the right feel of what is going on*", with the result that an alternative accounting model was sought:

> *Effectively then you look at the alternative model, that is, that used by the private sector. The question then was: can we adapt this to our systems? Easier said than done.* (PAC2, Interview 6)

The PS (Interview 9) agrees that NPM ideology could have been part of the original stimulus to undertake accounting reforms but thinks that the changes were not properly planned because, in his opinion, it is a question of reforming the whole sector and not simply a matter of transposing systems:

> *Conceptually, at a high level, the ideas were there, but operationally there wasn't the wherewithal to implement them. You don't transpose systems on human infrastructures which cannot support them. This would be useless.*

This supports the view presented in the literature by Caperchione (2000) in that an accrual accounting reform is not a simple technical exercise but must be part of a holistic administrative reform.

The PS (Interview 9) identified the criticism of the cash-based accounting system as the main stimulus; mainly the fact that invoice payments could be manipulated. But according to him, this criticism became unfounded once the government starting adhering with the Government Finance Statistics (GFS) requirements, and eventually with the ESA95 when reporting statistics to the EU, since these standards require the reporting of creditors and accruals:

> *The original raison d'être was to stop the manipulation that is possible with a cash-based system, and thus have a complete reporting system. With the change in our statistics, that raison d'être died.* (PS, Interview 9)

On the same line of thought, then, it is not surprising that the AG (Interview 13) thinks that the thrust to start compiling accrual-based data occurred when Malta applied for EU membership due to the reporting requirements. The DGA (Interview 2) confirmed that the primary role of the accrual data being collected by the Treasury is for reporting the EDP to the EU, since the NSO uses this data for its reporting. The Treasury is not experiencing any pressure from high officials in public administration to publish the trial accrual-based financial statements that it is preparing:

> *Now I question whether if we did not have this EU regime and accrual accounting reporting requirement, most probably we would not even be doing these internal accrual-based accounts.* (DGA, Interview 2)

The AG (Interview 13) also considers the desire to secure public sector reputation internationally as a major stimulus: "*the fact that the government adopts accrual accounting and IPSAS is seen as a must*". But he links this with the present economic crisis in the EU as having "*directed the limelight on the issue*" (AG, Interview 13).

The AG (Interview 13) confirmed that securing public sector reputation nationally, that is, in comparison to the private sector, was never an issue. According to a PAC member (Interview 6), there was no stimulus for governmental accounting reforms coming from the private sector because it has no interest and perhaps it would rather prefer a status quo.

The NAO1 (Interview 15) confirmed that "*the private sector is not really concerned with government operations*", but he also considers securing public sector reputation internationally as irrelevant since it is the reputation of the international organisations themselves that is currently at its lowest ebb. According to the NAO1, the government is not facing any sort of problems for which an accrual accounting system could be perceived as somehow leading to a solution. "*Enhanced accountability is the reason for the accounting reforms*", and in his opinion the main stimulus is, or at least should be, "*the requirement for the government to present a more true and fair view of its finances* ***for*** *the public*" (NAO1, Interview 15).

According to the NAO2 (Interview 4), the EU Commission would definitely perceive a country in a more positive light if it is even considering changes in its accounting system, that should provide more accurate data. "*Obviously, any change is attractive, especially if it is an international trend"*, but the circumstances of the country have to be taken into consideration and not change simply for the sake of change. Changes are nearly always for the better, but "*unless something is mandatory, you don't just copy the rules, but you have to go into them*" (NAO2, Interview 4). The NAO1 (Interview 15) thinks that, since not all countries support accrual accounting, one has to be careful that the country is not actually disadvantaged if it adopts accrual accounting before all the other EU member states.

All the interviewees feel that the NPM approach has somehow triggered the accounting reform to some extent. According to the NAO1 (Interview 15), the emphasis has now shifted from compliance to efficiency, "*especially now, with the budget cuts that are being done - we are doing more with less*". According to Lüder and Jones (2003), the NPM requirements refer to financial accounting, cost accounting and output- and accrual-based budgeting, but in the case of Malta, it appears that the approach to the ideology was, and still is, not so comprehensive.

Even though the country does not have donations from international agencies, the IMF still carries out investigative missions and enquires about the government's accounting system. But since the country started reporting to Eurostat, the IMF's questions are less since "*it is taken for granted that we have some sort of accrual-based data*" (AG, Interview 13). This tallies with how a PAC member (Interview 6) perceives the attitude of donor institutions towards accrual accounting.

According to the Treasury (Interviews 4, 13), credit rating agencies would be affected by the type and quality of financial reporting effected by the government, but a PAC member (Interview 6) does not agree since the country is too small to merit any particular attention from the capital markets.

The IAID (Interview 21) thinks that there was never any stimulus to carry out accounting reforms because otherwise some sort of result would have been achieved after all this time. She thinks that "*the reform was just a good idea at the back of everyone's mind*", but fear of change holds back the politicians from actually executing the accounting reforms.

3.3.1 Management orientation vs Accountability orientation

The interviewees recognise that the reforms are being carried out to improve both internal management and external (public) accountability, but accountability is paramount.

The Budget Office (Interview 18) recognises that accrual accounting would give a more clear and complete picture, "*and the public should be given the satisfaction of knowing what the government is spending its money on*". The NAO1 (Interview 15) is of the opinion that the obligations of the government lie first with its citizens, since "*the taxpayer is the shareholder*". He emphasised the importance of the government to be accountable locally; on the other hand, the IAID (Interview 21) stated that the country's reporting abroad is extremely important since there are many things attached to such reporting that will affect the level of funds that the country is entitled to, and may even expose the country to sanctions.

At a high level of administration, the PS (Interview 9) does not perceive "*reporting the deficit*" as external, because the information is used for management decision-making. Both the PS (Interview 9) and the AG (Interview 13) appreciate the importance of day-to-day management at departmental level, but time is required in order to reap the benefits from better internal management. According to the AG (Interview 13), it would be pointless preparing statements that no one can interpret.

3.3.2 True and fair view

As an auditor, the NAO2 (Interview 4) is convinced that an accrual-based system would present a more true and fair view, but then confirms that the law does not require an accrual-based system and does not refer to a true and view. The requirement of fair presentation is implicit in the legislation and the NAO1 (Interview 15) confirms that "*mostly, it is an auditor's conviction*". The AG (Interview 13) stated that an effort is done to produce statements that show a true and fair view, even though this is not required by the legislation, because *"it is an add-on"*.

3.3.3 Factors holding back the accounting reform activities

The **cost of the IT system** required may be considered as prohibitive. The PAC members (Interviews 5, 6) think that the cost of the required system is only an excuse. The Budget Office (Interview 18) considers the cost of the IT system as an investment and "*would not really hold back the accounting reform*". The AG (Interview 13) said that the acquisition of the IT system is not the factor holding back the reform because there are still various things that require to be done beforehand.

There is a lacuna of **qualified accounting staff** in the civil service. Experience shows that it is very difficult for the government to attract accountants in its employment due to the low level of salaries offered (DCS3, Interview 16). Since accountants are very flexible and tend to change their employment often, according to the NAO2 (Interview 4), they would not provide the continuity required. The lack of suitably qualified staff is an important negative factor as previously confirmed by both the AG (Interview 13) and the PS (Interview 9) when they said that it would be useless to transpose a system onto a structure that is not able to handle the output.

Political ownership and leadership is a difficult issue to assess, according to the NAO1 (Interview 15). It should not really be a problem since both the government and the opposition agree with accrual accounting. But discussions about the topic in the PAC ceased after a particularly interested member did not remain on the committee (NAO1, Interview 15). The Minister of Finance has always said that he wants accrual accounting and that he is going to do it, but things appear at a standstill (NAO1, Interview 15; AG, Interview 13). The accrual accounting project was always owned by the MFEI and for ten whole years it was owned by one particularly dedicated official, but still nothing transpired (AG, Interview 13).

While the AG (Interview 13) claimed that **circumstances and prioritisation** have nothing to do with the accounting reform, the Budget Office (Interview 18) and the NAO (Interviews 4,

15) refer to EU membership and adoption of the euro as events that absorbed limited resources.

The NAO2 (Interview 4) referred to the possibility of certain **disagreements** that can arise resulting in a process to be stalled. A lot of work is done on a project, and then an official in a high position presents some opposition to certain aspects and everything comes to a halt: *"You agree to disagree and you don't continue … This happens in the civil service"* (NAO2, Interview 4).

3.4 The key players in the reform process

Lüder and Jones (2003) explain that "*key players*" does not mean individuals but positions in an organisation and whole organisational units, whose attitudes and activities are deemed crucial for the success of the reforms. Lüder 2002 identifies three types of players in the reform process: political reform promoters; reform drivers; and stakeholders.

3.4.1 Political Reform Promoters

> *The Parliament is a scrutinising body. The implementation is in the hands of the Executive (Cabinet). The Prime Minister can order things to get done. The Leader of the Opposition can only criticise.* (PAC1, Interview 5)

The political reform promoters are the Ministers, led by the Prime Minister. The other members of Parliament are stakeholders, but could also act as reform drivers.

According to the NAO officials (Interviews 4, 15), there is political support because all members of Parliament agree on the implementation of accrual accounting, but they express their concern about whether this support is "*active*" or just "*lip service*". On the other hand, the DGA (Interview 2) does not think that there is political support because the Treasury is never asked about its progress on accrual accounting and there is no insistence for deliverables: "*there is no political drive to see any result*."

The AG (Interview 13) feels that there is tangible political support through the PS who "*is not skimpy with resources when it comes to the reform*". The AG is convinced that the Minister of Finance wants the reform, and that nothing would be done if this was not so. The problem that he sees is that the Minister of Finance and his advisers tend to "*simplify things too much*" and do not appreciate the complexity of government operations.

Even the NAO2 (Interview 4) believes that the Minister of Finance is supportive for the accounting reform. While the NAO1 (Interview 15) is always glad to hear the Minister mention the reforms in the Budget Speeches, so the "*outside appearance*" is that the Minister thinks "*that something is going to materialise*".

The Minister of Finance is able to enforce the accounting reform (AG, Interview 13). The NAO2 (Interview 4) pointed out that the Minister would need Cabinet approval to carry out the reforms, especially due to the large amount of money involved, but the AG (Interview 13) does not think that the Cabinet would hold back its approval, describing the Minister's position as "*very strong, if he wants*".

Under the current legislation, the Minister of Finance has the power to set accounting standards[47]. The DGA (Interview 2) perceives the 2004 amendment as a positive provision in the law since it provides a fast route by bypassing the Cabinet's approval, thus avoiding dissenting members who would require discussions in the Cabinet.

3.4.2 Reform Drivers

Lüder (2002:4) describes an epistemic community as an informal network of recognised experts "*with shared beliefs and convictions how to resolve a certain political or administrative problem*."

> *We don't have these* (epistemic communities) *in Malta.* (DGA, Interview 2)

According to the NAO1 (Interview 15), the MIA would have a contribution to give but it does not really bother. Even as part of the Task Force, the MIA's input was described as "*insubstantial*". The NAO1 (Interview 15) does not know whether this attitude is due to lack of resources on the part of the MIA or whether it is its philosophy[48]. The DGA (Interview 2) confirmed that the MIA does not exert pressure, on the contrary, "*we have to chase them for*

[47] Refer to the 2004 amendment to the FAA Act.
[48] The MIA does not have resources to provide consultancy to the government, and will leave this service to be provided by its members (MIA, Interview 1). The Technical Officer of the MIA (Interview 1) stated that while IFAC exerts a lot of pressure on its members concerning ISAs, ethics and education standards, the imposition on its members is different in the case of IPSAS, because "*IPSAS are not within the jurisdiction of institutes, like the other three*". The main target of IFAC are international comparability and harmonisation, but the SMO 5 dealing with IPSAS is very concise: "*Each member should make its best endeavours to incorporate the requirements of IPSAS into the national public sector accounting standards. Where the institute does not have the responsibility for development of public sector accounting standards (as in the case of Malta), but this lies with third parties (as is usually the case), the institute should try to persuade those responsible to include these requirements (that is, comply with IPSAS)"* (MIA, Interview 1).

some sort of feedback or service". And the PAC Chairman (Interview 5) finds the MIA as "*totally indifferent*".

According to the PAC Chairman (Interview 5), private sector accounting firms all agree with accrual accounting, "*but they do not see it as their role to push for it*". In his opinion, the fact that the government has a strong role in the economy, private accounting firms would not criticise the government of the day because they would be endangering their eligibility to get some tender.

According to the NAO2 (Interview 4), the accounting reform process is "*all internally instigated*", and not even the EU exerts any pressure. He identified Eurostat as a possible reform driver since it requires member states to submit accrual data, but it only exerts indirect pressure:

> *To now, it does not require the accounting system to be accrual-based and offers the option to have cash basis plus time adjustments - as adopted by Malta.* (NAO2, Interview 4)

3.4.3 Stakeholders

The NAO officials consider the MFEI as the most powerful stakeholder:

> *At the end of the day, regardless of our endless advice, they proceed only if and when they want to.* (NAO1, Interview 15)

Besides the MFEI, the AG (Interview 13) considers all the other internal stakeholders, like the Treasury, the IAID, the NAO, as powerful, but thinks that the other government departments are not so powerful. But the NAO officials (Interviews 4, 15) do not feel that their office is that powerful; they have mentioned their preference for accrual accounting in the annual audit report and commented upon the missing information in the cash-based financial report - but nothing transpires because "*the MFEI will still move at its own pace*". The involvement of the NAO in the reform process has already been outlined.

The DGA (Interview 2) thinks that certain employees in the government departments are powerful at their level, "*but someone higher up has to champion the reform in order for it to be successful*". But a PAC member (Interview 6) thinks that the civil service does not have persons of substance who really have an interest and drive for the accounting reforms.

According to the DGA (Interview 2), the members of parliament have a role because what they say has an impact on the public. But the NAO1 (Interview 15) does not think that parliamentary discussions would have a strong impact because the general public feels that this issue is something external to them. According to the NAO2 (Interview 4), except for a handful of experts who appreciate the benefits of accrual accounting, "*such arguments would not interest the taxpayer - what interests the taxpayer is whether he will directly benefit*".

The Parliament and its scrutinising arm, the PAC, are observers of the reform process. The PAC has a role to play in promoting governmental accounting reform, but like the NAO, it does not have executive powers (NAO1, Interview 15). According to the Treasury (Interviews 2, 13), the PAC does play a role in accounting reform and it exerts pressure on the government. But the NAO1 (Interview 15) explained that the PAC has no power at all: "*the PAC can discuss a matter for a whole month - it has no power of implementation*".

3.5 The implementation strategy

Lüder and Jones (2003) define 'implementation' as the last phase of the reform process. It comprises the realisation of a reform project according to a given concept and based on corresponding legislation, including the necessary software renewal. The implementation strategy affects the probability of success or failure of a reform and may also lead to deviations between the reform concept and the outcome of the reform (Lüder and Jones, 2003) .

The governmental accounting reform in Malta, at central level, has not yet reached the implementation phase, but the interviews revealed that many plans and ideas surround this final stage. The following findings concern the plans and opinions for each of the six features of a prospective implementation strategy.

3.5.1 The extent of central guidance

The implementation will be centrally guided. The government structure lays down that central guidance is obtained from the PS, in this case, from the PS of the MFEI (BO, Interview 18). The implementation of accrual accounting is done by the MFEI, while the implementation of the system will be done by the Treasury (AG, Interview 13).

Government entities already have their own accrual accounting system. The MFEI would need to decide whether entities will keep their present system or use the new integrated system (AG, Interview 13). The entities will, therefore, have discretion as to the software package that they use, just as long as the output caters to the information requirements at central level (AG, Interview 13)[49]. The ministries and departments will not be allowed such a discretion, and would have to use the software package that will be common across central government (DGA, Interview 2).

As to the terminology used, the chart of accounts, and the recognition and valuation rules, these issues will be decided centrally by the MFEI, and the entities will have to ensure that they satisfy these requirements (AG, Interview 13). While "*all the ministries and government departments have to follow our* (the Treasury's) *instructions to the letter*" (DGA, Interview 2).

3.5.2 The planned length of the implementation period

According to Lüder and Jones (2003), improper short implementation periods of up to five years bear the danger of postponing the solution of important problems to the time when the new system is in operation.

The MITA (Interview 27) specified a period of four years for full implementation. A period of four years is classified as short, but the AG (Interview 13) appreciates the fact that the work on the IPSAS should be done before the actual system is acquired and the implementation period starts. In fact, a lot of preparatory work has already been done over the years, especially regarding the refinement of the data for the opening balances. If this work is taken into consideration, then the implementation period can be classified as 'long'.

[49] The NAO2 (Interview 4) believes that no discretion should be allowed, and that everything should be centrally controlled in order for the reform to succeed.

3.5.3 The transition mode

According to Lüder and Jones (2003), normally, the transition mode depends on the size of the government. The size of the government in Malta may be relatively small, but it is still considered that a single-stage transition is not possible (AG, Interview 13). A single-stage transition mode is where all reform elements are implemented at the same time.

The transition mode is planned to be multi-stage, where reform elements are sequentially implemented by conceptual components. Once the basic (integrated financial accounting and budgetary control) is implemented throughout the departments, then the DAS can be eliminated, and the implementation of more complex components, for example, asset management, can be carried out (AG, Interview 13).

This method of transition is agreeable with the majority of interviewees[50]. It is logically sensible for the PS (Interview 9) that the new system is introduced across the board in stages, "*because you need to build a critical mass*". Introducing the system in just one department, that is where reform elements are sequentially implemented by organisational unit, may cause confusion, because this may result in a situation where certain departments will be using the new system while others are still using the DAS (AG, Interview 13).

[50] There are two exceptions. The NAO2 (Interview 4) thinks that it would be less problematic if the transition is done by organisational unit rather than by conceptual components, since he anticipates many problems in the beginning "*so it would be better to solve them at micro level*". Even a PAC member (Interview 6) considers the best approach to be organisational, using two ministries as pilot projects and then expanding to other ministries. He suggested rewarding the person leading the pilot so that the other ministry officials realise that it would be beneficial for them to go along with the system.

This method will also facilitate the procurement of the system because not all the modules need be acquired at the outset (DGA, Interview 2; PS, Interview 9).

The MITA (Interview 27) pointed out that there are many systems that need to be in place. One of the modules will be budgeting, because the solution being sought will cater for all the requirements, "*but then it is up to the client to decide when to implement them - it will be at the discretion of the government*" (MITA1, Interview 27).

The DGA (Interview 2) described a possible sequence as Departmental accrual accounting, then financial reporting, followed by accrual budgeting, and finally whole of government financial reporting; but she emphasised that the approach could change should any difficulties be encountered. Therefore, the sequence of reform implementation has not really been decided[51].

3.5.4 The extent of experimentation

The actual testing of the system will be done before and not during implementation, with the help of the MITA (DGA, Interview 2). Further experimentation will then be carried out during implementation to identify technical problems, including various types of testing, for example, 'user acceptance testing' (AG, Interview 13). Direct observation of the implementation will highlight the need for any changes (DGA, Interview 2).

[51] For example, the NAO2 (Interview 4) thinks that whole of government financial reporting should come before departmental accrual budgeting. In his opinion, budgeting and financial reporting are two different processes, and budgeting should be left for last due to its complexity. One should also provide for the eventuality that accrual budgeting is not used at all (NAO2, Interview 4).

The DGA (Interview 2) pointed out that with the production of the trial accrual-based financial statements, the Treasury is actually trying out certain elements of the reform concept before putting them into operation. This type of testing is important, according to the AG (Interview 13), in order to "*check that we have the correct perception*".

The DGA (Interview 2) considers the work being done by the AAWG within the Treasury, with its liaison with departments regarding accrual data, and the preparation of the trial accrual-based financial statements, as a way of performing 'dry runs'. Dry runs test the design details and/or give the staff the chance to get accustomed to the new system before it is put into operation (Lüder and Jones, 2003).

The MITA (Interview 27) made a distinction between parallel running and parallel reporting. Parallel running means that the new and old systems will continue running in sync, which should not exceed three months. Parallel reporting refers to dual reporting. While the accounting system will be accrual-based, the new technology will produce both accrual-based and cash-based reports, and in this way, Parliament can take its time to decide what type of reporting is preferred.

3.5.5 The intensity of staff training

Intensive staff training is envisaged at all levels of staff (AG, Interview 13). A system of *'training the trainer'* is being planned (DGA, Interview 2). Staff training will be provided both before and during the parallel run[52]. The MITA (Interview 27) is anticipating that, at Parliamentary level, there would be a need for certain exposure about how the reporting is going to be.

3.5.6 The setting up of an advisory board

An advisory board will be set up with the aim of resolving conceptual and practical problems emerging during implementation. According to Lüder and Jones (2003), the advisory board is more important if there is no special conceptual basis for the reform (or only a poor one). At this stage, more work is required on the development of the reform concept, but perhaps more progress may have been done by the time the actual implementation phase starts.

It is generally agreed by the interviewees that the board will be an intergovernmental body, but including the supplier of the package to deal with IT related problems.

The AG (Interview 13) is planning for two levels of 'advisory boards': a steering committee and an implementation board. The steering committee will include the MFEI, the Treasury, the IAID, the NAO, MITA, and the vendor. The presence of the auditor, either the NAO or the IAID, is deemed important to ensure that there are sufficient audit trails. Each department will then have an implementation board to include the MFEI, the Treasury, a MITA project leader, a representative of the vendor, and a representative from the particular department[53].

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[52] The NAO2 (Interview 4) explained that both types of training are required, but the most important would be that provided during the parallel run. According to the auditor, training before is prone to be forgotten, while hands-on training is better absorbed.

[53] The NAO2 (Interview 4) suggests to include one accountant from each ministry on this board. In his opinion, this would be a full-time job and the ministry's DCS would, therefore, not be sufficient.

3.6 Small country and culture

Malta is the smallest EU member state. One would expect that it would be a relatively easy task to implement a new accounting system for such a small administration (Lüder, 1992). Is the size of a jurisdiction an important contextual variable that affects the reform process?

3.6.1 Relative size of civil service

The government is often criticised for the large number of employees in the public service (XBO, Interview 25). The administration of a country has certain fixed staple requirements, whatever its size. Therefore, there is a sort of a 'fixed element' of number of employees that would be required in the public service. This fixed element would result in a large percentage of a population that is comparatively small.

Due to limited resources, the administration cannot afford to have employees specialising on one issue, but each employee would have to be involved in a variety of tasks (DGSOS, Interview 19). At the same time, their service is still required "*in real time and in a professional manner*" (XBO, Interview 25).

The advantage of administering a small country is that you can get the top people together around one table. But the same small cluster of people are required to take on the

In the first few years, the central advisory board would be inundated with work. It would be important, therefore, "*to have an expert in each ministry who can hand-hold certain users … who will be the contact person when problems arise*" (NAO2, Interview 4). This coincides with the idea of the implementation board at departmental level. The NAO2 (Interview 4) also thinks that once the system is implemented and running, "*a group of gurus would be required who would know the system inside out*".

responsibility of many things. While a large country can afford to have more staff and each one could specialise on one aspect (DGSOS, Interview 19). When public service employees compare themselves with their foreign counterparts, they may feel that they lack specialisation, but at the same time, the opportunities provided through wider exposure is rewarding (DGSOS, Interview 19; IAID, Interview 21).

Another problem is that people are very competitive and individualistic. The education system does not emphasise team work, and eventually a person may find it very hard to function as part of a group (IAID, Interview 21).

3.6.2 Country size as a limiting factor

At face value, it may appear that the small size of the country would facilitate a process. But no quick decisions are taken, and it appears that political forces would tend to make careful actions to protect the country's reputation. In the case of Malta, its small size appears to be a factor that is negatively impacting the accounting reform process.

The actual level of human resources acts as a constraint because it would need to be concentrated on issues that are top priority, with other processes being placed temporarily on a 'waiting list'. For example, the importance given to euro adoption has already been described as a factor that may have negatively affected the accounting reform, because limited resources were being absorbed by this issue.

4 THE IMMEDIATE PLANS

As at September 2012, the MITA (Interview 27) held "*a very clear vision*" of the tender for the IT System that will replace the DAS to be issued by the end of 2012 or early in 2013. He envisaged the supplier to be identified by the end of 2013 and installation to start in 2014.

The MITA explained how the original specifications, prepared by the responsible committee, were being "*watered down*" as required by the Minister of Finance. The MITA was working towards the re-activation of the tender (MITA1, Interview 27). The MITA realised that it was not an ideal time to introduce a new system with a general election in the horizon, but did not think that it will raise any political concerns because there is consensus on the new accounting methodology. The MITA considered the implementation of the new IT system as urgent:

> *If the process does not start now, the hurt will be bigger because the technology is getting older and the expertise is all the time decreasing.*

On 10th December 2012, the Financial Estimates for 2013 were presented to Parliament by the Minister of Finance. The Financial Estimates were not approved by a majority vote. As a result, Parliament was dissolved on 7th January 2013, and a General Election called for 9th March 2013. The tender for the new IT System has not been issued. Did the early General Election distort the MITA's plans? Or were the MITA's plans just 'wish lists'?

5 SUMMARY

The findings described in these two chapters (chapters 4 and 5) are summarised in Table 11, highlighting positive and negative factors that may have affected or may be affecting the accounting reform process.

Table 11: Factors affecting the government accounting reform

Positive factors	Negative factors
The accounting reform in central government started in 1999 on the initiative of the Minister for Finance at the time. The accounting reform was not pushed onto him, and he is described as being "*not only involved in the reform, but **he felt the reform***" (MITA1, Interview 27). "*It was **his vision** as Minister of Finance*", his decision as Minister; there was no formal committee or policy taking and no external pressure (XDGS, Interview 8). The Minister of Finance at the time was a management accountant, perceiving accounting from a decision-making point of view. According to the ex-Director General Special Projects, the main stimulus of the accounting reform was the vision of the ex-Minister of Finance "*because of the type of person that he was*" (XDGS, Interview 8). According to the partner of the consulting audit firm, the ex-Minister's accountancy background in the commercial field made him appreciate that one can only know the true financial position with accrual-based financial reports (GT, Interview 14). The ex-Minister may also have observed the trend that other governments were changing to accrual accounting (GT, Interview 14).	The "*motor got stuck a little*" when the Minister of Finance changed in 2004 (MITA1, Interview 27). The Minister of Finance at the time when the reforms started was a management accountant, perceiving accounting from a decision-making point of view. Whereas the current Minister of Finance is an auditor[54], and in the opinion of the ex-Director General Special Projects, this makes them "*two different types of people*", because an auditor is more concerned with compliance, holding a different general attitude towards the use and purpose of accounting: the two Ministers did not share the same vision (XDGS, Interview 8). "*They did not complement each other as personalities*", and it was expected that the new Minister of Finance would want "*to start a new chapter*" (MITA1, Interview 27). The ex-Director General Special Projects suspects that the new Minister of Finance may have somehow been disillusioned with accrual accounting in the public sector following his experience as mayor (XDGS, Interview 8).
The previous Minister of Finance had appointed one person to be responsible for the accrual accounting project. This person, the now retired Director General Special Projects, turned out to be "*a driver"* himself who used to take a lot of initiative and instigate fervour in the people that he worked with (MITA1, Interview 27). In his own words: *During my employment, I tried to encourage the zeal for accrual accounting. I tried to show them that the world was moving in that direction ... It was the Minister's idea, but I tend to become enthusiastic and I go beyond that.... In fact, the Accrual Accounting Project persisted because I used to push and push. (XDGS, Interview 8)* It appears that there was mutual respect between the ex-Minister and the ex-Director General Special Projects, and the latter tried his utmost to prove his "*boss*" right by, for example, meeting the target date of 2003 to issue the first set of trial financial statements (XDGS, Interview 8).	Now it appears that the project does not have an owner: it is described as an "*orphan*". This does not mean that the project will be aborted, but the appearance that it is being executed can be delayed forever (GT, Interview 14). "*The project is suffering from lack of vision*" due to lack of enthusiasm of the officials in charge (XDGS, Interview 8). "*Could it be that ownership of the project from the top is missing?*" (PAC2, Interview, 6). Is the champion missing? *In a project like this, unless you have a champion, an owner, who drives the process really hard, the chances are that it will fail or drag on for years. (GT, Interview 14)* *Putting up appearances as if you are installing it everywhere, and no one has its leadership, or its leadership is not so important compared with other things. (PAC2, Interview 6)*

[54] Under the new administration of March 2013, the Minister of Finance is an economist.

Positive factors	Negative factors
The change in Minister of Finance coincided with Malta's EU membership, and therefore, one cannot really distinguish whether in 2004 the reason that the accrual accounting project was continued was affected by either the new Minister of Finance or EU requirements, or both. It appears that under the new Minister of Finance, "*there was a lot of drive on the initiatives of the EU*" (MITA1, Interview 27). Of course, even in 1999, the Government's policy was to prepare Malta for EU membership, so this may have affected even the previous Minister of Finance (XDGS, Interview 8). The ex-Minister of Finance may have partly instigated the reforms in anticipation of the accrual data that would be required to fulfil the country's reporting requirements to the EU. According to the ex-Director General Special Projects, when the accrual accounting project started in Malta, there were only around four other EU countries that were using accrual accounting, and it was a period when the EU Commission itself changed its system to accrual accounting (XDGS, Interview 8).	Perhaps the new Minister of Finance in 2004 was appointed at a not very opportune time to introduce any radical reforms. Malta became a member state of the EU in 2004, and all resources of the MFEI concentrated on the Maastricht criteria and the looming adoption of the euro. At one of the PAC meetings, the Minister of Finance explained that he had stopped the tender for the new IT system because it would need to be changed in a few years due to euro adoption. Perhaps it was originally planned for the new system to be introduced before EU membership, but then the Minister was overtaken by events, and the accrual accounting project was put on the back burner (GT, Interview 14; NAO2, Interview 4; DCS2, Interview 10).
The EU may not have been a factor when the reforms started in 1999 (DCS2, Interview 10), but EU's reporting requirements are presently perceived as a main stimuli (DCS1, Interview 7). It is a common perception that the EU is the driving force of any reform, including the accounting reform, "*because in Malta, everything is done when the EU requires it*" (DCS6, Interview 22). EU's requirements are "*satisfied*" even if the process may mean that there are no proper foundations for what appears to have been achieved (XDGS, Interview 8). Target reporting dates are met because they are imposed: "*as unfortunately happens regularly in Malta, perhaps on our own steam we were not capable of creating such a mind-set*" (GT, Interview 14).	The EU crisis of 2008 changed the priorities of the government (DGSOS, Interview 19). The accounting system is a back-office system, and is therefore not given priority when resources are limited. Projects are prioritised according to social and political objectives, and the accrual accounting project does not feature in these objectives (MITA1, Interview 27). When decisions are taken at Cabinet level to identify the priority projects which would fit in the fiscal targets of the government, with the limited funds available due to the squeeze following the crisis, the accrual accounting project is not amongst them (MITA1, Interview 27).
According to the MITA, the EU is now making its intentions clear with regards accrual accounting for the member states, and this "*will definitely re-ignite the spirit again."*	In the circumstances brought on by the crisis, it may have been undesirable to introduce unknowns in the operation of government: how would the new system affect the accounting data gathered and what would be the effect of the new legislation on the operations of the government and the departments? (DGSOS, Interview 19).

Positive factors	Negative factors
Besides the confusion that is caused by the ESA95 requirements and government accounting, the refinement that was required to adhere to ESA95 may have helped to change the mentality of government officials by introducing the accrual perspective (GT, Interview 14). The fact that the departments are required to regularly compile accrual data may have helped raise awareness and thus increased the push for an accrual accounting system.	The fact that Eurostat requires accrual data but then accepts time-adjustments and patched-up cash-based reports is another negative factor (PAC2, Interview 6). Satisfying EU reporting requirements could be perceived as the target for using accrual accounting (AG, Interview 13), and since "*the EU is happy this way, and we are not infringing our obligations, it would be a waste of resources should we be scrupulous*" (XBO, Interview 25). "*Why bend over backwards?*" (PAC2, Interview 6) So it appears that the government is acting on the advice to wait until the EU requests any changes to the accounting system and then act accordingly (IAID, Interview 21; DCS8, Interview 26). While the requirements to adhere to ESA95 may have introduced the idea of accruals in the mentality of the finance officials, it may also act as a negative factor if assumed as a replacement to accrual accounting (GT, Interview 14; PS, Interview 9). This aspect is further explored in Chapter 7.
When the accounting reforms started in 1999, the intention of the government was to apply for EU membership, and it could be that certain decisions were taken to move away from old systems, perhaps "*the government wished to appear more progressive especially in the eyes of the EU*" (DCS1, Interview 7).	The small size of the country, with the accompanying problem of limited human resources, appears to be a factor that is negatively affecting the accounting reform process. According to Lüder (1992), one would expect accounting reforms to be more expensive and difficult to implement in larger countries. But the findings reveal that a small country would encounter other types of difficulties. The partner of the consulting audit firm describes the MFEI as "*extremely overstretched*": *They are grossly understaffed, with various initiatives, and I think that the last thing they want on their plate is to do this accrual accounting. (GT, Interview 14)* According to the Director General Strategy and Operations, the small size of the country and the corresponding limitation on the size of human capacities in the civil service, does not allow an official to specialise on just one issue and would need to be involved in a "*hundred and one things ... you name it all!*" (DGSOS, Interview 19).
Once part of the EU, it is felt that an accrual accounting system is compulsory for Malta to be comparable with other EU countries (XBO, Interview 25). Besides some problems it may have found to report its finances abroad, perhaps the government realised that the cash basis was not in line with the reality in the accountancy field, when it could be comparing itself with was happening in other governments and in the private sector (DCS2, Interview 10). The government has expressed its wish to move from the archaic cash-based system to a more modern one: "*on a commercial basis, to be like the private sector*" (DCS1, Interview 7).	The fact that the reform process has taken 13 years and the "*project is still shaky*" is not very encouraging (GT, Interview 14; NAO2, Interview 4; IAID, Interview 21). It exudes an impression of "*lethargy ... at all levels: politicians; civil service top; medium ... and even at EU level*" (DCS8, Interview 26).

Positive factors	**Negative factors**
The main stimuli are the requirements, or the need, for the government to move to better accounting practices and thus have a better picture of government finances (DCS5, Interview 20). The government is criticised for its cash-based system (DCS7, Interview 23), and the current reports are always susceptible to questions of completeness and transparency, therefore, indirectly, the private sector does influence the government to change its accounting system to a more transparent one (DCS1, Interview 7). Private audit firms engaged with the Treasury/MFEI may express their professional opinion in this respect (DCS1, Interview 7). This pressure from the private sector would give rise to a corresponding political pressure from the opposition (DCS1, Interview 7).	Politics is considered as another negative factor. Accrual accounting would require future planning and politicians would not wish to be bound in this way: *This year I want to tighten my belt, and before an election, I would want to loosen it a little bit. So the country would benefit from a three year plan, but the politician will lose votes and silly things like that. Whoever is in power will act like that. (DCS4, Interview 17)* The political aspect is very important and the cash-based system provides more control for politicians (DCS6, Interview 21). Perhaps accrual accounting reveals too much (XDGS, Interview 8) and "*transparent and more timely reporting may not be so desirable after all*" (DCS5, Interview 20). There is no real interest from higher levels, "*and they are considering political issues which would work against them*" (DCS4, Interview 17).
Following the Public Service Reform Report of 1989, various improvements have been carried out concerning the organisation structure and procedures of government, making it better prepared to undertake the accounting reform (DCS1, Interview 7). As an organisation, the government is "*more experienced and mature*" and "*more confident that the reform will work now*" (MITA1, Interview 27).	Another negative factor is the generic lack of knowledge as to accrual accounting (GT, Interview 14) and lack of professionalism in the departments with the majority of the DCS not being accountants (PAC1, Interview 5; XDGS, Interview 8). It is seen as useless to have an accrual accounting system being operated by staff that lack accounting knowledge (PS, Interview 9; AG, Interview 13; DCS1, Interview 7; DCS5, Interview 20). Of course, training could be provided but they would have no particular interest in accounting per se (DCS4, Interview 17). The level of salaries offered by the government would fail to attract professionals, and once trained in accounting, the private sector would prove to be more attractive (DCS1, Interview 7; DCS4, Interview 17). "*There are no rewards in pursuing that kind of commitment - politically and administratively*" (PAC2, Interview 6). The situation is aggravated when even top positions of divisions concerned with accounting are held by persons lacking a financial background: *If the government does not really want something to get done, that's the way to do it, by appointing persons who are not qualified to properly do the job.... because if you don't have suitable persons with enthusiasm towards the project, and they don't believe in it, then it's not going to happen. (XDGS, Interview 8)*
The most practical positive factor is that the present accounting system is outdated and up for replacement (DCS6, Interview 22; DCS7, Interview 23). The DAS uses technology of the 1990s; a technology that has outlived its life span, and as expertise in the old software dwindles, even the supplier may find problems to continue supporting it in the near future (MITA1, Interview 27). This imminent risk provides the government with the opportunity to upgrade the technology and simultaneously change its accounting system to an accrual basis.	The large cost involved to replace the accounting system together with the lack of funds, especially due to the economic crisis and the increasingly-restrictive deficit targets, are perceived by some as the main factor holding back the reform (DCS2, Interview 10; NAO1, Interview 15; NAO2, Interview 4; NSO, Interview 24). The ex-Director General Special Projects describes a constant "*fear of introducing accrual accounting because there were never enough funds*" (XDGS, Interview 8). But others see this only as an excuse and funds are never a problem when required (AG, Interview 13; PAC1, Interview 5; PAC2, Interview 6).

Positive factors	Negative factors
	Disagreements concerning the cost of the new system and/or specifications, resulting in the tender not being issued, was another negative factor (DGSOS, Interview 19; MITA1, Interview 27).
	Lack of communication, with the Ministries not being aware of the objective and scope of the work being done (DCS1, Interview 7; DCS8, Interview 26), indicates that the project is not being given due importance.
	The implementation is the political responsibility of the Minister. There needs to be a political decision. But there appears to be no political will to change and no funds are allocated for the project[55] (PAC1, Interview 5; PAC2, Interview 6). An important factor should be political leadership because that signals the commitment that there will be (PAC2, Interview 6).
	Fear of change and the resistance that is incumbent in human nature is another negative force (XDGS, Interview 8; PAC1, Interview 5; DGSOS, Interview 19). Combined with the "*pen pushing approach*" engrained in the civil service, things will appear to be happening when nothing is actually being done (PAC2, Interview 6).
	When "*the steering people changed*" in 2004, everything went back under review (MITA1, Interview 27). Will the same happen again in 2013 should the steering people be replaced under the new administration?

This chapter and the previous one present the findings from the empirical research carried out through interviews with government officials, supported by documentary research, as described in Chapter 2, to answer the first set of research questions presented by this study. After a short historical background, the accounting system of the Government of Malta is described, together with the anticipated accounting reforms and how these are being implemented. An attempt is made to identify the factors or variables underlying the change process as it takes place, together with the main actors effecting and/or affecting it.

[55] Refer to Table 5 in Chapter 4 (section 4.6.4) showing the funds allocated to the Project.

The combined effect of these factors and whether they create the right environment for the government to successfully achieve the anticipated reforms are analysed in Chapter 8, using Lüder's FMR Model (2002). But first, the IPSAS decision is investigated in the following chapter, as this is another part of the anticipated government accounting reform.

CHAPTER 6: ACCOUNTING STANDARDS FOR THE GOVERNMENT OF MALTA

1 INTRODUCTION

The previous two chapters describe the accounting reforms being carried out by the central government of Malta. One assignment of the Accrual Accounting Task Force was to design a set of accounting standards applicable for the Maltese government.

This chapter describes the findings relating to the design of the MGAS, and how eventually the objective changed over time resulting in a decision to adopt IPSAS, which accompanied the increased interest being shown by the EU with regards to IPSAS and their suitability for member states. These developments instigate the following questions, which the findings in this chapter tackle:

- What are the underlying factors that have led to the decision to adopt IPSAS?
- Why IPSAS and not some other accounting standards?
- How will this decision to adopt IPSAS affect the accounting reform process?
- Why is the EU considering IPSAS for its member states and what may be the possible outcome of this interest?

2 THE MALTA GOVERNMENT ACCOUNTING STANDARDS

The formulation of accrual accounting standards for government was considered as one of the first priorities for the Task Force, in order to lay down the rules for the desired output (GT, Interview 14). The Task Force set up a sub-committee, namely the MGAS Technical Advisory Committee. A public tender was issued, which was taken up by the private audit firm, Grant Thornton (GT, Interview 14; MITA1, Interview 27). The tender required the standard preparer: to ensure that the government standards were in line with international accounting trends; to use language that was understandable by non-accountants; and to make the standards applicable to the Maltese scenario.

They were called MGAS. The private audit firm's suggestion that MGAS should be styled on IPSAS was accepted by the Task Force, but IPSAS were very limited and did not cover all the International Accounting Standards (IAS) issued to date (GT, Interview 14). Some IPSAS were still at exposure draft stage; various studies were published, but there was a complete void on certain issues (GT, Interview 14).

The first set of MGAS were launched by the Minister of Finance in 2001, with a public announcement at the MFEI and a press conference (MITA1, Interview 27):

> *This is the first time in the history of the Maltese Government that Government Accounting Standards have been defined and will be applicable to all Departments and other relevant Government entities. The Malta Government Accounting Standards define accounting principles, conventions, rules and practices in the treatment of various accounting transactions generated by Government Departments ...* (DOI, 2001)

The first set of MGAS contained 19 standards, which were a "*hotch potch*" from the information available. In the absence of an IPSAS, exposure draft or study, the IAS were referred to directly (GT, Interview 14). Subsequently, Grant Thornton was entrusted to keep the MGAS updated, and it did this by following the developments that were made on IPSAS (GT, Interview 14). During the execution of its work, the audit firm had three points pending, which were subject to the decision of the Task Force:

a) The choice between benchmark and alternative treatments. The MGAS were not to contain any options so that all departments applied uniform rules;
b) The effective date of commencement; and
c) The applicability. Initially the MGAS were targeted for the pure public service, that is, the ministries and their departments. But the audit firm had suggested to extend their applicability to other government entities excluding companies[56], because from its experience with audits of various government entities, it had encountered some problems to comply with International Financial Reporting Standards (IFRS) because these are not written for the public sector[57].

The audit firm never received a definitive answer about these three issues, and to its knowledge, the MGAS are still in draft form, in that they are not yet effective (GT, Interview 14).

Accrual accounting has not yet been introduced at central government, but the MGAS were referred to when collecting accrual data using the templates and for the preparation of the trial accrual-based financial statements (GT, Interview 14). The role of the MGAS Technical Advisory Committee was "*to create a bridge*" between the conceptual content of the

[56] Companies are regulated by the Companies Act 1995 and compliance with IFRS is compulsory.
[57] The audit firm felt that corporations, authorities, local councils and all government entities should consider MGAS applicability (GT, Interview 14). The firm recognised that this would depend on the ultimate objective of the government as to the level of consolidation because "*obviously, you would need to have common rules in order to consolidate, otherwise you will have a problem*" (GT, Interview 14).

standards and actual application, in the form of more pragmatic directives as to policies and procedures[58] (MITA1, Interview 27). The Committee relied on recommendations made by outside contractors appointed to prepare the underlying studies, for example, Ernst and Young were appointed to carry out the study on fixed assets of the government (MITA1, Interview 27).

The MGAS were an adaptation of IPSAS and IFRS, and there were no radical changes (MITA1, Interview 27). The ex-Chairman of the Task Force (Interview 8) described the MGAS as a "*simplified version*" of IPSAS and IFRS:

> *MGAS were created to be more specific for Malta. A sub-set extracted from the jungle of standards available. A simpler version which makes people more compliant.*

The circulars of the MGAS Committee were the procedure manual required for implementation of the standards by the government departments, bearing in mind that most of the people in the accounting function are not accountants.

The 2004 amendment of the FAA Act was done with the intention to publish the MGAS in the Government Gazette so that they become legally binding (XDGS, Interview 8). But the MGAS were never published and were not compulsory. They were guidelines that no one was obliged to follow, and effectively they were never used except by the Treasury in the preparation of the trial financial statements (NAO2, Interview 4).

[58] For example, with reference to fixed assets, the Committee issued a circular detailing the procedures, how assets are valued, the minimum information required to compile a plant register, and the procedures required to update the information.

Once the MGAS were established by the MGAS Committee, they were passed on to the Financial Policy Directorate within the MFEI, and it was this unit's responsibility to chase the consulting audit firm for updates (XDGS, Interview 8). According to the ex-Director General Special Projects (Interview 8), the renewal of this contract could have triggered the question whether MGAS were needed when IPSAS and IFRS existed.

The PS (Interview 9) considered the work being done by the private audit firm as a cut-and-paste exercise; choosing elements of the IPSAS and calling them MGAS, which were then not recognised. As the IPSAS change, then the MGAS need to be updated. In his opinion, the whole process was a waste of money, trying to re-invent the wheel and causing more confusion. He decided that it would be better to work within a structure that was internationally recognised.

In February 2011, the members of the Task Force received an e-mail from the PS (the chairman) to the effect that the accrual accounting reform is to be compliant with IPSAS, referring to IFRS in their absence (DGA, Interview 2).

The MGAS Committee was renamed the IPSAS Committee, and started being chaired by the PS. The Financial Policy Directorate within the MFEI is the policy arm of the MFEI, concerned with information management for the government, and is therefore involved in a wide spectrum of areas (DFPDA, Interview 12). According to the Director of this unit (Interview 12), the main drive for the adoption of IPSAS is to provide a stronger financial reporting framework based on international compatible standards:

> *We will adopt standards that already exist and that talk internationally. We do not need to invent our own standards if there are no valid reasons. I don't think that a small country on the face of the earth need have its own accounting standards.*

3 THE IPSAS DECISION

> ***It's a question of harmonisation; it's a question of recognition; it's a question of credibility.*** (PS, Interview 9)

The PS (Interview 9) firmly believes that if international acceptable standards exist, these should be used because they give you credibility. It does not make sense to him to take such standards, change their physiognomy, and call them something else - MGAS. No one knows what the MGAS are, even though they are based on IPSAS. It is not necessary for Malta to have its own accounting standards simply because it is a separate jurisdiction. Malta does not make up its own standards for other areas. As an example, he gave the NSO which uses international standards to prepare statistical reports, otherwise they would not be acceptable by international organisations like Eurostat, the UN, the OECD and the IMF. The PS insists that: *"home grown measures are simply not recognised by these organisations, even for labour statistics*".

According to the PS (Interview 9), Malta needs to be recognised by international organisations, and by respectable and developed countries like "*the US, the UK, Germany and the Nordic countries. And recognition is gained by using international standards*". He perceives such countries as role models with a sound economy. Whether or not these countries use or refer to IPSAS seems irrelevant to him.

The movement in the EU is towards adopting the IPSAS, "*but this has nothing to do with my decision*", insists the PS (Interview 9). He is sure that other countries are migrating towards these standards, and, therefore, Malta should do likewise.

According to the PS, the MFEI need not bother to write accounting standards because it can never be as credible as the IASB and the IFAC. These two bodies are practically authorities; they are the experts in accounting standards, and not the MFEI: "*Can I be as credible as the IASB?"* (PS, Interview 9)

On the other hand, the IAID (Interview 21) takes the IFAC and the IPSASB "*with a pinch of salt*" because she recognises that they have a personal interest in promoting their standards:

> *The more they complicate things, the more they create work for themselves. The IFAC is hijacked by top people of the Big Four. Complicate, so that few people understand the new system, and I will reign supreme. This is my gut feeling.*

But this "*does not mean that whatever they say is rubbish*", and the IAID (Interview 21) still examines their pronouncements to identify any relevant and applicable information.

The PS (Interview 9) emphasised the importance of credibility, stating that "*the economic survival of the country is partly dependent on its credibility*". In his view, this credibility depends on the system of governance, and is part of the government structure; in order for a country to be competitive in an international market, its system of governance counts. It needs to be recognised by its international counterparts unless it is an autocracy. Without specifically referring to accounting, let alone IPSAS (he is not an accountant), he said: "*I am dependent on someone else, and this person recognises these standards and not something that I have invented"*. He concluded that Malta is aspiring to work and compete, and therefore, international recognition is of utmost importance.

According to the IAID (Interview 21), there was no decision to adopt the IPSAS, but the move away from MGAS to IPSAS was simply the result of a discussion held at a meeting chaired by the PS. The Director Financial Policy (Interview 12) stated that the issue about accounting standards was "*discussed internally*" and it was "*unanimously agreed*" that since the differences between MGAS and IPSAS were minimal, then "*we might as well go for an international framework*". "*The IPSAS decision came naturally*", according to this Director (Interview 12).

While the MGAS started being done to simplify things, the NAO1 (Interview 15) thinks that it was realised that the adoption of internationally accepted standards would provide more credibility. "*Or it could simply be a question of not re-inventing the wheel*", as the MGAS were not really required but could simply be replaced by MFEI circulars specifying which options will be adopted from those offered by an IPSAS (NAO2, Interview 4).

The Treasury officials (Interviews 2, 13) confirmed that no studies were carried out to check the suitability of IPSAS for the country and they have no evidence that the IPSAS would produce valid results, but the thrust was felt for IPSAS adoption and "*we have succumbed to EU pressure*" (AG, Interview 13). But the PS (Interview 9) specifically denied that EU pressure had affected his decision.

The NAO1 (Interview 15) believes that the decision would not be based solely on "*any pressure*", after all, in his opinion, the EU and the IMF are not exerting **enough** pressure for IPSAS adoption, especially in the current financial crisis. The NAO2 (Interview 4) does not think that there has been any pressure to go for IPSAS, but IPSAS were chosen simply because they are international standards. When one considers the benefits gained through

IFRS in the private sector, "*it is much simpler like this than adopting your own standards*" (NAO2, Interview 4).

The two PAC members (Interviews 5, 6) claimed that they were not aware of the MGAS project, let alone about the IPSAS decision. However, they agreed that any standards that are adopted should be based on international criteria in order to satisfy international requirements, especially as EU members. The PAC members suggest that Malta should look at what other countries are doing, and adapt whatever it can. It need not re-invent the wheel, but adapt such standards, that apply to all countries, for the situation in Malta:

> *Our role is to see how we adapt them … I presume that they are correct since they are international standards, prepared by experts, and have been accepted by other countries in a general manner.* (PAC1, Interview 5)

3.1 The objectives of achieving IPSAS-compatability

For the NAO1 (Interview 15), it is "*very clear and obvious*" that the adoption of IPSAS will add accountability and credibility to the government's financial system. The AG (Interview 13) acknowledges transparency and accountability as objectives for adopting IPSAS, but he considers credibility with international organisations as extremely important, especially now with the present drive in favour of IPSAS by the EU Commission:

> *Once you say that you are adopting IPSAS, there is already a certain 'relaxation' ... **just saying it is already a very big step**.*

Only two DCS (Interviews 7, 10) were aware of the IPSAS adoption, but all nine of them applauded the decision taken by the MFEI:

> *Credibility is one advantage with adopting international standards. And this is what globalisation requires: that we are open and not fenced off on our own. It will be advantageous for our business with foreign countries. (DCS4, Interview 16)*

The NAO1 (Interview 15) and the IAID (Interview 21) feel that credibility at a local level is more important, and that transparency and accountability are important tools that would still be needed even if the country was not a member of the EU. The NAO2 (Interview 4) agrees that transparency and accountability are the reasons why international standards are adopted - "*both are important and interlinked ... and are the two key objectives of NPM*". But he would go beyond accounting standards and publish performance indicators with the financial statements that disclose the level of output and outcomes.

The IAID (Interview 21) thinks that the benefits of transparency and accountability exceed those from comparability, while the Technical officer of the MIA (Interview 1) does not think that comparability is important for a government. On the other hand, the DGA (Interview 2) emphasised the importance of comparability, especially since the country's performance with other EU member states affects its eligibility for EU funds. In her opinion, it is vital for the EU to use a common yardstick when comparing economic data of the member states, "*and this means that all countries need to abide by the same standards*".

For the ex-Director General Special Projects (Interview 8), comparability is a management tool that supersedes accountability and transparency. He thinks that once countries start adopting IPSAS, the next step would be that the EU will start closing on the options that are available in order to ensure convergence.

The DGA (Interview 2) firmly believes that the availability of IPSAS facilitates and promotes accrual accounting in government, and also facilitates convergence of accounting systems between countries. The fact that IPSAS are available should make governments more willing to adopt them and to change to an accrual accounting basis (DGA, Interview 2). But the IAID (Interview 21) and the NAO1 (Interview 15) are rather sceptic about this. The latter thinks that many governments still prefer the cash-basis, and that IPSAS will not encourage them to adopt accrual accounting, even if there is a need to have similar systems. While the IAID thinks that even though the EU has bothered to look into the suitability of IPSAS for its member states, it will be a long process due to political innuendoes.

Convergence is one of the main objectives of IPSAS, but the NAO2 (Interview 4) does not recognise that this has had a big impact to date. While IFRS can and have been imposed on private companies through the Companies Acts of the various countries, the NAO2 thinks that it would not be easy to impose IPSAS on governments because this would imply interference with a government's sovereignty. IPSAS adoption by the EU member states is one way of mitigating the differences between the accounting used in the different countries, because in the opinion of the MITA (Interview 27), such differences can never be eliminated. But at least they will create some consistency amongst government reporting.

3.2 Why IPSAS?

"*Why not IPSAS?*" The IPSAS are "*tailor made*" for public administration and thus "*it is obvious*" for the DGA (Interview 2) to refer to such specialised guidance. The AG (Interview 13) and the NAO1 (Interview 15) agree, with the latter describing it as "*the logical choice*", while the former stating that "*after all, the IPSAS are based on IFRS*".

Even the PS (Interview 9) considers IPSAS as applying specifically for the public sector, while IFRS were written for business and are, therefore, "*not exactly transposable for the public sector*". But the fact that IPSAS are linked with IFRS is considered as positive (DFPDA, Interview 12).

The NAO2 (Interview 4) definitely prefers IPSAS over IFRS, since adjustments would be necessary to adapt the latter for the public sector. He thinks that the MGAS would have been more flexible and applicable for Malta, with the advantage of being more simple, but they "*lacked the brand name*". The NAO2 (Interview 4) describes IPSAS as "*the best standards possible*" because they are issued by a reputable body and therefore presumes that *"they have been well-studied and have not been issued ad hoc*". He admits to judging the quality of the standards by the "*brand*" and not by looking at experiences of other countries or by actually reading the standards. His only reserve is that since the majority of members of the standard-setting body are from the private sector, there may be areas of the standards that would not be so easily applicable for the public sector.

The IAID (Interview 21) also prefers IPSAS over IFRS because even though the accounting profession in Malta is IFRS-trained, "*we are followers*" and thus should follow on the recommendations of the EU. According to this Director, given that the bulk of EU member states are Continental European, then the EU would not favour the UK model that uses IFRS.

One DCS (Interview 10) thinks that it does not matter whether a government uses standards for business or for the public sector, as long as the standards chosen are internationally recognised, so that it would not have any issues with international organisations. He pointed out that IPSAS are acceptable because they are internationally recognised and the Government should apply them if it thinks that their adoption will not be a problem. In his opinion, the Government should examine any issues that have been encountered by other countries when applying IPSAS, but it should also bear in mind that the problem may lie in the country concerned and not in the standards themselves.

At ministry level, none of the DCS interviewed have read IPSAS and do not see any requirement to do so because they are guided by the central MFEI and act on the guidance provided by the circulars (DCS8, Interview 26). *"The MFEI and Treasury circulars serve as our standards*" (DCS9, Interview 28). This emphasises the importance of the procedure manual that is described later on.

Whenever a new government entity is set up, it appears that neither MGAS nor IPSAS are ever considered as an alternative to IFRS. The partner of the consulting audit firm (Interview 14) revealed that from experience of auditing such bodies, their Boards see IFRS adoption as "*an automatic choice"*, and are not aware that certain IFRS treatments would not cater for non-commercial transactions.

The Technical Officer of the MIA (Interview 1) pointed out that even small companies encounter problems to implement IFRS, so he "*can foresee certain issues with application of IFRS in the Public Sector, for example, tax revenues and pension liabilities - these would pose a problem".* Being "*a firm believer in IFRS*", the Technical Officer of the MIA (Interview 1) found the question "*Why IPSAS?*" as rather challenging, and confessed that he would need to examine IPSAS in more detail to be able to answer the question. The only factor that appears to make IPSAS attractive is that they are international standards issued by an internationally recognised body.

The partner of the consulting audit firm (Interview 14) recognises that some IPSAS and IFRS are "*practically identical except for certain terminology and examples*". He referred to prior practice of the IASB when each standard used to have a paragraph at the end noting the applicability of the standard for the public sector. He admits that, for the accountant who is well-versed in IFRS, such a practice was "*less scary*" than being faced with a whole new set of standards: "*but I still think that it makes sense that you have a separate framework on your shelf which you can say: this is what applies*".

3.3 IPSAS and Sovereignty

According to the PS (Interview 9), sovereignty has nothing to do with the decision to adopt IPSAS. In fact, he considers it a sovereign decision to adopt IPSAS. Once a country adopts international standards of any kind, it can then influence their content and requirements by participating in their development. The IAID (Interview 21) agrees since "*many countries are represented on IFAC, and then it all depends on their lobbying*".

Of course, when a country adopts international standards, it always loses the latitude, that is, it loses its freedom from restrictions (PS, Interview 9). The PS distinguishes between sovereignty and latitude and concludes that "*by accepting international standards, you distinguish between a serious country and a banana republic*".

The fact that IPSAS are set by a private body does not bother the AG (Interview 13), and he does not see it as a question of undermining the Minister of Finance's power to set accounting standards. According to the AG, the policy decision to adopt IPSAS has already been taken, and the Minister has the power to make the choices that are offered by IPSAS.

The IPSAS are issued by IPSASB, under IFAC's umbrella, and IFAC embodies the accounting profession. The ex-Director General Special Projects (Interview 8) does not think that the government is giving up its sovereignty "*just because of this*", on the other hand, the government would be showing how serious it is by accepting standards set by an independent body. However, the NAO2 (Interview 4) thinks that, unlike Malta, the reluctance shown by other governments to adopt IPSAS is mainly because their acceptance would encroach on their sovereignty, and that it would be difficult to make them mandatory unless enforced by a supranational body like the EU. This is in line with the views expressed by Lüder and Jones (2003) and Chan (2003).

A PAC member (Interview 6) perceives such objections "*as an excuse not to do anything*". "*Arguments about sovereignty are made so that the countries hold on to what they have*", according to the IAID (Interview 21):

> *We have been giving up a lot of 'sovereignties'! You shouldn't form part of the club then, if you find such objections. We have arrived to the point of giving up our sovereignty on the European Public Prosecutor when Justice and Home Affairs are the sacred cow of each county's jurisdiction ... let alone how you are going to report your accounts!*

The NAO1 (Interview 15) sees it as a give-and-take situation: governments lose a little bit of their sovereignty in exchange for tangible benefits:

> *It's like marriage. It was my decision to get married. Granted that you are losing some of your sovereignty, but you are gaining a lot of credibility in return by adopting acceptable accounting standards.*

One DCS (Interview 17) thinks that compared with other countries like Germany and the UK, Malta is "*too small*" to think in terms of sovereignty because the country's economy is too dependent on other countries.

But perhaps the willingness shown by the Government authorities to accept standards issued by an internationally recognised body, albeit from the private sector, is not an issue of sovereignty, but rather a question of giving credibility and legitimacy to procedures. The lack of accounting expertise in government has already been described. It is common practice for certain work and studies to be contracted out to private audit firms in order to make processes and reports legitimate (DGA, Interview 2; MITA1, Interview 27). The decision for the adoption of IPSAS by the Maltese government should, therefore, not be surprising.

3.4 Effect of IPSAS on the Reform Process

The AG (Interview 13) thinks that the adoption of IPSAS "*will help you to slowly achieve full accrual accounting*". The NAO1 (Interview 15) agrees that their adoption would give the reform process "*a push*", not in terms of time, but rather in terms of the quality of the reporting.

The NAO2 (Interview 4) fears, however, that the adoption of IPSAS would only make the reform process more complicated. While he acknowledges that certain departments "*would not need to apply more than 5% of the IPSAS*", the system would have to cater for all possible situations concerning the concepts in the standards.

The DGA (Interview 2) feels that the adoption of IPSAS "*was a push forward*", but the momentum will only "*definitely increase with EU enforcement*". The PS (Interview 9) does not think that the accounting reform process actually needs any impetus from EU pressure because the decision to go for "*a wholesale adoption*" of IPSAS has been taken, and all that needs to be done is to check and decide on the alternatives offered by the standards. But the condition of the IPSAS Committee shows that the importance for this work to be carried out before the actual implementation of accrual accounting is not unanimously recognised.

The IAID (Interview 21) does not think that the decision to go for IPSAS will affect the reform process, because the decision was taken lightly to give the impression that the government is implementing accrual accounting to counteract local criticism:

> *Adopting the IPSAS will imply that you are adopting accrual accounting. But it's all pie in the sky. We are saying these things in order to give the impression that we are going for accrual accounting. Why? Because there is the impression in this country that if you go for accrual accounting there is more transparency and accountability. But it's all perception ... I think that we have an inferiority complex because we use cash basis. When you talk to certain people who are not knowledgeable, you realise that they think that we are the only country that is using the cash basis, and that all other countries are accrual-based.*

The NSO (Interview 24) is not interested in the government accounting reforms and clarified that his office is only "*involved in IPSAS because Eurostat is pushing towards them*". He admits, however, that the current division between the cash-based accounting system and the accrual data on the templates may not be attractive, and the latter may be integrated in one system thus providing "*more inbuilt checks*". IPSAS adoption may, therefore, help the Treasury to push the government to take the next step in the accounting reform process and acquire a new accounting system that would give him *"more peace of mind"* (NSO, Interview 24).

A PAC member (Interview 6) is "*very cynical about these things*" and expects the government to just pretend that it has adopted IPSAS: "*you do not start an accrual system and tell them that you are adopting IPSAS*". This in fact reflects the AG's plan to make the IPSAS applicable for the current patched-up cash accounting system by issuing a legal notice, without actually implementing an accrual accounting system (refer to Chapter 4 sections 4.5.7 and 4.6.2).

3.5 Different Standards and Consolidation

Chapter 5 introduced the problem that could arise when consolidating financial statements prepared using different accounting standards. Local Councils and other government entities that prepare accrual-based financial statements have adopted IFRS, while the government departments and ministries will move towards IPSAS. The AG (Interview 13) does not believe that there should be an "*enormous problem*" because the Treasury is used to dealing with different systems and different standards. He does appreciate that standards need to be harmonised as much as possible for consolidation, but he does not anticipate any difficulty.

According to the AG (Interview 13), Local Councils should be IPSAS-compliant because they are part of government. He pointed out that there are two types of government entities, and IPSAS would not appeal to market-oriented entities, which may prove problematic, but overall he does "*not see the consolidation as something insurmountable*".

4 THE IPSAS COMMITTEE

According to Lüder and Jones (2003), it would be ideal for a committee to be established prior to implementation, with the task of preparing policy papers. The committee's task would be ongoing, during and after implementation, so as to keep up to date with developments.

In Malta, the IPSAS Committee has been set up prior to implementation. But the AG (Interview 13) is waiting for the roles of the individuals on this committee to be identified: "*it should be clear who is going to do what*". He also pointed out that the committee should start meeting regularly and "*not ad hoc*".

According to the records of the NAO, the last meeting of the MGAS Committee was held in November 2009. Following the decision to adopt IPSAS, the NAO2 (Interview 4) was not sure whether a change in name for the committee was required or whether the committee no longer had a function. It appears that the auditor was not aware that the IPSAS Committee was set up on 31st August 2011 and had no record of any meetings. According to the Director Financial Policy (Interview 12), the committee is made up of the PS, the Financial Policy Unit, the Treasury, the Budget Office, the IAID, the NSO and the NAO. The MITA (Interview 27) claims to be a member of this committee, because "*normally, we are always the same group of people*".

The DGA (Interview 2) is expecting central guidance on the accounting reform from the IPSAS Committee: "*a committee that has been established but is not functioning*". The IPSAS Committee needs to go through each standard to review and analyse the financial policy implications (AG, Interview 13). The DGA (Interview 2) felt frustrated that this work has not started. She considers it important that discussions are held and policy decisions taken regarding, for example, valuation and recognition of tangibles and consolidation issues. Such studies and decisions should be taken immediately, before actual implementation, but she regrets that this urgency is not recognised by higher levels of administration.

The function of the IPSAS Committee would be to continuously adapt the national norms and rules to reflect the continuously changing IPSAS (AG, Interview 13). While the PS (Interview 9) is expecting the Treasury to carry out this function, the AG (Interview 13) thinks that the IPSAS Committee may need to refer to external sources.

The IPSAS Committee will decide on government accounting policy when choosing from the various options offered by IPSAS. While the Treasury will prepare and issue the circulars regarding the implementation of the policy. The circulars will thus explain and highlight the chosen accounting policies, using language that is understandable by the departments, and the circulars will be the content of the "*procedure manual*" used across government. The Treasury will act as a sort of "*go between*" between the Committee and the departments (AG, Interview 13). The procedure manual will also ensure standardisation so that departments apply the same rules (NAO1, Interview 15).

As already discussed in Chapter 5, the AG (Interview 13) is adamant that there is a division between policy and execution. He also thinks that the Financial Policy Unit within the MFEI should take on the role of preparing the procedure manual, but does not know whether it has the required resources.

However, as also described in Chapter 5, a more proactive role is expected from the Treasury: the procedure manual is considered as a crucial role of the Treasury, and it would also be desirable for the Treasury to lead the IPSAS Committee (NAO1, Interview 15). It is the opinion of the NAO1 (Interview 15) that, due to its experience and expertise, the Treasury would not need external sources.

The NAO2 (Interview 4) thinks that the committee can be inter-governmental, which could seek external expert advice when required. However, according to the auditor, if the government had an accountant in each ministry, it would have the required expertise. Internet facilitates awareness of changes in IPSAS, and the NAO2 recommends the appointment of one official who is responsible, and who would meet the Committee at least once a year to keep them updated. Implementation of any changes would then require the issue of a directive "*most probably, from the Treasury*" (NAO2, Interview 4).

The problem is that the government does not have an accountant in each Ministry, let alone in each department, which is considered by the AG (Interview 13) as "*a very serious situation*" that stretches widely the role of the Treasury to bridge the IPSAS Committee and the departments. The situation emphasises the importance of the procedure manual, the preparation of which is compared by the AG to the work that was done on the MGAS:

> *How can we make them understand that in order to adopt a standard they need to do such and such a thing? You would need to water it down in laymen terms: spell it out in a-b-c, and hopefully, the department would adopt the necessary methodology. One of the objectives of the MGAS was exactly that, and we have to do it for IPSAS.*

In spite of the importance of the preparatory work required by the IPSAS Committee, everything has been put on hold pending the EU decision concerning the suitability of IPSAS for member states:

> *But since the EU decision is still pending, we are waiting for the EU to issue the direction first ... Now we have to see what the EU outcome will be.* (MITA1, Interview 27)

5 IPSAS AND THE EU

On 6th May 2011, the Committee on Economic and Monetary Affairs proposed a directive requiring that "*Member states shall move to adopt IPSAS within three years of this Directive coming into force*"[59]. On 8th November 2011, the Council Directive 2011/85 was issued, with Art. 16(3) stating that "*the Commission shall assess the suitability of IPSAS for member states by 31st December 2012*".

According to the NSO (Interview 24), Eurostat will take into consideration the feedback from its public consultation and the results from Ernst & Young's survey for its assessment. It will also take into consideration the experiences of countries that have already adopted the IPSAS, and even refer to the IPSASB's study of 2005 on the convergence of IPSAS with ESA and GFS, which study is currently being updated.

But the AG (Interview 13) is convinced that the decision for member states to adopt the IPSAS has already been taken by the EU, even though the Directive only mentions a feasibility study, because:

> *... when something is mentioned, this would normally mean that it will be done. Some things are described as 'voluntary', which in practice would mean 'compulsory'. This is the normal process of things.*

The AG (Interview 13) describes the adoption of IPSAS by member states as a "*mammoth task*" because none of the countries are prepared for these standards, which are difficult in

[59] COM(2010)0523 - c/-0397/2020 - 2010/0277(NLE)

themselves: *"Easy to say but once you start reading the standards you think, but how am I going to get there?!"*

It is common knowledge that the EU's "Six-pack legislation" and the attendant November 2011 Directive are part of the EU's response to the financial crisis and the economic crisis that followed it[60]. The Treasury Officials (Interviews 2, 13) believe that the reason why IPSAS are being considered by the EU is to ensure that the government accounting data used for statistical reporting is more reliable, and to facilitate the work of the NSO when it prepares its statistical reports for Eurostat. According to the AG (Interview 13) and the NAO2 (Interview 4), given that the ESA95 is also accrual-based, the advantage of having an accrual-based accounting system is that less adjustments would need to done by the NSO.

The NAO1 (Interview 15) thinks that IPSAS adoption will only provide a "*new impetus*" to the accounting reform process if adoption becomes mandatory, because anything voluntary remains "*anno mai*". But he fears that the EU will face "*a very though opposition*" to this "*cultural shift*", and thinks that this may be the reason why the actual EU Directive took a softer approach than that proposed. From his international exposure, he feels that "*there is definitely lack of political will from certain larger countries, like France*", which he described as the country that most treasures the issue of sovereignty. The NAO1 is also afraid that the EU will find opposition with regards to the forthcoming "*missions*".

[60] Due to what happened in Greece, the financial crisis and because they played around with their accounts, the Six-pack legislation was drawn up, and there is this push for the governments to adopt the IPSAS. *(NSO, Interview 24)*
Due to the Eurozone crisis, the EU has become aware that the countries are not up to it in their reporting - everyone hiding things in a rampant way - so now it is making a study to see how it can introduce accounting methodologies that are harmonised within government. *(MITA1, Interview 27)*
The EU Commission has reprimanded the Eurostat on this issue. Where was Eurostat? And they are going to revise their procedures. The Eurostat is a Directorate of the EU Commission, like the OLAF. A very important EU agency that has not done its work well. *(IAID, Interview 21)*

The fact that only a handful of countries have actually adopted IPSAS reveals that there is "*a bit of a political issue*" regarding their adoption, which makes the EU's involvement very interesting for the Technical Officer of the MIA (Interview 1). His "*gut-feeling*" is that it would be highly unlikely that IPSAS become mandatory unless the major countries, like Germany and France, are on board. But the MITA (Interview 27) thinks that "*there is a serious mandate from the very top by the larger countries to push for IPSAS adoption*". He believes that a transitional period of three years maximum would be given to governments of member states in order to implement IPSAS, which "*should not cause an earthquake, since many EU countries have already implemented them or their equivalent*". The MITA expects that normal concessions would be allowed to member states that already have some form of accounting standards, but those that do not "*would have to pull their socks up*".

The partner of the consulting audit firm (Interview 14) pointed out that there are big issues to fully implement IPSAS, "*and not just in Malta*", for example, the valuation of heritage assets. He regards the decision to go for IPSAS as "*ambitious*" and still believes that the standards need to be adapted for the local scenario: *"as to language; and even to clarify on the benchmark and alternative".*

5.1 IPSAS Adoption-adaption: the ESA effect

The target is for full adoption of the IPSAS (PS, Interview 9; AG, Interview 13; DGA, Interview 2), or at least, it should be (NAO2, Interview 4), but the DGA (Interview 2) does not exclude the possibility that implementation may necessitate the exclusion of certain provisions. The NAO2 (Interview 4) thinks that either "*you are compliant or not*" and that "*you cannot just pick and choose*" unless valid reasons are given for non-compliance, otherwise the audit report would need to be qualified. The auditor admitted that he does not know the precise requirements of IPSAS and whether there are any requirements "*that would be nearly impossible to apply*".

The fact that the EU itself had commissioned a study on the feasibility of IPSAS for the EU member states, which standards are supposedly all beneficial to governments, made the IAID (Interview 21) re-consider full IPSAS adoption and not "*put all the IPSAS in one measure*". She suggests that IPSAS should be studied and analysed one by one, and that the government should only adopt those that add value.

The Treasury had requested the NSO to be represented on the IPSAS Committee so that the NSO can provide guidance as to the effect of IPSAS policies on the statistical deficit as reported according to ESA95 (DGA, Interview 2). The IAID (Interview 21) confirmed that this reported deficit is considered as the "*bottom line*" and the "*fear*" of the IPSAS effect on it is always felt during meetings. The IAID is disappointed that she "*did not manage to sell the idea that you can prepare a set of accounts for your benefit*".

In spite of the declarations for full adoption, the AG (Interview 13) has already decided not to adhere to IPSAS 6 when it comes to consolidation, but to refer to the ESA95 definition of 'General Government'. The NAO2 (Interview 4) agrees with this idea, in order "*to be practicable*", since Eurostat's requirements are more important than those of IPSAS. This issue has already been described in Chapter 5.

The NAO2 (Interview 4) pointed out that as the system stands now, more adjustments are required to make the cash-based data "*Eurostat-compliant*": "*such adjustments would be reduced if the government data is IPSAS-compliant*". But the NSO (Interview 24) pointed out that if the original deficit (referring to that reported in the government accounts) is reported using accrual accounting according to IPSAS or some other standard, adjustments are still required to convert it according to ESA95. He highlighted "*this drive for everyone to adopt IPSAS so that our data will be more in line with business accounts*" and the current convergence exercise of IPSAS and ESA95. The NSO pointed out that adjustments can be done in either IPSAS or ESA95 in order "*to move them closer together*", and stated that any adjustments to IPSAS would only concern public sector accounting and would not affect private sector accounting:

> *Bear in mind that with IPSAS we are talking about the accounts of the public sector, so if we change something in IPSAS, we would not be changing business accounting.*

It appears that the NSO is expecting a totally different IPSAS objective and/or a totally different type of accrual accounting for government. The fact that one of the objectives of the IPSASB is to build IPSAS on IFRS so that government accounting is more in line with business accounting appears to be irrelevant for the NSO. The NSO (Interview 24) does not require business-type of reporting, because in his opinion, the statistical reports prepared by his office are the accounts of the government because they are used by the government and the Commission for decision-making:

> *I think that 'statistics' is a misnomer. They are statistics, but at the end of the day, they are the accounts of the government. These reports are being used by the Commission and the government when taking decisions - then these are the accounts of the government. At the end of the day, it would not make any difference if the government adopts IPSAS - these will still remain, because decisions are taken on them.*

The perception about government versus national accounting is covered in more detail in Chapter 7.

Going back to the argument about converging IPSAS with ESA95, as an example, the NSO (Interview 24) referred to the treatment of government grants as advocated by IFRS, and stated that allocating the income over the lifetime of the asset acquired does not make economic sense to him: "*We don't do this in ESA!*" He stated that Eurostat and the IPSASB have to tackle such issues by going through each IPSAS to check whether it is applicable, and contradicted his earlier statement about convergence by declaring that changes would only be one-sided, that is, in IPSAS. And the sensitive political spot appears to be the definition of the reporting entity:

> *The definition of General Government in ESA is definitely not going to change. ... If an IPSAS is not applicable, the Eurostat will not change the ESA. And even the countries will not accept such changes. There was a lot of hassle when Eurostat suggested to change the 50% ratio in the EBU classification for the revised ESA. But the member countries objected. Obviously, everyone has problems, and not only us. It was being suggested to widen the definition to include more entities in General Government. We would have had to include Enemalta, Water Services. So the present definition will remain.* (NSO, Interview 24)

However, the NSO (Interview 24), who is not an accountant, is convinced that some IPSAS may actually help his ESA95 exercise because otherwise Eurostat would not be bothering with them.

The EU Commission has the power to decide the type of reporting that EU member states should submit to Eurostat, and according to the IAID (Interview 21), the Commission should shift away from economists "*because these do not solve economic problem*s". She perceives Eurostat and its reporting requirements as "*hijacked by economists*" when government reporting cannot be done in an economic way. According to the IAID, the IPSASB have seized this opportune moment "*to sell their product*", and their marketing worked because the EU Commission has gone back to the drawing board to consider the IPSAS.

While acknowledging that IPSAS can be as complicated as the economics aspect, the IAID (Interview 21), being an accountant herself, thinks that accounting concepts are not so abstract as economic concepts, and that this would make government reporting more understandable:

> *Something positive could come out of this. Perhaps once governments start preparing financial statements using IPSAS, then the results shown here would be used for EU reporting instead of the current statistics, and we could be hitting two birds with one stone.*

This goes contrary to what the NSO believes and against the line of thought of all the other officials interviewed. The IAID (Interview 21) trusts that the EU Commission really believes that accrual accounting would provide more control and accountability in the system since it had adopted accrual accounting itself in response to its scandals (Grossi and Soverchia, 2011), or

> *Was it just a decision taken ad hoc to appear to be doing something? Or does the EU Commission really believe that accrual accounting would provide more rigour?*

According to a PAC member (Interview 6), all this talk about controlling government spending is just lip service, because control can be exercised even with a cash-based system, and any country with whatever type of accounting system can still "*fudge*" the figures.

5.2 The EU's reaction to the crisis

According to Makaronidis (2012)[61], lack of fiscal transparency was one of the key issues behind the financial and economic crisis that hit the EU from 2008. Makaronidis identified lack of reliability in data provided to policy makers by member states and statistics offices as one of the problems leading to lack of fiscal transparency. Lack of reliability resulted in this data being subject to significant revisions, especially with regards to the boundary of government as defined in the ESA95 that identifies the entities to be included in the statistical reports submitted by member states to Eurostat (Hughes, 2012).

The Six-Pack legislation was the EU's response to the crisis in improving economic governance, which instigated a series of initiatives. First of all, Eurostat's role[62] in providing the data to policy makers was reinforced, giving Eurostat new powers to carry out financial audits and investigations on statistics offices and government administration in general; and to propose to the Council fines on member states.

In view of its new powers, Eurostat decided to implement a robust quality management and audit system, starting from the source of the data that is used for the compilation of statistics, to the transmission process from the sources to the statistics offices. It also decided to promote the harmonisation of public sector accounting across the EU including "*the very idea of accrual-based public sector accounting*" (Makaronidis, 2012).

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[61] Head of the GFS quality management and government accounting unit within DG Eurostat, speaking at ACCA's 4th International Public Sector Conference, *'Rebalancing the economy - boosting growth'*, held in London, on 13th December 2012.

[62] COUNCIL REGULATION (EC) No 479/2009 of 25 May 2009 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community.

Makaronidis (2012) identified three problems for Eurostat's task:

a) Fiscal surveillance and budget co-ordination at EU level is based on accruals while most budgetary policy at national level is often based on cash data;
b) Maastricht debt and deficit are GFS based on accrual data, which means that GFS data is a result of transforming cash data into "*some sort of accruals*"; and
c) The accounting data bases of the member states are not quite comparable because the underlying public sector accounting standards are very different across EU member states and rather "*country-specific*".

The Budgetary Framework Directive (2011/85/EU), which was part of the Six-Pack Legislation, addressed two requirements from member states: to implement public sector accounting systems covering all sectors of General Government as defined in the ESA95, which generate the accrual data needed for ESA purposes[63]; and to subject national public sector accounting systems to internal control and external audit.

The same 2011 Directive required Eurostat to assess the suitability of IPSAS for EU member states, in order to see whether it could be possible for all member states to apply a single set of public sector accounting standards. The objective of such harmonisation is to improve accountability, efficiency and effectiveness of public sector management; it will indirectly also improve the efficiency and effectiveness of public sector audit; and better fiscal transparency is expected to affect the information available to financial markets and their functioning (Makaronidis, 2012).

[63]As Makaronidis (2012) pointed out, this regulation does not clarify whether the public sector accounting systems themselves need to be accrual-based, or whether the accounting systems are able to generate the accrual data needed for ESA purposes.

In order to carry out this assessment, Eurostat commissioned a survey, carried out a public consultation, and set up a task force.

According to Makaronidis (2012), the results of Ernst and Young's (2013) survey confirm what Eurostat witnesses during its visits to member states, in that "*it is all very different!*" - and not just between the (then) 27 member states but even between sub-sectors in the same member state, and sometimes even within the same sub-sector of the same member state. Differences also exist in the interpretation of the standards between the various entities that are classified within a certain sector of general government[64] (Makaronidis, 2012).

During the period February to May 2012, Eurostat ran a public consultation through its website in order to gather the views of the key players and stakeholders in the area of public sector accounting standards regarding the suitability of the IPSAS for member states. The result of the consultation was published on Eurostat's website on 18th December 2012.

Eurostat set up a Task Force to examine the technical aspects of the IPSAS, with 18 member states participating on a voluntary basis, and with the IPSASB and the IMF as observers. The Task Force includes various experts from Ministries of Finance, National standard setters and National Statistics Institutions (NSIs). Makaronidis (2012) explained how the Task Force had scrutinised all 32 IPSAS and observed that not all the standards are suitable for "*direct and immediate implementation*", due to technical and conceptual issues, and even "*government issues in general affecting certain standards in particular*". The Commission's Staff working

[64] Differences in the interpretation of standards are not a peculiarity of the public sector. Being principles-based, the IFRS of the private sector require an element of judgement in their interpretation. The IASB's Conceptual Framework is a framework within which judgement to resolve accounting issues can be made, but it is not the panacea for all accounting problems. Differences in interpretation exist also in the private sector, necessitating the existence of the IFRS Interpretations Committee within the IASB.

document has already identified the core set of IPSAS that can be adopted without any alterations, while it has highlighted other IPSAS that may need slight amendments and others that would require substantial changes (SWD(2013)57).

5.3 EPSAS: the possible outcome of Eurostat's study on IPSAS

On 6th March 2013, the EU Commission presented its formal report (COM(2013)114) to the Council and the European Parliament, which report sets out its findings and suggestions regarding the suitability of IPSAS for the member states. The final decision and further action now rests with the European Parliament and the Council, "*which will take the more political view on the results*" of this work (Makaronidis, 2012).

Given that the main sources of the GFS are the accounting records and reports of the various government entities, reliable government financial accounts are essential for the preparation of national accounts. According to the Commission's report, incidences of inappropriate financial reporting by some member states have shown that the system for fiscal statistics has not sufficiently mitigated the risk of substandard quality data being notified to Eurostat. The Commission believes that the current system of reconciling the data from the various public sector accounting systems at micro level with the data submitted according to ESA95 at macro level, may no longer be sustainable.

The reporting framework for fiscal monitoring in the EU, that is the ESA95, is accrual-based, because it is believed that accrual accounting is economically sounder than cash accounting:

> *Accruals accounting is the only generally accepted information system that provides a complete and reliable picture of the financial and economic position and performance of a government ...* (COM(2013)114:3)

The Commission is therefore promoting the adoption of accrual accounting systems for the public sector to complement the cash accounting systems. Cash accounting systems are still considered important, particularly for the purposes of budgeting and budgetary control. The Commission persists, however, that:

> *The superiority of the accruals principle, whether for macro or micro fiscal monitoring, is indisputable. The macro level is already accruals based; harmonised accruals accounting is also essential at micro level.* (COM(2013)114:6)

The report also states that similar to private listed companies, government entities have an obligation towards market participants, that is owners of government debt securities and potential investors, to provide quality financial reporting. Therefore, since private sector accounting standards are harmonised within the EU, the same thing should apply for the public sector (COM(2013)114:6).

Eurostat is thus promoting a system of harmonised accrual-based accounting standards, consistent with ESA95, for all entities of the government sector. IPSAS are the only internationally recognised set of public sector accounting standards, and hence, their consideration.

Following the feedback from the participants in Eurostat's study, the Commission concluded that IPSAS are not suitable for direct implementation by the member states. The reasons given include: the alternative accounting treatments that IPSAS offer; the fact that IPSAS are still being developed; the question surrounding their governance; and IPSAS do not take sufficient account of specific needs, characteristics and interests of public sector reporting.

The Commission's report, for example, refers to the problem of the reporting entity definition in IPSAS that is not in line with the core concept of general government as defined in ESA95 (COM(2013)114). This is considered as a major issue. In spite of all this, the Commission's report expresses the understanding that IPSAS provide a good basis for the development of public sector accounting standards that would cater for the specific needs of the EU member states.

Since most member states have an issue with IPSASB's governance and due process, the EU Commission's report proposes that the EU sets up its own governance structure, which will need to have the necessary powers to legislate its own EPSAS. Makorinidis (2012) pointed out that "*these new structures and processes should create and maintain very close and regular links to the IPSASB*". He also emphasised the importance to maintain a minimum level of global comparability, "*especially as government bonds compete on global financial markets*", and therefore, unnecessary differences between EPSAS, IPSAS, IFRS and ESA95 should not be created.

Co-incidentally or not, the idea about the development of EPSAS had already been anticipated by two academics hailing from Austria and Germany, who took the initiative to set up a dedicated website[65] (EPSAS.eu). According to EPSAS.eu, significant improvement to the financial management of public entities is required "*in order to prevent future crises*". The adoption of an "*accrual, resource based*" accounting regime would provide comprehensive information on a public entity's financial situation. EPSAS.eu consider harmonised, accrual-

[65] The website is neither sponsored nor has it been instigated by Eurostat and/or the European Commission. EPSAS.eu is a joint project of the University of Hamburg and the University of Linz which was launched in order to inform about Eurostat's public consultation and the idea of introducing a uniform European public sector budgeting and accounting system in general. (Burth Andreas, e-mail correspondence dated 12/12/12)

based accounting standards as crucial to "*improve transparency, allow cross-border benchmarking, increase accountability of public decision-makers, and foster intergenerational equity in public entities' fiscal policy*". It is, therefore, opportune "*to promote uniform budgeting and accounting standards for public entities in the EU*".

The IPSAS framework does not include budgeting and budgetary control, but the IPSAS are still considered by EPSAS.eu as a "*possible starting point for*" an accrual-based "*European Public Sector Accounting System*". An endorsement procedure based on IPSAS, similar to what is already carried out regarding IFRS for the private sector, is considered as one reasonable approach for developing and implementing EPSAS (EPSAS.eu). However, it does not appear that any standards dealing with budgeting in the public sector are being considered by the EU, since, according to Makaronidis (2012), budgeting lies outside Eurostat's remit. According to Makaronidis (2012), Eurostat is only concerned with "*real and actual*" statistical data, and budgets and forecasts are not Eurostat's responsibility.

It is encouraging to note that the EU Commission does not intend to increase the administrative burden on its member states by its proposals. The possibility of referring to financial reporting data for the main EDP indicators would also be a positive move, but it is not clear whether the intention is to adapt the ESA95 or to adapt financial reporting to suit ESA95 concepts (COM(2013)114:5-6).

Finally, the EU Commission Report draws attention to the fact that a set of harmonised EPSAS on their own are not the solution to guarantee the quality of accounting data. The underlying governance structure needs to be strengthened and this needs strong political support, effective internal control and external financial audit.

6 SUMMARY

The Maltese Government used unmeasured resources to develop the MGAS. Albeit based on existing international reporting standards, the MGAS were more user-friendly for the government's operations. All this work was swept aside and it was decided to adopt the IPSAS directly. This decision was agreed upon by all the officials involved, because it is mainly believed that the MGAS do not have the '*brand name*' that would give the required credibility.

The Treasury Officials are aware that the work that needs to be done in order to implement IPSAS is basically the same that was being done on the MGAS, that is, choosing from the options available and simplifying the language when translating the technical details of each standard into a circular that can be issued to the line departments for actual implementation. The IPSAS Committee, however, does not appear to have proper terms of reference and is not functioning properly. Progress on the standards has in fact stalled, and due to the developments in the EU, the Committee is waiting for further directions to be issued by the EU before proceeding. This position then begs the question whether the "push" from the EU towards IPSAS did in fact play any part in the PS's decision to go for IPSAS, or not. The PS claims that it did not.

Arguments in favour of IPSAS were brought forth, but the fact that the IPSAS are based on IFRS seems to be a reassuring factor for the Maltese government officials. Sovereignty is not an issue, since the government officials consider the adoption of internationally recognised standards that are set by international professional bodies as the proper thing to do.

On the other hand, the authority of the IPSASB as a standard setter does not appear to be satisfactory for the majority of the other EU member states, leading the EU Commission to propose that the EU establishes its own governance structure to issue public standards that are particular for EU member states, namely the EPSAS. Of course, IPSAS will be used as a framework, but it appears that the IPSAS cannot simply be 'endorsed' like the IFRS were for the private sector, because there are technical, conceptual and, more importantly, government issues surrounding some of the standards.

The EPSAS are proposed as the possible outcome of the EU's work in its efforts to strengthen the budgetary framework of its member states in response to the crisis, but budgets and budgetary control are not within Eurostat's responsibilities as this Directorate is only concerned with statistics. The Eurostat does not want to create any unnecessary differences between EPSAS, IPSAS and IFRS - is more of the same then to be expected? The only possible difference may arise since Eurostat has included ESA95 in the equation. How will the ESA95 influence EPSAS development? Perhaps the accountancy profession is hoping for a reverse effect, that is for EPSAS to affect ESA95 requirements.

From MGAS to EPSAS - the ground is shifting for the government officials involved in the accounting reform at central level in Malta. It appears that the decision to abandon the MGAS and adopt IPSAS will not affect the reform process, and since the key people are waiting for decisions at EU level to be taken, this can only prolong any decisions taken at country level. While the IPSAS decision was apparently a positive move that would re-ignite the accounting reform process, it may now result in even more procrastination. But perhaps this could have been the intended outcome from the outset.

Throughout the findings described in Chapters 4 to 6, National Accounting and ESA95 have regularly featured as important issues that are considered by government accounts preparers and decision-makers. Government and national accounting are two different schools of thought that have been described as 'epistemic communities' by Heald and Georgiou (2011), in that they can exert pressure and affect the decisions taken by the reform promoters and even the stakeholders. Chapter 7 describes the findings particular to this theme.

CHAPTER 7: NATIONAL ACCOUNTING AND THE EU

1 INTRODUCTION

The empirical data in Chapters 4 to 6 reveals the importance given to statistical reports by practitioners. The purpose of this chapter is to present the findings that answer the research question:

- What are the perceptions regarding the differences between national accounting and government accounting, and how are such perceptions affecting the accounting reform?

2 STATISTICAL FRAMEWORKS FOR NATIONAL ACCOUNTS

Three different but related frameworks have been established in order to present country comparisons on a standardised basis: the UN's System of National Accounts (SNA)[66]; the IMF's GFS[67]; and the EU's ESA95[68].

Malta applied the SNA since 1993, and adopted the ESA95 in 2003. For EU member states, the ESA95 is the standard for submitting national accounts data to all international

[66] The SNA is the internationally agreed standard set of recommendations on how to compile measures of economic activity in accordance with strict accounting conventions based on economic principles (SNA 2008, 2009: par.1.1). The SNA guidelines have been produced under the joint responsibility of the United Nations, the IMF, the EU Commission, the OECD and the World Bank.
[67] The GFSM 2001 describes an integrated statistical system that is harmonised, to the extent possible, with the SNA (IMF, 2001).
[68] The ESA95 is fully consistent with the world-wide guidelines on national accounting, the SNA (ESA95, Art.1.24).

organisations. Only in the national publications is strict adherence to the ESA not obligatory[69].

The ESA95 and the SNA differ in presentation. Moreover, the ESA95 concepts are more specific and precise than those of the SNA. The ESA95 can afford to be more specific because it primarily applies to the EU member states and meets the data needs of the EU. The most significant difference is that, formally, **the ESA95 is a legal act**[70], it has more precise definitions and it is intended as a reference guide; whereas the SNA includes more explanations and background information, and it can be used as a teaching handbook for statisticians worldwide.

The ESA95 stipulates that the ESA framework can be used:

> *to analyse and evaluate the structure of a total economy; specific parts or aspects of a total economy; the development of a total economy over time; and a total economy in relation to other total economies.* (Art 1.03)

The figures from this framework play a major role in formulating and monitoring the social and economic policy of the EU and its member states (ESA95, Art.1.04). The ESA95 identifies the following important specific uses:

a) for monitoring and guiding European monetary policy: the criteria of convergence for the European Monetary Union (EMU) are defined in terms of national accounts figures (government deficit, government debt and GDP);

[69] Council Regulation (EC) No. 2223/96, Art.1.3.
[70] Council Regulation (EC) No.2223/96 of 25th June 1996 on the European System of national and regional accounts in the community. Subsequently amended by Council Regulation 448/98, Commission Regulation 1500/2000, Commission Regulation 995/2001, EP/Council Regulation 2558/2001, and Commission Regulation 113/2002. The ESA95 is currently being updated to ESA2010, which is applicable from 2014 onwards.

b) for granting monetary support to regions in the EU: the expenditure for the Structural Funds of the EU is partly based on regionalised national accounts figures; and

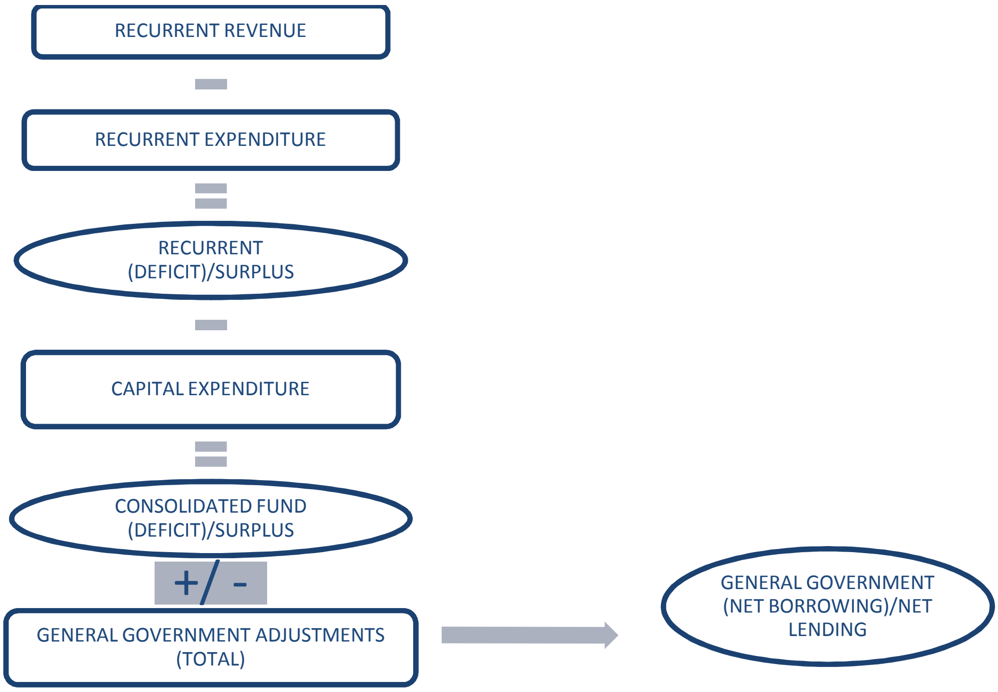
c) for determining the EU's own resources.

These specific uses may have ripple effects on the quality of statistical reporting and accounting reform. The Maastricht Treaty requires all 28 EU member states to calculate the deficit/surplus and debt according to ESA95, and if the criteria in the Treaty are exceeded, this could trigger the EDP against the member state.

ESA95 reporting is accrual-based. The cash-based deficit reported in the Consolidated Fund is adjusted to arrive at an accrual-based deficit according to ESA95, which is called 'General Government net borrowing' ('net lending' in the case of a surplus).

The Maltese ESA95 deficit is being reported at Parliamentary Level as part of the Financial Estimates. The 'Statement of Public Finance' shows the estimated General Government position as at the end of the current year and for the following year. This report was published for the first time in the Financial Estimates for 2010, showing the estimated ESA95 deficit for 2009 and 2010. The format of the 'Statement of Public Finance' is as shown in Figure 13.

Figure 13: Format of the Statement of Public Finance



The Budget Speech includes a similar report with more detailed capital expenditure. The GDP is shown and the General Government deficit as a percentage of the GDP is calculated. This financial position is given in actual figures for the previous year, approved and revised figures for the current year, and projected figures are given for the next three years. A similar five-year analysis is given in the Statement of Public Debt, showing the General Government public debt as a percentage of the GDP.

Given all this, parliamentary discussions during the presentation of the Financial Estimates are more concerned with departmental allocation of funds and political issues. The ESA95 report is too technical for parliamentary discussion, according to the PS (Interview 9). The Budget Office (Interview 18) emphasised that "*even if they* (parliament members) *don't ask, the bottom line is this - only the EDP movements count*". The PS (Interview 9) himself confirmed that the deficit calculated in the Consolidated Fund is not regarded at all by the Ministry.

The Budget Office (Interview 18) pointed out that the ESA95 is accrual reporting and not accrual accounting. The methodology involved has improved accrual awareness. Previously, only the cash allocations were considered as having an impact on government finances.

The Budget Office (Interview 18) drew attention to the fact that capital expenditure is included in the ESA95 calculation of the deficit. The Budget Office also drew attention to the time adjustment methodology of reporting tax flows in the ESA95[71]. The Budget Office considers this methodology as producing very realistic results, avoiding subjectivity, even though "*you cannot say that in this way you have a figure of tax debtors at year end*".

3 NATIONAL ACCOUNTING

The National Accounts of Malta are prepared by the NSO. According to the NSO's website, the National Accounts data are compiled and presented in accordance with ESA95 as recommended by the EU statistical agency, Eurostat.

[71] This is an option that is offered by the EU, and one that Malta has chosen. The tax collected in cash is changed into 'tax collectable' in the year by deducting the first month's tax collected and adding the cash collected in the first month of the following year (two months in the case of income tax and national insurance contributions).

3.1 National Accounts Preparation

The National Accounts report on the GDP. Whereas a business prepares the accounts of a company, the National Accounts are an account of the whole economy. The economy is divided into five sectors: the general government; Non-Financial companies; financial companies; households and NPISH (non profit institutions serving households); and the rest of the world. The NSO follows two manuals in the preparation of the National Accounts, namely, ESA95, which covers all the National Accounts; and the Manual on Government Deficit and Debt[72]. The Manual on Government Deficit and Debt is extensive and is very important because it contains the actual regulations that a government needs to follow to account for its particular operations[73].

The Annexes to the ESA95 contain examples of the accounts for the General Government. The deficit according to the Maastricht rules is calculated in the Non-Financial Account, so this corresponds to the Income Statement. The Financial Account is like the Balance Sheet, but excluding the non-financial assets schedule. Tangible assets, referred to as 'Grossed fixed capital information', are included in the Non-Financial Account, because as already explained by the Budget Office, capital expenditure is included in the calculation of the deficit (refer to Figure 13). This is one of the fundamental differences between national and business accounting.

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[72] The NSO (Interview 24) considers the Manual on Government Deficit and Debt as its "bible". The manual lays down a form of accounts which is different from business accounting. Instead of an Income Statement and Balance Sheet, a Non-Financial Account and a Financial Account, respectively, are prepared. Basically, the results are the same but the net worth of each sector of the economy is calculated instead of the net worth of a company.

[73] The Manual is very important and provides you with the required mind set. It changes your terminology; it changes business accounts with these accounts, for example, the issue that provisions are not made. A business does not receive taxes and does not pay pensions; so there are issues that go beyond business. This manual contains the actual regulations for government to adhere to for these transactions. (NSO, Interview 24)

Another difference between national and business accounting is that provisions, for example provision for doubtful debts, are not done in the accounts of the ESA, neither in the Financial nor in the Non-Financial Account. Depreciation allowance is not provided for in National Accounts[74], and when a non-financial asset is disposed, only the proceeds from disposal are accounted for in the Non-Financial Account. This is unlike the gain or loss on disposal of non-current assets that is calculated in business accounting using accounting conventions like the net book value.

The proceeds from the sale of financial assets are recorded in the Financial Account, that is in the 'Balance Sheet'.

The NSO (Interview 24) pointed out that the National Accounts are economic accounts, implying that accounting conventions do not apply. Different terminology is used, for example, 'intermediate consumption' instead of 'recurrent expenditure', and 'market output' instead of 'turnover'.

The Financial Account is not simply a list of closing balances, as is the purpose of the balance sheet in business accounting. In the National Accounts, the Financial Account records the actual difference between opening and closing stock positions, which flows are analysed into three categories: the real transactions (flows) that have occurred during the year; the

[74] The conceptual definition of depreciation in ESA95 is similar to the IPSAS/IFRS framework but no estimations are done in National Accounting. A type of replacement method is used to calculate depreciation in National Accounts.

revaluations, if the price of an asset or liability changes during the year[75]; and other changes in volume[76].

Since the Financial Account only deals with financial assets, it is like an explanation of the movements in cash, cash equivalents, and long term financial assets and financial liabilities. The Financial Account shows the opening position, the changes including revaluations, other changes in volume, and the final position. The changes would be reflected in the Non-Financial Account. The closing position would be at market value, but it only includes financial assets. The NSO (Interview 24) confirmed that Malta does not have a register for Non-Financial assets:

> *We don't even send the data about the Non-Financial assets of the government, and neither of the whole economy.*

The Financial and Non-Financial Accounts have to move *pari passu*, using a sort of double entry[77]. When the balance on the Consolidated Fund is adjusted to arrive at the deficit, both accounts will be affected.

The end result on both accounts is the calculation of 'Net borrowing/net lending', shown as the balance B9 in the Non-Financial Account and as B9F in the Financial Account. Since the two accounts move in tandem, in theory, these two balances should be equal. But this is

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[75] For example, no government securities are bought or sold during the year, meaning that there were no real transactions; but the market price of the asset has changed, and this is recorded in the separate 'revaluation account'; a distinction is therefore done between movements in actual transactions and movements due to revaluations.

[76] This category is rarely used. It is used to write off liabilities; in the case of a catastrophe; and when a new entity is re-classified as general government. When a new entity is re-classified as General Government, the EBU would not be included in opening stock and is, therefore, introduced into the system through this account.

[77] For example, the government buys a Non-Financial asset with cash: the Non-Financial Account will record the expenditure, while the Financial Account will record the decrease in cash. If the Non-Financial asset is acquired on credit, the Non-Financial Account will record the expenditure, while the Financial Account will record the increase in liabilities.

difficult to achieve in practice due to different sources of information and timing issues. Any discrepancy would be shown as a payable/receivable in the Financial Account.

The standards bind the NSO to ensure that the discrepancy between the Financial and the Non-Financial Accounts does not exceed 2% of GDP on a quarterly basis, and 0.2% of GDP on an annual basis. The discrepancy is a measure of quality of accounts preparation. The government deficit reported is always that calculated from revenue and expenditure in the Non-Financial Account, even though this should be the same as calculated from the assets and liabilities in the Financial Account[78]. By default, the EU literature states that any discrepancy is always taken to be in the Financial Account, but this is not always the case[79].

The NSO publishes the Financial Account and its adjustments on a quarterly basis. The Financial Account is not published annually, but the figures would be consolidated as the final quarterly in the April notification[80].

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[78] For example, in 2011, the government deficit in the Non-Financial Account was 2.7% of the GDP: what if the Financial Account showed 3.2%? The accounts preparer would need to identify where the discrepancy of 0.5% lies, which would be very difficult. If the discrepancy lies in the Non-Financial Account, this would mean that the deficit should be 3.2% and not 2.7%, thus exceeding the 3% limit. This is why it is important that the discrepancy should be as low as possible, otherwise it could throw some doubts on the computations.

[79] Sometimes we had to revise our figures and the discrepancy would be in the Non-Financial Account. But no one goes into these types of adjustments - not the ministries and not even the media - because they are not aware of them. Our annual discrepancies are very low, but this is not always the case. And if the discrepancy exceeds 0.2% of the GDP, we are asked to decrease it by the Commission. No one bothers in Malta - they just look at the Non-Financial Account deficit. No one looks at the Financial Account. *(NSO, Interview 24)*

[80] Two releases are issued by the NSO in April:

a) the EDP that reports the annual government deficit and debt, and would contain the table of adjustments of the transition from the consolidated fund to general government (refer to Figure 13);
b) another quarterly with the data of the revenue and expenditure of the government by category, with the sum of the four quarters being equal to the annual; and
c) Tables showing financial stocks and liabilities of the government, and the transactions of assets and liabilities, on a quarterly basis, with the sum of the quarters being equal to the annual transactions. The values at the end of the fourth quarter would be the closing stock (balances) as at the end of the year.

The calculation of the ESA95 deficit is done twice a year, in March and September. A provisional report is prepared at the end of March, which is then updated at the end of September. The reports always deal with annual figures and not quarterly[81].

The semi-annual data, with the adjustments, and the Financial Account (stocks of assets and liabilities, excluding the transactions) are also submitted to the PAC (NSO, Interview 24). The PAC, as the investigative arm of Parliament, is requiring that the information it receives is accrual-based so that it has a more clear picture of the situation. According to the Budget Office (Interview 18), this is very important because the PAC scrutinises the government audits and raises financial issues, but the submission of accrual data to the PAC is not a regular process.

On the other hand, the EDP Package is prepared annually, therefore, the EDP is reported on an annual basis to the EU Commission. The EDP Package incorporates many questionnaires, including, for example, capital injections, dividends received and details about privatisations. A supplementary questionnaire covers the financial crisis, for example, should the government do an equity injection in a financial corporation due to a financial crisis. Another questionnaire covers 'Mean Loss Making Public Corporations', which will also include companies owned by the government. The data for these is extracted from the companies' business accounts and are **not** converted according to the ESA, "*otherwise the figures would change completely*" (NSO, Interview 24). These questionnaires are not published (NSO, Interview 24).

[81] For example, on 30th March 2012, the annual figures of the last four years, including 2011, were reported (refer to Figure 13). The September report would be basically the same as that of March because the revisions in the data would be minimal (NSO, Interview 24).

As already described in Chapter 6, when the ESA95 was being revised, the Eurostat was not successful in widening the definition of General Government due to objections from the member states. As a result, the NSO is now required to compile an annual questionnaire about the corporations that are not included in General Government. The data required includes information about employment, activities, turnover, liabilities, loans and guarantees. The Eurostat, therefore, still has access to the required information about the Corporations.

Figure 14 shows a breakdown of the line item 'General Government adjustments' shown in Figure 13. It illustrates the series of adjustments required to change the cash-based deficit reported in the Consolidated Fund to the accrual-based deficit according to ESA95. The NSO (Interview 24) explained these adjustments and how government reporting has been amended to cater for this reporting and reduce the adjustments as much as possible (refer to Table 12).

The NSO issues a monthly release for the Consolidated Fund. It has now become a policy that the release for the December Consolidated Fund is issued on 30th March, that is on the same day that the EDP notification is sent, because "*basically, we start from the Consolidated Fund deficit*" (NSO, Interview 24).

The NSO (Interview 24) pointed out that if the original deficit is reported using accrual accounting according to IPSAS or some other standard, then it would still need to be converted to adhere to ESA95[82].

[82] So even if the government maintains a record of debtors for tax, and is showing the tax as revenue, it would still need to make these adjustments. According to the NSO, Eurostat is more comfortable with the time-adjusted cash since, as the actual cash received will be recorded, there is less risk of abuse. During the height of the financial crisis in 2008 and 2009, private companies were not paying their taxes and the government deficits increased. But countries that used the assessment option were not reflecting the effect of the crisis because they were not adjusting their assessments (NSO, Interview 24).

Figure 14: From the Consolidated Fund to the General Government Sector

	2008	2009	2010	2011	
	€ thousands				
Structural Deficit of Consolidated Fund Transactions	**-233,136**	**-297,021**	**-279,212**	**-218,610**	1
as a % of GDP	*4.0*	*5.1*	*4.6*	*3.4*	
Adjustments to the Consolidated Fund:					
Equities, acquisitions (+)	3,078	1,539	2,311	250	2
Equities, sales (-)	0	0	0	0	
Other financial transactions	-9,141	0	-1,209	-7,421	3
Difference between interest paid (+) and interest accrued (-)	-2,770	223	1,512	2,320	4
Other accounts receivable (+) and payable (-)	42,800	-17,658	56,259	-17,730	5
Time-adjusted cash	11,201	24,308	-31,960	39,864	6
Net Borrowing (-) / Net Lending (+) of Extra Budgetary Units	-37,698	80,250	-11,895	-1,007	7
Other adjustments (+/-)					
Treasury Clearance Fund flows in non-financial transactions	-55,636	-15,814	35,108	24,380	
Sinking Fund interests' received	6,344	1,394	993	1,379	
Interest received not included in consolidated fund	1,462	535	261	318	
Interest receivable	-315	-5	165	2,931	
Adjustment Stock premium proceeds	5,637	2,882	-278	-1,128	
EFSF re-routing	0	0	0	292	8
Net Borrowing (-) / Net Lending (+) of Central Government (S.1311)	-268,172	-219,368	-227,946	-174,162	
Net Borrowing (-) / Net Lending (+) of Local Government (S.1313)	250	860	295	305	9
Net Borrowing (-) / Net Lending (+) of General Government (S.13)	**-267,922**	**-218,508**	**-227,651**	**-173,857**	
as a % of GDP	*4.6*	*3.8*	*3.7*	*2.7*	

1. News Release 63/2012 dated 30 March 2012.
2. Acquisition of shares in international agencies.
3. Non-trading profits included in Central Bank of Malta transfers to Government.
4. Difference between the interest paid and accrued of the Treasury Bills, Malta Government Stocks and Foreign Loans.
5. Accruals adjustment: including all Budgetary Central Government.
6. In line with Council Regulation 2516/2000, the method of recording of taxes and social contributions is the time-adjusted method.
7. The aggregated net borrowing (-) / net lending (+) of the extra budgetary units forming part of the Central Government Sector
8. Re-routed operations of the European Financial Stability Facility. Refer to methodological note 5.
9. The aggregated net borrowing (-) / net lending (+) of the 68 local councils.

(Source: NSO News release dated 23 April 2012, General Government Debt and Deficit under the Maastricht Treaty: First Reporting for 2012)

Table 12: From the Consolidated Fund balance to the ESA95 deficit

Adjustment	Description
Loan repayments	Any loan repayments recorded in the Consolidated Fund as expenditure are reversed because these financial transactions would be accounted for as a movement in stock balance in the Financial Account. This adjustment is no longer required since the Treasury is now reporting loan transactions in a separate line item, and in this way, "*the figures are clean from the outset ...* (and) *the cash is already clean from large financial transactions as much as possible*" (NSO, Interview 24).
Equity acquisitions	The Government's Consolidated Fund may include an item to buy shares, or to invest in a public corporation, or as Malta's contribution to European Institutions like the European Investment Bank, the European Bank for Restructuring and Development and the European Financial Stability Fund (EFSF). Like loan repayments, these expenditures are added back and recorded in the Financial Account.
Other financial Transactions	Three types of adjustments are done here being, the Central Bank's non trading profit, transfers from reserves of the Central Bank to the Government, and the dividends received from Corporations. a) The Central Bank belongs to the Government, and the profit reported in the accounts of the bank is transferred to the government. The Manual on Government Deficit and Debt contains a chapter that specifically deals with the Central Bank, and it limits a lot the operations of the government. According to these regulations, the Central Bank cannot just transfer any sum of its income or reserves to the government, which the government then shows as revenue. The manual provides a formula that has to be adhered to by all the central banks in the whole European system. Then another formula is provided to see what the government can take from the bank's profit, for example, 'writing down of coins' is net income of the Central Bank, which income cannot be recognised by the government. The amount by which the Central Bank's contribution exceeds the amount allowed by the regulations is called 'super profit', and this would need to be reversed. b) Transfers from reserves of the Central Bank to the Government, that is dividends, are also not allowed by the regulations and would need to be reversed. c) Dividends paid by the Corporations to the Government are also limited according to these regulations. The government has an investment in these corporations, but the amount of dividend that they can pay to the government cannot exceed the operating profit that they make in that year. For example, a corporation cannot make an operating profit of 5 million and pay the government a dividend of 10 million. This would be possible in business accounting due to accumulated reserves, but is not acceptable for these regulations. Corporations like the Malta Financial Services Authority, the Malta Stock Exchange and the Malta Industrial Parks, sometimes pay a dividend to the Government and these are checked on an annual basis (not quarterly). Dividends received in 2012 would be based on the results of 2011. Similar to IAS 10, dividends are due when the accounts are issued, that is in 2012, and are therefore shown as income for that year. However, the profits for 2011 would need to be checked to ensure that the dividend does not exceed them. If an adjustment is required, a counter transaction is done in the Financial Account by adjusting the shareholding of the government.

Stock Premium Proceeds	When the Government issues stock at a premium, namely the Malta Government Bonds, the premium received is revenue for the government. This revenue is reversed, and the premium is apportioned over the lifetime of the bond up to maturity, according to the bond issues done as from 2005 onwards. This adjustment could be either negative or positive, depending on whether the premium being reversed is more or less than the premium allocated for that year.
The difference between interest paid and accrued	This adjustment is required because the interest paid recorded in the Consolidated Fund is on a cash basis. If the interest payable is more than that paid, the difference would have a negative impact on the deficit.
Other accounts payable/receivable	This adjustment refers to Government accounts payable and receivable for Government Ministries and departments. This adjustment is possible through the accrual data collected from the ministries and departments on the quarterly templates. The Consolidated Fund is on a cash basis using the DAS. The Treasury then surveys the Ministries and departments on a quarterly basis using the system of templates, which was described in Chapter 4. The data collected concerns accrued and prepaid expenses, accrued and deferred income, inventories (non-current assets) and stocks. Accruals for capital expenditure would also be reflected in this adjustment, since capital expenditure is taken into consideration in the Non-Financial Account. Any creditors for capital expenditure would also be included as liabilities in the Financial Account. This line item may also include adjustments to reconcile subventions paid to EBUs and corporations, which the government records on a cash basis and the EBU or corporation would be declaring as a receivable. After confirming with the MFEI that the difference is simply due to timing, the NSO records the full expenditure and the difference is recorded as a payable in the Financial Account. When the difference is paid, the payable is cancelled. This adjustment is done on a quarterly basis. In Malta, the quarterly accounts are a copy of the annual EDP, but not all countries are in a position to meet this requirement; this depends on the quantity of the data available. The NSO maintains a detailed breakdown of this line item, and sometimes adjustments are done to better reflect consumption on a quarterly basis, but which would not affect the annual figures, for example, adjustments concerning street lighting prepayments and the one week difference in salaries paid by ministries and government departments. The NSO stated that the Treasury is constantly trying to improve the data it collects through the templates in order to reduce the number of adjustments required by the NSO (NSO, Interview 24). The Manual on Government Deficit and Debt outlines a specific treatment for EU funds received by the government. The basic rule is that EU funds should not have an impact on the government's deficit. There cannot be a revenue without a corresponding expenditure; the impact should be neutral on the government's account[83].

[83] The NSO referred to the new package 0713 that deals with the large government funds which amount to nearly 90% of all the funds received by the government, that is the Structural Funds, Cohesion Funds, External Border, and the Agricultural Funds. All projects are co-financed and the Maltese element would amount to around 15% or 25% of the whole cost. The EU Funds are received by the government and recorded in the Consolidated Fund on a cash basis, and then they are paid to the relevant recipient. Every quarter, the NSO checks the expenditure incurred on the project, compares it with the revenue received on these Funds, and adjusts accordingly so that these two amounts are equal. In this way, the EU Funds will not affect the deficit, most importantly, that the revenue does not exceed the expenditure. For example, if expenditure is 10 while revenue is only 3, further revenue of 7 is imputed, which will be shown in the Financial Account. A reverse adjustment would be done if revenue exceeds expenditure.
According to the NSO, this adjustment used to have a positive impact on the government's deficit but, since the funds are open until 2016, most of the projects will be peaking, resulting in a negative impact (NSO, Interview 24).

Time-adjusted cash	Taxes on an accrual basis are a separate adjustment according to regulation 2516/2000, which offers two options: a) Time-adjusted cash requires the identification of a pattern of how private companies pay their taxes and an adjustment is done accordingly; or b) The assessment or the coefficient method, which requires an estimate to be made of the amount of taxes that should have been received, and then the amount that has not been received is recorded as an expenditure. Malta has chosen the option of time-adjusted cash and is applying it for the main taxes being income tax, value added tax and national insurance contributions. A study had identified the most suitable pattern of one month for VAT and two months for income tax and national insurance contributions. The time-adjusted method is described in the Manual for Government Deficit and Debt, but the intervals are chosen by the member state, with the approval of Eurostat[84].
Deficit/surplus incurred by government entities	This adjustment refers to EBUs. There are around 50 EBUs classified in this sector according to the delimitation exercise that is carried out by the GFS Committee on an annual basis. The delimitation exercise is laid down in the ESA95. These EBUs prepare their accounts on an accrual basis according to the IFRS, and the NSO would take their profits/losses as reported in their financial statements and convert them according to the ESA95 requirements, "*in the same way that I convert the Consolidated Fund*" (NSO, Interview 24). Consolidation adjustments are also required to cancel corresponding payables and receivables between the government and the entities.
The Local Councils Sector	This sector is very limited in Malta when compared to other countries. Like the EBUs, the 68 Local Councils prepare financial statements according to the IFRS, and the NSO converts these according to the ESA95.
Treasury Clearance Fund Non-Financial Transactions	The Treasury Clearance Fund used to be called the 'below-the-line account of the government'. It is used to record tax refunds, or transfers to cancel old advances, or small amounts of revenue received by the departments. These transactions are not recorded in the Consolidated Fund and, previously, did not affect the deficit. Since Malta became an EU member state, all these accounts are being included in the deficit.
Interest earned	This adjustment refers to interest earned on deposits or sinking funds that have not been included in the Consolidated Fund.

The NSO referred to a report concerning Greece, which revealed that only the revenue from EU funds was being reported in the Non-Financial Account, while the expenditure was recorded in the Financial Accounts. He described this as "*rampant abuse*" (NSO, Interview 24).

[84] The time-adjustment affected the deficit negatively with about 32 million in 2010. Companies were not paying, and this had an impact on both the Non-Financial and the Financial Account. The actual tax received during the 12-month period is recorded in the Consolidated Fund. Then the difference between, say, January 2010 and January 2011 (in the case of VAT) is adjusted in the Non-Financial and the Financial Account, resulting in the Non-Financial Account showing receipts from VAT from February 2010 to end of January 2011. In 2009, the Government had offered a tax scheme and collected a lot of money in 2010, which revenue was not repeated in 2011: "*if you have an exceptional occurrence during January and February, which is not repeated in the following year, you will have a negative impact*" (NSO, Interview 24).
The cash received in January 2011 has been recorded as revenue of 2010. The cash received in January 2011 will be shown as a receivable in the Financial Account as at 31 December 2010, in order to maintain the Financial Account consistent with the Non-Financial Account.

EFSF re-routing	The EFSF has been created by the EU Commission for the Eurozone in order to assist member states in dire straits. The Government of Malta has guaranteed 700 million euro to the EFSF, so that this institution can borrow in order to lend to countries like Ireland, Greece, Portugal and Spain. The EFSF is a company with its own Board of Directors, but Eurostat has decided not to consider the EFSF as an institutional unit because at the end of the day, the Eurozone countries decide what the EFSF does, according to the guarantees they have provided. The shareholding of the countries in the EFSF is minimal, but Eurostat decided that whatever happens in this Fund is re-routed to all the countries in the euro area. For example, if the EFSF lends money to Greece, this loan is apportioned between the Eurozone countries, and will be reflected in each country's accounts. During the first quarter of 2012, Malta's debt increased by around 88 million because of the EFSF. All transactions are re-routed, including the interest received, interest paid and the expenditure for administering the fund. For example, when Ireland pays interest to the EFSF and for administration, Malta would record its share of the revenue; and vice versa for interest paid on bonds issued by the fund. The net effect of the EFSF re-routing was to reduce Malta's deficit in the Non-Financial Account for 2011 by Euro 292,000. Basically, the EFSF is charging more for its loans than it is paying to its sources. The Financial Account will show the contra entry for the effect on the deficit, and will also show the loans made to the countries as an asset, and the monies borrowed by the EFSF as a liability. In Malta, the Financial Account shows an asset and a liability of Euro 86 million. Since the country only reports its debts, the debts have increased because of the EFSF. To date, Malta has not paid one cent, but the re-routing has affected its deficit.

(Source: NSO, Interview 24)

4 NATIONAL VS GOVERNMENT ACCOUNTING

It is generally accepted by the interviewees that National and Government Accounting refer to "*two different realities*", with the former used for economic planning and decision-making, while the latter is used for financial decisions. The importance given to one or the other varies with the level of the decision-maker, and there appears to be disagreement as to whether the same accounting system could cater for both types of reporting.

The PAC Chairman (Interview 5) sees a link between the two methodologies, and believes that **a reliable accounting system could be used for both types of reporting**.

A PAC member (Interview 6) emphasised the importance of the government accounting system that gives "*the vision"* for financial decisions. The current government accounting system lacks the preparation of a three-year rolling forecast, delineating the recurrent and current expenditure, which, according to this politician, is essential for correct decisions to be taken even at macro-economic level.

In spite of claiming that the Consolidated Fund balance "*is not the imbalance in our public finances*", the PS (Interview 9) stated that one cannot say that National Accounting is more important than Government accounting, or vice versa. The two methodologies have different functions, but are complementary to each other and not substitutes. He described Government accounting as "*obviously important*", and management accounts are required to run a large entity, but National accounting is "*crucial because it gives you a snapshot of the economy and economic trends*". While claiming that he gives them both equal attention, the PS stated that "*Government accounting on its own does not get you anywhere*", because at the end of the day, both expenditure and revenue are functions of the economy, and if the economy is not working, the government will not collect any taxes.

As a statistician, the PS (Interview 9) is convinced that National and Government accounting **cannot be produced from the same accounting system**. Government accounting produces a substantial input to the National accounts, but the methodology, compilation and scope are totally different. National accounts is 'economic accounting', which is substantially different from commercial or government accounting: "*In National accounts you have many things that are not observed, for example, consumption*" (PS, Interview 9).

On the other hand, the AG (Interview 13) thinks that **the same accounting system can be used**. While not losing sight of the objective of the accounting system to produce financial reports in compliance with IPSAS, he is willing to facilitate the NSO's work through a suitable coding structure.

The AG (Interview 13), who is not an accountant, believes that National accounts are more important for the government because of international reporting obligations. He understands that National accounting is different from Government accounting, in that the former deals with all sectors of the economy and has its own sets of standards, and that the data provided by the Treasury is just a part of the National accounts. However, he perceives aspects of national accounting that are very relevant for the work of the Treasury, for example, "*the deficits and movements in balance sheets, from the financial and non-financial accounts*":

> *What they* (the NSO) *do is very relevant for us, but you have to look at them through different lenses. If you want to see proper accounting, you have to refer to our trial financial statements. If you want to see ESA-based reporting, look at the statistics.*

According to the NAO2 (Interview 4), as the current situation stands, National Accounting is more important than Government Accounting because it is presenting a more comprehensive picture by including local government, public entities, payables and receivables. He thinks that should government accounting be developed in a proper way, meaning an accrual accounting system adhering to IPSAS, the data produced can be used for national accounting:

> *As it stands today, it cannot. In fact, the government accounting data is adjusted by the NSO in order to use it for Eurostat. If government accounting data is prepared according to IPSAS, its quality would warrant it to be useable for national accounting. So the same data can be used.*

This is contrary to what the NSO had stated in that regardless of the accounting system used, the data would still need to be amended to comply with ESA95.

According to the ex-Director General Special Projects (Interview 8), a study to harmonise IPSAS with ESA95 is not possible because one is referring to the internal environment while the other is referring to the external economic environment. Even though the data used can overlap, it is important that the two reporting regimes are not mixed up since the purpose of internal reporting is different than for 'economic accounting'. The ESA95 rules relate to a different reporting regime, and even the chart of accounts is different, but both systems are important because they build on each other.

While admitting to never bothering with the detail in National Accounting, as an accountant, the DGA (Interview 2) perceives it as very different from financial reporting, and results in different interpretations of the data. However, she considers both as important: government accounting provides accountability and national accounting is important for economic decision-making. According to this Director, national and government accounting definitely **cannot use the same accounting system**.

Even the IAID (Interview 21) admitted that for her, the term 'economic accounting' was something new, which she had heard from the PS. For her, its either 'accounting' or 'economics', and still needs to be told what the mix of these two entails. As an accountant, she understands that the ESA95 is an economics-based reporting structure, and the point of departure would be the data from the accountancy exercise: "*the financial deficit is important* *because it is the first step*". She thus believes that if accounting is improved "*to reflect reality in a clear way*", then the ESA95 report will also "*be completely correct*". But the Director is rather sceptic about the economic measures, like GDP, that are being used for the Maastricht criteria. Economic measures are not used by the private sector. She thinks that real money terms for any ratio would be more useful.

The Director General Strategy and Operations (Interview 19), another accountant, regards both national and government accounting as important, and "*one does not exclude the other*". He sees them as complementary. Even though the ESA95 is used to be in line with EU requirements, proper accrual-based government accounting is still required so that it can be used for decision-making as well:

> *I say that these two measures can be drawn up in conjunction, and one can indicate the differences between the two and the adjustments that are required. If the deficit is calculated on an accrual basis it would be more streamlined to what is reported by the NSO, so one can use it as a base for decision-making as well.*

One DCS (Interview 7), who is an accountant, described National Accounts as "*nice statistical exercises*", with ex-post data, used by government for long-term economic decisions, but which are totally useless for the decision-making that is required at departmental and ministerial level:

> *Statistics give a picture at a certain point in time ... What we need is up-to-date correct information now so that we take decisions now. I need to be instantly aware, for example, that receipts are not being collected and that this will result in a cash flow problem. This is done at departmental level and even at higher government levels.*

4.1 ESA vs IPSAS and accrual accounting

The partner of the consulting audit firm (Interview 14) referred to a study his firm had carried out comparing the ESA and accrual accounting, which study had concluded that the two methodologies have completely different objectives and frameworks. He emphasised that the ESA is not an accrual accounting system.

According to the partner of the consulting audit firm (Interview 14), the scope of the ESA for the EU is very clear, and is merely for governments to know their position in terms of deficit or surplus. The ESA rules limit the extent of the reporting entity to general government; excluding entities that do not rely on government funds because they are capable of generating at least 50% of their own revenue from the market, or because the government subsidy does not exceed 50% of its cost of sales. On the other hand, consolidation using IPSAS or IFRS would include all entities, irrespective of dependence on central funds. But this does not mean that ESA and IPSAS are in conflict, but the reason is because the two frameworks intend to provide different perspectives: *"IPSAS has the focus on ownership, whereas ESA has the focus on dependency on government"* (GT, Interview 14).

The ESA and government accounting are, therefore, two separate systems serving two different objectives, stated the partner of the consulting audit firm (Interview 14), and it would be a mistake to consider them together.

The AG (Interview 13) pointed out that it would be wrong to assume that an accrual accounting system would be compliant with ESA95 because the rules are different. With an accrual accounting system, the current exercise of compiling accrual data with the templates would be avoided; all the data would be extracted from the system and the data would be according to standards, that is IPSAS. The PS (Interview 9) agrees that there are differences between the requirements of ESA95 and IPSAS, but he thinks that the former will be strengthened with the adoption of IPSAS. This line of reasoning is based on the fact that Eurostat looks at the methodology and not at the actual data, and therefore an accrual accounting system would make the data more reliable (AG, Interview 13; NSO, Interview 24).

The AG (Interview 13) is aware that "*every entity has its own standards*" and in fact the ESA-compliant reports prepared by the NSO are different from the trial accrual-based financial statements prepared by the Treasury. As one example, he referred to the tax receivables used by the Treasury, which would not be correct for the NSO since the NSO uses the time-adjusted cash method.

The AG (Interview 13) is also aware that ESA95 is not an accounting standard, and that it uses "*economic accounting*" to lay down rules of how to report so that reporting of all member states is homogeneous. The ESA includes many elements of accruals, but it also includes many things that are beyond accounting (AG, Interview 13). The AG (Interview 13) is aware that even if the government had an accrual accounting system and IPSAS are adopted, "*you would still need to report to Eurostat using the ESA rules*".

However, the AG (Interview 13) still tends to mix the two methodologies, and when confronted with various standards, he tends to see them conflicting:

> *There is also the push towards converging the rules in ESA95 and IPSAS. There are various rules: ESA, GFS - but* ***you abide by the major rules****, like the time-adjusted rules.* (AG, Interview 13)

As already described in Chapter 5, the AG is for sure considering the ESA definition of the reporting entity as a "*major rule*" and is only considering consolidation up to General Government in order to be in line with ESA95 reporting.

The AG (Interview 13) accepts that the Treasury is bound to refer to accounting standards and understands that the ESA95 is not the Treasury's first point of reference. He confirmed, however, that the Treasury maintains continuous interaction with the NSO, and in the absence of a clear accounting rule, or in the absence of an accounting standard, the Treasury adopts the ESA95 which provides "*more strict rules and guidelines*".

4.2 Mixing up the two

On 3rd December 2011, a member of the Opposition submitted a parliamentary question[85] to the Minister of Finance, asking him to state when the full implementation of an 'accruals system' will be done, since this has been 'a long-standing promise'. The Minister answered that the government is already reporting its data according to the ESA95 regulations, which regulations incorporate the principles of accrual accounting according to the parameters of Eurostat.

"*The Minister's answer was correct*", according to the Director General Strategy and Operations (Interview 19), because reporting to the EU is "*accrual-based according to ESA95*". According to the IAID (Interview 21), the PS has made Parliamentarians believe that the country is using accruals since it is reporting to the EU under ESA95, and as a result, the

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work on implementing an accrual accounting system has slowed down. The PS (Interview 9) himself admitted to convincing even the "*older employees*" in accepting the ESA95 deficit, and it appears that one of these employees is the ex-Budget Office Director:

> *Accrual accounting is important to give a holistic picture. How far have we arrived to date? I would say that we are there with the adjustments being done by the NSO.* (XBO, Interview 25)

Even the current employees in the Budget Office appear convinced:

> *The annual deficit is accrual-based. The monthly and quarterly data collected is accrual-based. The entities use an accrual accounting system.* ***And still there are people who think that the government is operating a cash-based system*** *... Government accounting is currently cash-based but reporting is not. ... All our reporting is accrual-based, even to the EU .... Even the National Accounts issued by the NSO are accrual-based.* (BO, Interview 18)

The partner of the consulting audit firm (Interview 14) referred to confusion re-ESA95 within the Accrual Accounting Task Force. A member of the Task Force had argued that the Task Force need not bother with accrual accounting since the ESA will be adhered to. At another meeting, another member had expressed genuine concern that "*we have to be careful that we don't do anything contrary to ESA*" thinking that the two systems were convergent (GT, Interview 14). The Task Force member had requested a reconciliation between the ESA and accrual accounting. The partner of the consulting audit firm (Interview 14) had recommended that a reconciliation could be done *"if it gives you a certain comfort ... But that's all - they are not a replacement to each other"*.

The Treasury is being required to report to the PAC on the differences between the data in the trial accrual-based financial statements and the data that is reported to Eurostat by the NSO (DGA, Interview 2). The Treasury requests the NSO to clarify, and these refer, for example, to the fact that the tax revenue is being recorded using the time-adjusted cash method in line with Council Regulation 2516 of 2000 (DGA, Interview 2).

The current discourse on the adoption of IPSAS by the EU member states and the importance that is being shown by the Eurostat towards this issue appears to be adding more fuel to the confusion.

4.3 EU Reporting - importance

The PS (Interview 9) described the ESA95 deficit reported to the EU as "*the deficit that matters*"; it is the bottom line that matters to him. The IAID (Interview 21) understands this point of view, stating that the ESA95 has become very important because it is seen as a means to an end: "*you have a pipeline of euro pouring in*".

The AG (Interview 13) admits to being biased towards reporting from a macro point of view rather than at a departmental level because he is more involved in the GFS Committee (GFSC) rather than the management of the departments. He appreciates that an accrual accounting system would enhance the quality of the fiscal figures of deficit and debt being reported.

Earlier findings (Chapter 5) have already identified the priority given to the definition of the reporting entity in the ESA95 as to the level of consolidation. For example, the NAO2 (Interview 4) insisted on the importance of taking into account the Eurostat definition in order to have consistency:

> *In practice you use the Eurostat as a benchmark, so that even for comparative purposes, the figures in the financial report would correspond with those of Eurostat.*

Even the DGA (Interview 2) and her accountant (Interview 3) identified EU reporting requirements "*using an accrual basis*" as the primary role of the accrual data being collected on the templates. According to the AG (Interview 13), the Treasury started requiring quarterly templates from the departments "*to suit the ESA reporting requirements*", and once these requirements were being satisfied "*it's like we reached a plateau, and stopped*".

According to the PS (Interview 9), "*the deficit that matters*" is used both for external and internal reporting. External reporting meaning reporting to Eurostat, and internal reporting meaning that it is used by the MFEI for its own decision-making. The accrual-based reports are prepared quarterly: "*so quarterly, we have a clear picture of what is happening in accruals*" (AG, Interview 13).

For the Budget Office (Interview 18), the ESA95 deficit is the most important target, and all decisions are taken after considering the impact on the reported figure, and always according to ESA95 standards[86]:

> *ESA95 is the framework that is discussed and is the framework that we have to work with.*

Even the financing of new projects is engineered in a way to reduce the impact on this reported figure, and always according to ESA95 standards (BO, Interview 18; NSO, Interview 24).

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[86] For example, the ESA95 calculation includes debt cancellations: if the government is issuing shares for a loss-making project, according to the ESA95, this is not considered as an investment, but is written off immediately. The reasoning being that if it were a normal business transaction, the transaction would be considered as an expense and not as an investment (BO, Interview 18).

The Director General Strategy and Operations (Interview 19) appreciates the importance of statistical reporting because even the EU bases its decisions on these statistics, "*even if actually, the reality is different*"[87]. Both a PAC member (Interview 6) and the IAID (Interview 21) expressed their cynicism regarding the percentage economical targets as set by the DG ECFIN and which are used by the EU member states to manage their economies[88].

According to the IAID (Interview 21), "*there are a thousand things based on Eurostat reporting*". This provides an incentive to member states to engage in activities to obfuscate their reporting and cloud the true state of their finances (IMF, 2012).

The IAID (Interview 21) thinks that the ESA95 is being given more importance than it duly deserves in Malta. She described this as a recent development resulting from two things: EU membership, and the fact that the current PS of the MFEI came from the NSO "*and the ESA95 is what he knows*". According to the IAID (Interview 21), it is short-sighted to regard EU reporting as the bottom line for government:

> *You can report to Eurostat that our economy is heaven on earth, but wouldn't you be interested to see whether this is true or not?*

[87] An issue has arisen concerning Malta and EU funds as from 2014, because when Bulgaria and Romania became member states, statistically these decreased the average of the EU. And the GDP of Malta appeared that it had substantially improved and that it is in line with the 75% target, and therefore, it is not entitled to the full complement of funds. The Government of Malta argued that there was no substantial improvement in its GDP in reality. Since these two countries are not fully developed, they impinged on the statistical figures (DGSOS, Interview 19).

[88] For example, the 75% per capita GDP target that distinguishes a country from classifying for Objective 1 or Objective 2 status, and its entitlement for EU funds. "*On the eve of our membership, Malta scored 74.5%. Either god loved us, or we loved ourselves, because had we scored 75%, we would have been Objective 2, meaning large millions less than what we took"* (IAID, Interview 21).

4.4 NSO as decision-maker and "accounts" preparer

As already described in Chapter 6, the NSO thinks that 'statistics' is a misnomer. The NSO reports are used by the EU Commission and the government when taking decisions: "*then these are the accounts of the government*" (NSO, Interview 24).

The Manual for Government Deficit and Debt, referred to by the NSO as their "*bible*", is not just a statistics book. It lays down the framework for government's operations and actually limits the actions of the government:

> *Our work is like 'auditing' the accounts of the government and of all the EBUs, to check for compliance with this Manual.* (NSO, Interview 24)

The NSO (Interview 24) described how his office is involved in all MFEI decisions and the NSO provides advice on methodology[89]. The NSO (Interview 24) is also involved in the preparation of the three-year forecast as published in the Budget Speech and submitted to the EU: "*the MFEI gives me the figures, and I translate these according to ESA*".

5 EU REPORTING AND GOVERNMENT ACCOUNTING REFORMS

The findings in Chapter 5 show that EU membership was not amongst the original stimuli that started the accounting reform because various changes were effected in the Public Service in the 1990s that would still have been carried out irrespective of EU membership, for example,

[89] For example, the method of funding a new project "*has to pass the test of this Manual, otherwise nothing can be done*" (NSO, Interview 24). In order to assist a government-owned company, the government wanted to increase its shareholding in order not to affect the deficit. But the EU rules stopped it from doing so, because according to the Manual, a government cannot increase the shareholding of a company in order to cover its losses. If a company has a history of losses, a private investor would probably not invest in it, "*so we had to stop the government from doing this*" (NSO, Interview 24).

the autonomy of the NAO (NAO2, Interview 4). Eventually, targeting the Maastricht criteria and the adoption of the euro may have actually acted as a retarding factor on the accounting reform as resources were diverted to concentrate on these issues.

Being part of the eurozone may be considered as a stimulus for the accounting reform due to the reporting requirements, but according to the NAO1 (Interview 15), these should not be considered the primary objectives of the government. He believes that the accounting reform is not being done just to please the EU, and in fact, it would be pointless without changing the underlying fiscal discipline. In the opinion of the NAO1, the reporting requirements to the EU are secondary, as the obligations of the government lie first with its citizens as the shareholders.

But it is still a generally held opinion by the research participants that priorities and developments in the country are now EU-driven, and unless a requirement becomes compulsory by the EU, it will not be done. While the recent developments in the EU may prompt action on the accounting reform, the fact remains that accrual accounting is not a requirement by the EU. Perhaps only Eurostat exerts indirect pressure because it requires its data to be accrual-based, but to date, it does not require the accounting system itself to be accrual-based and offers the option to have a cash-based accounting system plus time adjustments, as adopted by Malta.

Both PAC members (Interviews 5, 6) expressed their dissatisfaction about the present state of the accounting system, claiming lack of confidence in the methodology used to submit data to the EU, when the most important objective is to have an accounting system that can be used as a management tool. The PAC Chairman (Interview 5) doubts the extent that reports submitted to the EU reflect the reality of the financial situation of the country. While he cannot understand how the model to convert cash-based data to accrual data can actually work, he accepts that the model used is justified because it adheres to EU regulations. But then the PAC Chairman questions whether these rules are good in themselves:

> *OK we are following the rules. But is this rule good for us? At the end of the day, is the outcome going to be beneficial for financial sustainability? Can we then better administrate our finances?*

The PAC Chairman (Interview 5) agrees with the NAO1 in that EU reporting and targets should not be an end in themselves, because the EU can only penalise and impose sanctions, when the government has to manage the country: "*what I need is more detailed information to help me take better decisions and make better planning*".

A PAC member (Interview 6) criticised the accounting reforms and the system used for EU reporting, stating that "*it is not accrual accounting at all*" but "*bits and pieces*". According to this politician, the reports prepared for the EU are simply something being done so that the EU can integrate the data into its own accrual accounting system. He described Eurostat as very complacent for "*allowing members states to do certain procedures pretending to be accruals*", as it is not encouraging accrual accounting but to the contrary. The current patched-up system is being used by the government because it has found a loophole that satisfies the EU Commission: "*if we are getting along, and Eurostat is happy, why bend over backwards?*" (PAC2, Interview 6). For this PAC member (Interview 6), these allowances by Eurostat have had serious consequences:

> *... when you allow certain tactics to simplify and make acceptable certain things, the result is that countries like Greece, confounded their reports and no one picked up what was happening. Now they are going to put more pressure on government accounting systems - but they have been saying this for a long time.*

And the ex-Budget Office Director (Interview 25) had no qualms to state that it would be a waste of resources to implement an accrual accounting system when the EU and all other international interested parties are satisfied with the cash-based patched-up accounting system.

5.1 ESA95 as a reform driver

The PS (Interview 9) stated that the accounting reform is still important but perceives it less so due to National Accounting reforms. "*Our deficit, the deficit that matters, is compiled on an accrual basis*", according to the PS and, therefore, an accounting reform makes sense to him "*because we are already doing it*". According to the AG (Interview 13), MFEI top officials are using the fact that the EDP notification is being satisfied to say that "*we have accruals data*", but he does not agree and is still waiting for a comprehensive accrual accounting system.

In Chapter 5, the incomplete fixed asset register was identified as the biggest problem in the accounting reform, but the AG (Interview 13) said that it is not being given a lot of importance at the moment and their main concern are the "*profit and loss items*" that affect the deficit for external reporting . The AG said that the Treasury is in constant contact with the Budget Office and the NSO "*regarding these statistics that we collect*".

The Budget Office (Interview 18) thinks that the main trigger for government accounting reforms were "*the EU requirements due to National Accounting*". The DGA (Interview 2) doubts whether the trial accrual-based financial statements would still be being prepared in the absence of this requirement:

> *Now I can say that I do not need a system to issue an accrual-based report for its present objective. The EU requirements are being met ... the ultimate objective, that is EU reporting, is being achieved.*

According to the DGA, even the interest shown by the PAC is due to the fact that the data prepared by the Treasury is used for international EDP reporting.

It appears that the accountants involved in the reform have not managed to "*sell*" their concept of a full accrual accounting system to the top MFEI officials, but interest in the accounting reform is only shown due to EU's interest in the quality of the government accounting data (DGA, Interview 2; IAID, Interview 21). The Treasury Officials (Interviews 2, 13) and the NAO (Interviews 4, 15) believe that the developments in the EU regarding the IPSAS will re-ignite the accounting reform, given that "*the EU is the driving force for everything.*"

According to the Director General Strategy and Operations (Interview 19), it may be argued that the financial crisis should provide the impetus to concentrate on accrual accounting and improved financial legislation. But according to the IMF (2012), in times of crisis, the EDP reporting requirement may actually create more incentive for the government to "*cloud*" its actual financial position rather than to be more transparent.

The continuous harping about the importance of ESA95 worries the IAID (Interview 21), and she fears that the obsession in Malta with ESA95 is detrimental to any improvements to the government accounting system. The IAID expressed scepticism about EU reporting requirements because governments appear to be moving slowly on accrual accounting since they are being accommodated by the ESA95:

> *Something is very wrong with ESA95 ... Countries are using manipulated cash basis and are avoiding to apply accrual.... They don't want to implement accrual accounting ... My gut feeling is that accrual accounting will affect the base of ESA95 in a bad way*. (IAID, Interview 21)

The calculation of the deficit according to ESA95 methodology, as described earlier in this chapter, should not be affected by the accounting method that is used because the ESA95 makes adjustments to suit. However, the picture presented by the ESA95 has been questioned, and the fear of implementing accrual accounting may be because this may reveal a very different picture from what the ESA95 shows, resulting in even more doubts and questions.

The ESA95 is a reform driver in the sense that it has raised more awareness about the use of the accrual concept for some (not all) measures, but it appears to be actually acting as a deterrent for the implementation of an accrual accounting system.

5.2 EU Crisis

Chapter 6 described the steps being taken by Eurostat and the EU Commission following the lessons learnt from the crisis. Besides increased surveillance, the budgetary framework of the member states will be strengthened from 'its roots' with Eurostat looking into the quality of government accounting data, suggesting some form of harmonised public sector accounting standards, while pushing for accrual-based public sector accounting systems.

The type of accounting system has nothing to do with the crisis. According to the IAID (Interview 21), window dressing distorts any report from any type of accounting system - cash or accrual-based. Eurostat reporting and ESA95 did not serve their purpose when faced with troubled waters, and this is why there is this discourse towards change (IAID, Interview 21). According to the IAID, Eurostat statistical reports would be pointless without proper surveillance; there are too many objectives related to Eurostat reporting that tempt manipulation: *"it imploded"*.

However, things are not solved by complicating matters. The IAID (Interview 21) does not think that the current system needs to be scrapped or replaced by a system that is complicated in itself. Perhaps the current system could be fine-tuned, introducing compulsory standards and increase monitoring.

According to the AG (Interview 13), the NSO practically represents the Eurostat in the member state, and to date (January 2012) the NSO was trusted:

> *To date, we used to collate and analyse the data and give it to the NSO. The NSO prepares the data and submits it to Eurostat, and that's that!* (AG, Interview 13)

But following the EU crisis, Eurostat has been given more powers (as described in Chapter 6), and will not remain taking the figures submitted at face value, but will start making "*missions*" for the purpose of analysing and auditing the "*upstream data*", that is the raw data gathered by the departments. The Eurostat will involve the NAO in this work. Because of this, the AG (Interview 13) described the process as "*taking another thrust*" due to the increased scrutiny:

> *We now have to be really careful as to how we are reporting, and ensure that the departments are in sync with what we are doing.*

And in late June 2012, a one day seminar was organised by the Treasury to inform the DCS about the new surveillance procedure (DGA, Interview 2).

5.3 Co-operation between SAIs and NSIs

To date, the NAO has been reluctant to involve itself in the collating of accrual data since it is not part of its legal remit (AG, Interview 13). In spite of the PS's statement that "*everything is being audited*" (PS, Interview 9), the fact remains that the accrual data collected on the templates have never been subject to a full audit by the NAO (NAO2, Interview 4). The Eurostat missions would require the NAO to start auditing the returns submitted by the departments to the Treasury, adding "teeth" to the whole process.

The EDP exercise is carried out by the GFSC, with representatives from the NSO, the Treasury and the Central Bank. Eurostat wants the NAO to be included: a requirement for all member states (NSO, Interview 24). The NAO will be required to audit the data and not the methodology. The methodology will be checked by Eurostat itself (NSO, Interview 24). The upstream data missions will concern the data providers, that is the Treasury, the Departments, the EBUs and the FDRS used to collect the accrual data:

> *In the upstream, they will check how the departments enter the data in the DAS; how they collect the accruals; and then, how I extract the information from these systems and enter it into my system (I use an Excel programme, and don't have some fancy system) … They are not going to identify some figure and audit it intensively - this is not the intention. I will show him the systems, and he is not going to query the origin of some amount. This is not the intention, unless there is some consensus about it.* (NSO, Interview 24)

Eurostat carries out Standard dialogue visits in each member state every two years. For the May 2012 visit held in Malta, the NSO had invited the NAO "*so that they are aware of how things stand*" (NSO, Interview 24).

The Upstream data missions will start being carried out in high-risk countries like Greece and Spain. According to the NSO (Interview 24), Malta is not considered a high-risk country by the EU, partly due to its small size, and is expecting the first of such missions to occur towards the end of 2013 or beginning of 2014, that is before the next Standard dialogue visit.

The IAID (Interview 21) welcomes these audit missions, stating that audit was missing in the monitoring done to date. However, she expressed doubts concerning the NAO's involvement because, as a national institution, its reporting obligations lie with the national Parliament and not to the EU. Furthermore, she pointed out that not all Supreme Audit Institutions (SAIs) of the EU member states enjoy a good reputation. She is sure that any audits carried out by the NAO will be supervised by Eurostat (IAID, Interview 21).

However, according to the NAO1 (Interview 15), whether the SAIs of the EU member states will participate in these EU upstream data missions is still under discussion[90]. He had the impression that the SAIs will be required to audit the methodology used by the NSIs, but stressed that "*the issue is still under discussion*" as there would be a continuum of ideas and *"a compromise needs to be reached"*.

[90] This comment was recorded before the annual meeting of the Contact Committee of the heads of the EU SAIs and of the European Court of Auditors (ECA), which was hosted in Portugal on 18 and 19 October 2012.

According to the NAO1 (Interview 15), the fact that a SAI audits the work of a NSI may be unthinkable in certain jurisdictions. However, it would not be a problem in Malta since, due to the country's small size, the officials of the NAO and the NSO are on a first-name basis (NAO1, Interview 15).

Cooperation between the SAIs of the EU takes place within the framework of the EU Contact Committee structure[91]. In October 2011, a task force was set up to explore the possibilities for cooperation with Eurostat and NSIs. The overall goal of the Task Force was to identify areas where SAIs, Eurostat and NSIs can cooperate, and to advise on concrete actions. In October 2012, a resolution (CC-R-2012-02) concerning SAIs' co-operation with Eurostat and NSIs, emphasised the importance of good communication between SAIs and NSIs to improve and ensure the quality of government statistics in the framework of their own competences and mandates. It acknowledged that SAIs may play an important role in ensuring the quality of government statistics. Through their audit of the public sector accounts, SAIs already contribute to the verification of data flowing to NSIs. The Contact Committee also acknowledged that SAIs may play a role (together with NSIs) in identifying risks and breaches in the system in their Member State that ensures good quality in government statistics (ECA, 2012).

The Contact Committee stressed that SAIs are independent institutions that cannot be instructed by Eurostat or any EU body to carry out specific audits or tasks, however, although there are differences between the involved institutions in terms of mandates, responsibilities and powers, there is a common goal for good public governance (ECA, 2012).

[91] The Contact Committee is composed of the heads of the SAIs, including the President of the ECA. The EU Contact Committee structure is made up of the Contact Committee itself, the Committee of Liaison Officers, its task force and working groups on specific audit topics (*eca.europa.eu).*

The Contact Committee thus encouraged the individual SAIs to consider how they can contribute to improving the quality of upstream data used by Eurostat and the NSI[92]. It also encouraged them to establish and maintain good communication with the NSI[93]. Through this resolution, the Contact Committee decided to suggest that the SAIs establish contact with their NSI if they have not done so already; and to ask SAIs to consider their role in national follow up on six-pack legislation and EDP regulation where relevant (ECA, 2012).

6 SUMMARY

Besides the different terminology used, fundamental differences between national and business accounting are identified (refer to Table 13 - these differences are not extensive). Other differences that emanate from the requirements of ESA95 and the Manual on Government Deficit and Debt include the calculation of the dividends receivable as revenue; accounting for EU funding; and the time-adjustment method that is allowed, and preferred, to calculate the tax revenue and the tax receivable.

[92] For example, by considering auditing the quality of upstream data sources, including quality management; identifying any audit gaps that may prevent full audit coverage of general government data by internal control and external audit; considering – if relevant in the national context – to assist or advise the administration on implementation of accounting standards or other similar guidance (ECA, 2012).

[93] For example, by considering making the NSI a privileged partner, meaning that the SAI and the NSI, where beneficial for both, could for instance exchange information on risk analysis, possible infringements, information on standards, methodology, etc.; considering how to make SAI and NSI reports more useful to each other in timing and scope and, if suitable in the national context, share information that may require immediate attention by the other party; establishing and maintaining regular or ad hoc contact with the NSI, depending on the NSI's willingness, for instance by yearly meetings, ongoing informal contact, etc.; participating in Eurostat's upstream dialogue visits, where Eurostat visits the NSI and the upstream data providers, when invited (ECA, 2012).

Table 13: Some fundamental differences between business and national accounting

Business Accounting	National Accounting
Non-current non-financial assets are capitalised in the balance sheet.	Non-current non-financial assets are included as expenditure in the deficit calculation.
Non-current non-financial assets are depreciated.	Non-current non-financial assets are not depreciated over their estimated useful economic lives.
On disposal of a non-current non-financial asset, the net book value of the asset is deducted from proceeds, and the resulting gain/loss on disposal is shown in the income statement.	On disposal of a non-current non-financial asset, the proceeds are taken as revenue in the deficit calculation.
Provisions are created in certain circumstances.	The creation of provisions is not allowed.
The calculation and accounting treatment of a gain or loss on sale of a financial asset depends on the asset's classification according to IFRS.	Proceeds from sale of financial assets are recorded in the 'balance sheet', that is, the Financial Account.
The balance sheet, also called the Statement of Financial Position, lists all the assets, liabilities and equity of an entity, as at a certain point in time.	The 'balance sheet', that is the Financial Account, records the stock positions and flows in financial assets only.

The findings in Chapter 6 reveal the difference in the reporting entity according to ESA95, that is, General Government, and IPSAS 6, that is, Whole of Government. It also reveals the importance given to the definition of the reporting entity, which the NSO was adamant would not be changed due to opposition from the member states themselves (NSO, Interview 24).

Certain methodology used in national accounting would not make sense to an accountant, for example, the treatment of non-current assets. It appears that what makes 'economic sense' is recording the transactions from one stock position to another[94].

[94] The effect of spending for the deficit in the Non-Financial Account is reflected in the movement of financial assets/liabilities in the Financial Account. The two accounts seem like a broken down version of the Statement of Cash Flows (IAS 7) or, perhaps, the Statement of Sources and Application of Funds (SSAP 10). The Non-Financial Account shows cash flow movements in everything but financial assets/liabilities, which are then shown in the Financial Account. Since stock positions of payables and receivables are also taken, this would therefore mix up the cash flows and movements in these would need to be recorded in both the Non-Financial Account and the Financial Account.

The Financial and Non-Financial Accounts should not be compared with the Balance Sheet and the Income Statement. The objective of financial reports produced from business accounting is to provide information that is useful for decision-making, and if IPSAS are applied, to enhance the accountability of the reporting entity. The objectives of reports prepared under ESA95 are to calculate the extent of dependence of government operations on central budget funds; and to analyse and evaluate the structure of a total economy or parts of it. Both objectives are important and both types of reporting are required by a government for proper administration.

There appears to be no sense in attempting to converge the two methodologies. Accountants may be disappointed for not having succeeded in 'selling' their methodology to the administrator, while the administrator is perhaps placing more importance on ESA95 and national accounting due to the targets and outcomes that are related to it. Or could it be that National Accounting satisfies the needs of the administrator for better decision-making? After all, National Accounting prepares an account for the whole economy.

This chapter presents the findings concerning the perceptions on national and government accounting, and how such perceptions are affecting the accounting reform. Overall it appears that the importance attached to National Accounting is promoting its own types of changes while it is actually stalling the reform to a full accrual accounting system.

CHAPTER 8: DISCUSSING THE FINDINGS

1 INTRODUCTION

This study is about the how and why of government accounting reforms at central level in Malta. The purpose of this chapter is to analyse the findings in the light of the literature review of Chapter 3, using the analytical framework described in Chapter 2.

Section 2 discusses the possible impacts of the historical and legislative background on governmental accounting reforms.

Section 3 applies Lüder's FMR Model (2002) in the Maltese context; identifying the factors or variables underlying the change process and the main actors effecting and/or affecting it. What is the combined effect of these factors on the environment surrounding the reforms?

The decision taken by the government of Malta to adopt IPSAS and the importance of National Accounting are analysed in Sections 4 and 5 respectively.

Section 6 re-visits Lüder's Model in the Maltese context, including the effect of IPSAS and National Accounting. Reference is made to Institutional Theory with respect to the gap identified in the literature by Jorge *et al.* (2011) in that the Lüder's Model does not explain 'why' accrual accounting is deemed to be the reform concept. Jorge *et al.* (2011) also refer to 'black boxes' in the model that need further explanation. These are discussed through the lens of Organisation theory, on which Lüder's Model is based.

2 HISTORICAL BACKGROUND

According to Fielding (2005), it is important to be aware of what has happened in the past in order to be in a position to understand the present. The historical background surfaces three issues that affect the current situation of government accounting in Malta and the trend of the reforms that are taking place, namely: the system of paternal government that the country got used to after centuries of different foreign rulers; British Colonial influence; and the aftermath of the attempts to implement NPM ideology during the last thirty years.

2.1 Paternal government

In Political Science, paternal government is defined as:

> *the assumption by the governing power of a quasi-fatherly relation to the people, involving strict and intimate supervision of their business and social concerns, upon the theory that they are incapable of managing their own affairs.* (Farlex, nd)

The Island's strategic position in the Mediterranean may have attracted various powers over the years, either to settle on the island or to use it for their bigger plans. Lacking in natural resources, the country's economy became dependent on the activities of the foreign rulers. The country was aptly referred to as a 'fortress' and was used as such by all the different rulers. The economy of the country and the well-being of its people flourished in times of war and suffered in the interludes. British rule endured turbulent times, and it was only during times of peace that the local leaders spoke in favour of independence.

The dependence on foreign government for financing and problem-solving may have fostered an excessively submissive attitude in the Maltese and a sort of inferiority complex since anything foreign is perceived as better than local produce. And the general tendency is to regard any person who suggests otherwise as radical and/or strange. Years of paternal government thinking that the people is not capable of managing its own affairs would rub off. When the last vestiges of the British military forces were removed from the Island in 1979, half the population 'mourned' the end of days.

The tendency to look at the government as 'the father and provider' persisted even with self-government and independence. This is manifested by the central role that the government played during the development period between 1959 and 1989. Pirotta (1996) claims that historical paternalism reached its peak during this period. Due to the paternalistic system of government in the 1980s, even the NAO drew attention to the need to curb employment levels in the public sector and to ensure efficient utilisation of manpower.

As an EU member state, with the strict requirements of the Maastricht criteria, and the current blurry prospects of the economy in general, political leaders appear to find it difficult to balance the requirement to curb public expenditure and the appetite of the citizens for paternalistic favours, especially during periods preceding general elections.

A paternal government may also find some difficulty to implement and maintain NPM ideology. This is referred to in section 2.3.

The sense of insecurity that may have been fostered by years of paternal government could be the underlying reason why the Maltese Government regards credibility of the country as of utmost importance. The need to establish ' … *the standing of a country on the international* *stage*' (Godfrey *et al.*, 1996:199) has been identified as the underlying reason why the Maltese Government embraces the full adoption of IPSAS. The findings regarding the IPSAS decision is further discussed in section 4.

2.2 British Colonial influence

British influence is imprinted all over the Island's way of life, but perhaps the wisest inheritance from Colonial times is the language. The English language is Malta's official language, together with Maltese, the native tongue. The English language was a necessary tool to communicate with the British officials during the occupation, and then was perceived by Maltese leaders as a useful means of communication with other nationalities. Given that Maltese is a language only spoken by around half a million people, the English language established its importance.

The English language provided the tool for the Maltese to venture outside the Island's shores and to import systems from abroad. The Education system in Malta is based on the British system. Accounting is taught, practiced and written, in English - even government accounting.

While the legal structure of Malta is based on the civil law pattern of Continental Europe, administrative and fiscal legislation is based on British laws. The centralised administration established by the Knights was adopted by the British who designed its departmental structure and set up the civil service as a salaried work force. The NAO boasts of its Anglo-Saxon origin.

Accounting systems in Malta can be classified as Anglo-Saxon. The accounting system in the private sector is principles-based and accountability-driven. IFRS are also used by local councils and other public sector entities that have their own accrual-based accounting systems, while the accounting system of the central government is based on UK's old cash basis of pre-2000. The reason is basically because the underlying Financial legislation has been inherited from the British. The existing laws were designed on British Colonial Regulations with emphasis on budget preparation, budgetary accounting and control.

The findings reveal that in spite of having been re-enacted three times, the Financial Legislation for government accounting did not change much over the years. The Colonial Regulations remained in force up to 1966, and then even the Financial Regulations promulgated in 1966 were based on the Colonial Regulations. The Colonial Regulations were used as a guide even though not applicable to colonies with a responsible government.

The major change to the Financial Legislation of the 1960s occurred in 1997, when the independence of the office of the Auditor General was constitutionally recognised. Otherwise, there appears to be an overall reluctance to change the inherited financial legislation, in spite of various deficiencies that have been identified, for example, the annuality principle in the budget[95] and the provision for supplementary estimates[96]. The existing legislation does not define the reporting entity, which may prove confusing should the accounting reforms at central level proceed as planned.

[95] Articles 22 and 27(4), Financial Administration and Audit Act, 1962.
[96] Article 24, Financial Administration and Audit Act, 1962.

Nobes (1998) recognises that strong external cultural influences can affect some countries because of their small size, underdeveloped state or former colonial status. The accounting systems used by such culturally-dominated countries are likely to be based on that of the influential country. British products and systems are highly regarded by the Maltese. Due to British influence, the Maltese still tend to look up to Britain as a model. It is not surprising, therefore, that the first computerised government accounting system used a British application. This software is also very popular in the private sector, but it needed to be amended beyond recognition in order to be suitable for the government's cash-based budget-oriented accounting system. It is surprising, however, that the Maltese Government did not decide to emulate British government accounting and move to accrual accounting earlier. But perhaps other factors started influencing the Maltese outlook, for example, EU membership.

2.3 NPM ideology

According to Pirotta and Warrington (2001), the centralised administration devised by the Knights and the British to govern their fortress provided a ready foundation for the ambitions of Malta's sovereign governments. Central control was retained while government operations became more heterogeneous and complex. Different forms of government entities cropped up during the development decades as an attempt towards better administration through decentralisation, but these were not founded on consistent arrangements and thus provided more confusion.

As a result, the PSRC carried out a study in 1989 and it put forward its ideas to improve efficiency and effectiveness of the public service, including decentralisation and delegation of power (PSRC, 1989). Through its suggestions, the Commission appears to have been promoting NPM ideology. But the findings suggest that some of the reforms appear to have been done half-heartedly and may not have been implemented as planned. For example, the underlying financial legislation was not amended to enforce more responsibility, accountability and monitoring. And employment practices reeking of patronage appear rampant still, perhaps partly due to the paternal system of government.

Operating under a tight EU financial regime, the PS felt the need to rein back control to a central level, at the cost of being called a 'small dictator'. Some literature[97] describes such a policy of strengthening co-ordination through more centralised or collaborative capacity, as post-NPM, implying that NPM ideology may have failed. But according to Lodge and Gill (2011), the defect is not in the NPM ideology but in incorrect or incomplete application of it, as these findings appear to uphold.

3 GOVERNMENT ACCOUNTING REFORM PROCESS IN MALTA

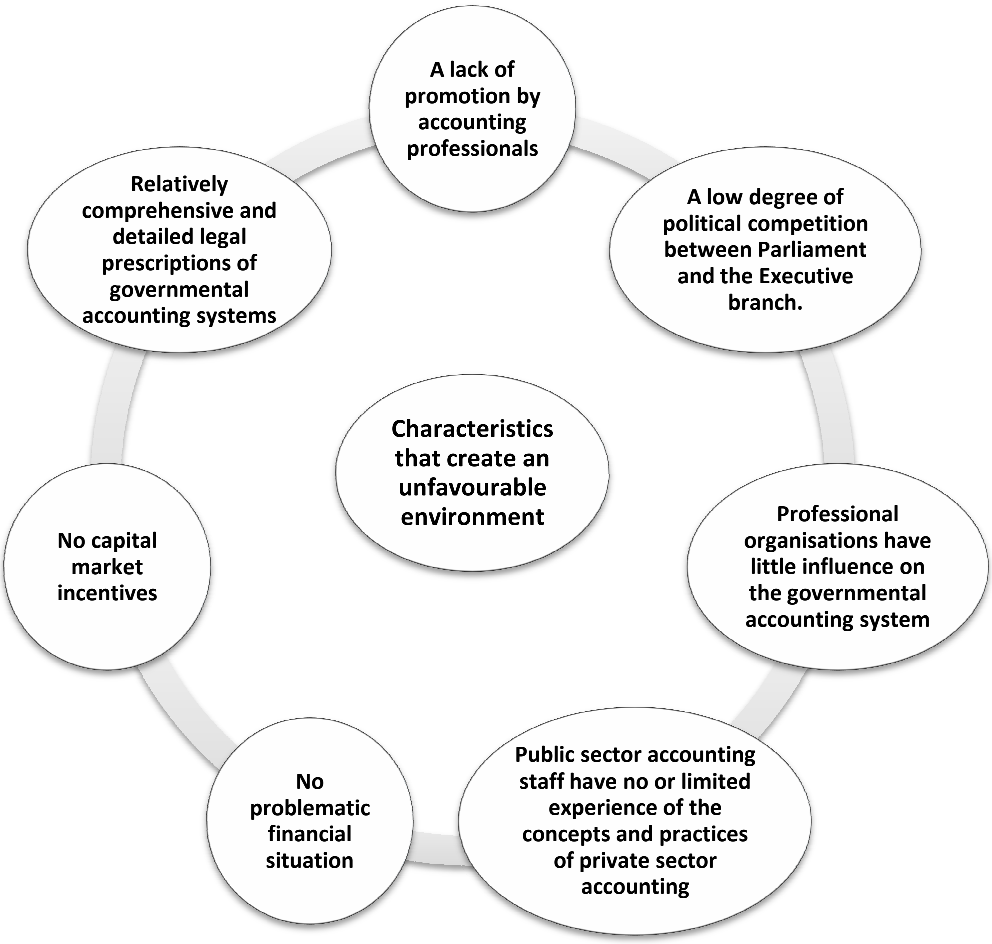
Lüder's FMR Model (2002) presented and discussed in the literature review, is a framework that explains the relationship between contextual, behavioural and instrumental variables and the conduciveness to innovations in a country's governmental accounting system, in order for this to become more informative. The reasons why this model has been chosen have already been described in the literature review in Chapter 3. The main purposes of this section are: to describe which contextual, behavioural and instrumental variables have affected the Maltese

[97] For example, Christensen and Lægreid, 2008.

governmental accounting reform; to explain how they have impacted the innovation process; and to predict how and which of these variables will affect the future course of the reform.

As described in section 2, the governmental accounting system in Malta is heavily rooted in tradition. Due to the paternal system of government, 'citizen-orientation' of politics and government appears to be high, but 'openness' is a more recent concept that needs to be developed. In the meantime, the restructuring of the external governmental accounting system does not appear to be the top priority for Maltese government authorities.

Figure 15: Unfavourable characteristics according to Lüder (1992)



Characteristics that create an unfavourable environment for the development of a governmental accounting system, as identified by Lüder (1992:124) (refer to figure 15), are all present in the Maltese context.

The findings indicate that the long-winding reforms at the central government level of Malta may only be illusory because once the statistical reporting requirements for Eurostat were satisfied, the accounting reforms actually died, and the original raison d'être was lost. While the original stimulus was managerial-driven, the changes in the actors that occurred over time, together with the financial stress that naturally accompanies EU membership, appear to have blurred the reform concept. Contrary to expectations, the evidence indicates that the small size of the country may have actually acted as a negative factor on the government accounting reform process. The findings indicate that the reform process can be divided into two phases, namely pre- and post-2004. While the environment in the first phase may appear to have been conducive for accounting reforms, the second phase perhaps is not so conducive.

Some of the discussion arising in this section have been elicited by Jones and Caruana (2013b).

3.1 Contextual Variables

3.1.1 Stimuli

After 164 years as a British colony, Malta gained its independence in 1964. The Maltese government was accustomed to the accounting system used by its rulers, and simply adopted it, together with the underlying financial legislation. Except for some political issues, overall it was a peaceful transition, in the wake of a fast rate of development. The government became involved in all aspects of the economy; the public sector grew and its investment stimulated economic growth. The standard of living increased dramatically and the citizens enjoyed a wide range of social benefits. There was no financial or economic crisis, but a **political crisis** arose due to a malfunction of a constitutional requirement[98]. This led to a change in administration in 1987, and the new administration advocated a modern government with the ultimate aim of the country becoming an EU member state.

The **requirement of Public Sector Reform** has been identified by the literature as a possible stimulus for government accounting reform. Government accounting reforms in Malta appear to have been instigated as part of an overall reform of public services undertaken in the early 1990s. The financial aspect of the modernisation included the computerisation of the central government's accounting system which started in 1992 and was completed by 2000. While enhancing financial internal controls, the accounting system remained cash-based with emphasis on budgeting and budgetary control.

[98] Refer to Chapter 4 (section 2.2)

In the meantime, NPM ideology appears to have triggered various changes in the public sector, including privatisation and decentralisation. Various forms of government entities cropped up as a result of delegation of powers and responsibilities. The underlying aim was to improve public sector economy, efficiency and effectiveness, and private management models and practices were adopted. The traditional cash-based governmental accounting system proved rather problematic, and these entities were encouraged to use an accounting model that was similar to that used in the business sector.

Then in 1999, the official decision was taken by the Minister of Finance that the accounting system of the central government will be changed to an accrual accounting system. The findings indicate that the original intention was to improve the economy, efficiency and effectiveness of the government at central level. It was thought that this could be achieved through the business accounting model, and thus the **dominating doctrine of superiority of business accounting** was acting as a stimulus. The proposed reforms were managerial-driven, and the ultimate aim was that accounting will be used as a management tool across the board.

Perhaps due to defects in the institutional arrangements that will be described shortly, the accounting reforms took longer than expected. But it could also be that there was no stimulus at all, and changing to accrual accounting "*was just a good idea at the back of everyone's mind*" (IAID, Interview 21) because nothing transpired.

In 2004, a new Minister of Finance was confronted with the challenges of EU membership. The government started facing **financial pressures** in order to meet and maintain the Maastricht criteria tied to EU membership and the decision to adopt the euro by 2008. These financial pressures took precedence. But since EU regulations and standards do not require a member state to have an accrual accounting system, and only require a form of accrual reporting, the Maltese government endeavoured to adhere to these requirements. Once these requirements were being met, the wind that was blowing in the sails of the accrual accounting reform at central government level stopped.

Therefore, financial pressures acted as a deterrent in the case of Malta, rather than a stimulus. And it appears that it still is. The accrual accounting reform has not been abandoned because the apparent motions are still there: the committees and the preparatory work by the Treasury are ongoing. But the process appears to have stalled, while the administration is now waiting for the EU to prescribe what needs to be done. As will be explained in section 4, this may prove to be a very convenient position, especially for the politicians.

Perhaps the most 'tangible' stimulus now is the fact that the current computerised accounting system used by the government is outdated, and if steps are not taken to replace it, the system could suffer due to lack of technological support. The government could thus see it as opportune to change to an accrual accounting system, given that the expense of acquiring a new accounting system still needs to be incurred. The **requirement to replace the IT system** is another stimulus identified by Lüder and Jones (2003).

It appears, therefore, that the accounting reform process can be divided into two phases, namely, 1999 to 2004 (before EU accession); and 2004 to date (after EU accession).

It can be argued that the prospect of EU accession was present from the start because the government was striving for EU membership since 1987. Two things happened in 2004: EU membership and a new Finance Minister. EU membership is now part of the institutional arrangement (a contextual variable), while the new Finance Minister represents a change in a behavioural variable - a change in the political reform promoter. It appears that a change in the combination of these two variables has reduced the conduciveness of the environment towards accounting reform. It also appears to have affected and changed the reform concept itself.

3.1.2 Institutional arrangements

The **legal system** may affect the flexibility of the governmental accounting system. Less flexible legal systems tend to be less conducive to reforms, or at least tend to slow down the reform process.

The legal structure in Malta is Continental European (civil law), and the fiscal legislation of the central government has been inherited from colonial times. The legislation and the supporting regulations are very important in guiding administrative actions.

There is no Government external body that issues guidelines on government accounting in Malta. All the financial rules and laws are issued by Parliament, the MFEI, and the Treasury. And they are all mandatory, even if they are called 'guidelines and instructions'. The financial regulations require all accounting officers to abide by circulars and notices issued by the MFEI or the Treasury.

The FAA Act and the GFR lay down strict rules and procedures that are required to be followed by all government officials. The legislation refers to cash-based accounting, with emphasis on budgeting and budgetary control. It specifies the content of the annual Financial Report prepared by the AG, and the format of the annual Budget (known as 'Financial Estimates') that is presented for approval to the Parliament by the Minister of Finance. The regulations also specify the procedure required for the preparation of the Financial Estimates.

Nevertheless, the legal system cannot be considered as unfavourable to changes in the accounting system because the FAA Act itself allows the issuance of further instructions and new rules in the form of circulars and notices by the Ministry and the Treasury. In fact, the compilation of accrual data by the departments, and its collection by the Treasury, are not procedures which are laid down in the legislation, but are simply the result of a number of Treasury circulars. The majority of these circulars were issued at the beginning of the accounting reforms, but then trickled to nothing after 2004, as the terms of reference of the Accrual Accounting Task Force that was preparing these circulars became doubtful.

The powers and flexibility of the Minister of Finance were enhanced by the 2004 amendment to the FAA Act. With this amendment, the Minister can determine government accounting standards and give them legal backing by means of a simple legal notice, thus bypassing Cabinet approval. The other possibility that was suggested by the AG is to issue a directive through the OPM, as this has the power of the law, according to the Public Administration Act.

The existing financial legislation was enacted in 1962, on the doorstep of the country's independence. The administration, economy and legal status of the country has changed since then, and the financial legislation may not cater for the present circumstances. But there is no consensus as to whether the 1962 legislation should be scrapped and totally replaced, or slowly tinkered with so that amendments and changes are done gradually. A new Public Financial Management Act was drafted in 2002, but it was set aside when the administration changed in 2004. The PS claims that the new Act was not complete, and he would prefer to introduce gradual changes to the rules in order to avoid confusion. But perhaps the proposed Act had contained certain provisions that were not acceptable for certain stakeholders, for example, the carry forward of unused allocation of funds, and the requirement for each department to have its accounts audited by a private audit firm.

The Maltese legal system tends to be favourable to governmental accounting reforms, but may cause delays in implementation if it is decided to replace the existing law. Also, since Malta became an EU member state in 2004, EU directives need to be transposed into law. As to accounting reforms, the Maltese Government is now waiting for instructions from the EU Commission in order to proceed, especially with regards to government accounting standards. The legal system may thus now effectively be a negative factor.

Malta is a unitary state with a one-chamber parliament. There is an unbalanced division of power favouring the Executive because the government and parliamentary majority are closely identified with one party. A low degree of political competition between Parliament and the Executive branch makes the **state structure** conducive to government-induced reforms, because whatever laws the Executive proposes are very rarely contested by the

Parliament. But if the government does not propose such reforms, nothing is done, and the Parliament has no power to induce them. This is why Lüder (1992:124) states that lack of political competition creates an unfavourable environment for the development of the governmental accounting system.

Perhaps the state structure is irrelevant in the case of Malta for the purpose of government accounting reforms, because there appears to be a general consensus from both political parties in supporting the introduction of an accrual accounting system at central government level.

When discussing the influence of the **<u>size of a jurisdiction</u>** as an implementation barrier for innovations in the governmental accounting system, Lüder (1992:118) explains that:

> *… as the size of the jurisdiction increases, technical and administrative problems of implementing a new accounting and financial reporting system multiply and cost of implementation rises.*

While it may be true that governmental accounting innovations might be easier and cheaper (and thus more likely) to implement in smaller countries, other problems arise that counteract this argument. For example, Local Councils in Malta were required to use an accrual-based financial reporting system soon after they were set up. All Local Councils adhere to this regulation with no apparent difficulty, even though the extent of the use of accrual-based financial reports for decision-making is doubtful as it appears that none of them actually prepare an accrual-based budget nor apply a cost accounting system. The size of the Local Councils is very small, and perhaps could be compared to the size of parishes on an international scale.

But when it comes to applying accounting reforms at central government level, which would be a more complicated process, the findings show that the small size of the country actually acts as a negative factor on the reform process.

Due to limited resources, the administration cannot afford to have employees specialising on one issue, but these need to be involved in a variety of tasks. The advantage of administering a small country is that you can get the top people together around one table. But the same small cluster of people are required to take on the responsibility of many things. While a large country can afford to have more staff who are specialised.

The actual level of human resources then acts as a constraint because it would need to be concentrated on issues that are top priority, with other processes being placed temporarily on a 'waiting list'. For example, the importance given to euro adoption is described in Chapter 5 as a factor that may have negatively affected the accounting reform, because limited resources were being absorbed by this issue.

The size of the jurisdiction is important when considering the **administrative structure** as a contextual variable. The administration at central level is divided into 12 ministries[99], with each ministry being divided into a number of government departments. There are around 50 government departments overall, but the actual number varies each year. Each ministry then has a number of independent government entities within its portfolio, but these entities have their own accounting system which is accrual-based[100].

[99] The number of ministries increased to 15 under the new administration as from 9th March 2013.

[100] These are the entities that evolved from the decentralisation process because it was perceived that a private management approach would overcome the inefficiencies of the government departments that were providing certain services.

The accounting reform under study concerns the ministries and the government departments. While there is an accounting function within some departments, there is definitely an accounting function within each ministry that is responsible for the accounting system of the ministry and its departments. These are known as DCS. Overall control of the accounting and budgetary systems is then centralised at the MFEI: with the Treasury responsible for accounting; and the Budget Office responsible for the budgetary system. The administrative structure of the central government is therefore highly centralised, even though there is potential for more delegation of responsibilities and authority at least at ministry level.

While this centralised system may be desirable to ensure consistency and uniformity of accounting reform across all the departments and ministries, it concentrates a lot of responsibilities and pressures on small groups of people, namely, the AAWG within the Treasury and the Accrual Accounting Task Force (or whatever the committee may be called - it still consists of basically the same individuals). This may appear not conducive to accounting reforms. However, when some of the responsibilities of the Task Force were delegated to other directorates within the MFEI, for example, when the new legislation was given to the Director General Strategy and Operations, and the accounting standards to the Director Financial Policy, the work on these aspects of the accounting reform stopped. But this may have been the result of the change in a behavioural variable, namely the change in the political reform promoter. The political reform promoter affects the institutional arrangements.

It appears important that the institutional arrangements are not used to scatter the responsibilities of the committee that is ultimately responsible for the accounting reforms. In other words, all the aspects of the accounting reform should be the responsibility of one committee in order for the reforms to have the possibility of success.

The institutional arrangements, in particular the administrative structure, appear to be creating a conflict within the MFEI itself. Especially with regards to the actual functions of the Treasury and its role, or expected role, in the accounting reform. It appears that more communication is required in this respect so that there is a clear definition of roles. Responsibilities of the actors involved in the accounting reform should be clearly defined and not assumed, otherwise it may result that nothing is actually done.

Accrual accounting is not a salient topic in the public service, and "*if the government can forget this topic and leave it cooking slowly, it will*" (PAC2, Interview 6). Lack of accounting skills and lack of familiarity with certain accounting practices, in particular those closer to business accounting, is pervasive in the **<u>civil service</u>**. Many civil servants responsible for the accounting services, do not have a financial background. Besides a handful of accountants, the major educational background is economics, statistics, law, public administration or public finance. This serves well, given that their main responsibility concerns budget (legal) execution, but otherwise, the attitude towards the accounting reforms appears rather misinformed and, therefore, not fully appreciated.

A civil servant can find him/herself working in the accounting function without having any accounting knowledge, let alone an accounting qualification. Besides a short course on how to operate the DAS, no particular training in accounting is provided. All that one can expect is some "hand holding" by a colleague.

All the DCS interviewed expressed their concern about lack of suitably qualified support staff. While working in the accounting function would involve more responsibilities, there is no financial compensation for this, which makes it difficult to attract appropriately qualified personnel. It appears that accounting positions within the public service are not adequately promoted by the government, which thus fails to attract suitable professionals as these would prefer to work in the private sector. Perhaps this is also partly a failure of the education system because accountancy courses are primarily oriented towards business accounting practices, focusing solely on private sector opportunities. There is also a deficit in the legal framework since there is no professional set up for public sector accountants, that is, there is no particular professional training or requirements for accountants to practice in the public sector.

This situation appears to be changing only in recent years. The OPM had set up a Centre of Development and Research Training, which organises various courses for public service employees, including one on financial management. The MFEI had also requested the University of Malta to design a particular course on Public Accounting and Finance, which started being provided as from October 2010 to a selected group of public service employees working in the accounting function. On its part, as from October 2012, the University has also included an elective on Public Sector Accounting in its Masters in Accountancy which leads to eligibility for the warrant to practice as an accountant in Malta. The intention is to promote more awareness about accountancy practices and opportunities in the public sector.

The restructuring of the Treasury led to the set up of the Government Accounts Directorate in 2006, and this division is headed by an accountant. As at March 2013, there are only two other accountants working in this division, but the Director is endeavouring to increase this number.

In July 2012, training on IPSAS in particular was provided for a group of top officials in the civil service, including non-accountants. As pointed out by the partner of the consulting audit firm (Interview 14), in a large organisation like the government, accounting knowledge is required at all levels of the structure and not solely at the top. Perhaps if the trend that has started is maintained, this objective will be eventually achieved.

The findings indicate that the features of the Maltese civil service, in particular as to accounting knowledge and exposure, the tendency is moving towards characteristics more favourable to governmental accounting innovations. While the ex-Chairman of the Task Force (Interview 8) described the resistance that he had encountered from civil service employees at various levels of administration, it now appears that there is a general expectancy and eagerness for accounting reforms from the ministries. And even the partner of the consulting audit firm (Interview 14) believes that the government is presently better equipped with suitably qualified personnel to implement accounting reforms.

As to the **culture variable**, which incorporates social, political and administrative tendencies, Lüder (2002) expects a most favourable climate to include a combination of risk-taking, individualistic, openness and responsiveness to the general public's needs. This variable is somewhat complicated and difficult to describe in the Maltese context, because although the country appears advanced in certain respects, it is still in the process of modernisation.

The traditional paternal system of government, as described in section 2.1, has a large role to play in the culture variable. The democratic structure of the government demonstrates a tendency of a high level of responsiveness to the needs and demands of the general public, together with an increasing level of transparency in political and administrative processes. Parliamentary discussions are publicised in the media and meetings of the PAC are open to the general public. The government's website is extensive, providing access to information about the various ministries' activities and public services. The Auditor's report, the annual Financial Statements, the Financial Estimates and a pre-Budget publication, are all available on the MFEI's website. Pre-budget discussions are also held with the various stakeholder groups.

On the other hand, there is a certain degree of risk-aversion considering, for example, that the same political party remained in government for 25 years[101]. Abrupt changes do not appear to be desirable, and the inclination is towards introducing gradual reforms. The findings show how the PS does not wish to change the financial legislation, but prefers to work on the mentality of the employees and slowly introduce new measures. The findings also highlight risk aversion in the cautiousness shown towards reforms in government accounting because of the uncertainty about their impact on financial reporting, especially on the results being reported to the EU. This aversion to risk may be one of the underlying reasons why government accounting reforms have been long-winded, multi-step and with no apparent

[101] The Nationalist Party held the government seat from 1987 to 2013, except for a short interlude in 1997 and 1998, when the Labour Party was in government. The latter was elected in power in the last General Elections held on 9th March 2013.

actual target. The accounting reforms appear to have stalled now, with the government authorities waiting expectantly for directions from the EU.

The characteristic of individualism vs collectivism is rather a generalisation because the administrative structure could either promote or hinder these traits. The small size of the island does promote individualistic competition, but participation on various committees and group work are also popular, and many prefer not to voice an opinion perhaps out of fear of labelling, which is very easily carried out in a small size population.

When the government accounting reforms started, the two main actors were rather individualist, and the reforms were managerial-driven. The ex-Chairman of the Task Force (Interview 8) promotes individualism when stating that the demand for accounting information should come from bottom up and not vice versa. He also holds the opinion that the Treasury Officials should take a more firm and active role in the accounting reforms. When the actors in the accounting reforms changed, collectivism became more pronounced, with actions depending a lot more on committee decisions. There is a certain hesitation by individuals to take decisions. And the accounting reforms became more accountability-driven.

The culture variable appears to depend on the type of actors involved in the process, that is, it overlaps on the behavioural variable.

3.2 Behavioural variables

Lüder's FMR Model gives distinctive roles to reform drivers, political reform promoters and stakeholders (Lüder, 2002), but the findings show that these roles may overlap in practice, especially the roles of reform drivers and stakeholders. As described in chapter 2, sometimes it proved difficult to classify an actor in a specific role, for example, the NSO.

3.2.1 Reform drivers

The Accrual Accounting Task Force is the **government committee** specifically set up to design and implement the required accounting reforms at central government level in Malta. Basically, the same group of people constitute the three committees that evolved to deal with the legislation, the accounting standards and the system specifications. At first, the output of these committees appeared satisfactory to the political reform promoter, but when the latter changed, the influence of these government committees decreased dramatically: the proposed legislation was shelved; the IT system specifications were sent back to the drawing board; while the MGAS were overridden with the decision to adopt the IPSAS. The findings lead to suggest that this reform driver now only exists on paper: it has lost its effectiveness; and meetings are rarely held.

The first chairman of the Task Force was a government financial officer, an accountant, a strong character who believed in the reforms and promoted them. It appears that he had a good relationship with the Minister of Finance at the time, and thus the reform driver and the political reform promoter held the same vision about the accounting reforms. As a result, the reforms progressed. The chairman 'owned' the accounting reform, but he did not have the power to enforce it - this power was held by the Minister of Finance.

When the Minister of Finance changed, this affected the influence of this reform driver, and it appears that the views of the reform driver and the new political reform promoter were not on the same wavelength. The tempo of the reforms suffered, as for a time, the terms of reference of the Task Force were being questioned. The allocation of funds for the reform, which were always a problem, dwindled further.

Eventually, the chairman of the Task Force retired and his responsibilities were scattered on other government officials, resulting in loss of ownership of the project. The successor, that is the Director General Strategy and Operations, became responsible for the accounting reforms overall and for the development of the financial legislation. This government official is an accountant as well, but the accounting reform is not his sole responsibility. It is one task amongst many others, and since he has not received instructions to give priority to the project from his superior, it has been 'placed on the back burner' in the meantime.

The responsibility for the accounting standards was given to another government official, namely, the Director Financial Policy. This Director is not an accountant. While he acknowledges the importance of this aspect of the accounting reforms, once again, it is just one task amongst many others that claim his immediate attention. This Director is a member of the committee responsible for the accounting standards, that is the IPSAS Committee, but this committee is being chaired by the PS of the MFEI, who has the power to enforce the reforms, and thus is the new political reform promoter.

These two new reform drivers are not exercising any influence on the political reform promoter, but are awaiting instructions from him in order to act. They do not demonstrate individualistic characteristics like their predecessor.

The ex-Chairman of the Task Force (Interview 8) stated that one way to hold back the accounting reforms is to place the project in the hands of officials who are not really interested in the accounting reforms. The way that the accounting reform has slowed down to a near standstill perhaps affirms this view. The possibility that these changes were intentional in order to have this braking effect, cannot be excluded.

Professional interest in public sector accounting appears to be weak in Malta. This is typical of countries in Continental Europe as identified by Lüder's (1992:114) comparative study. It appears from the findings that there is relatively little business potential for accounting firms in public sector audit engagements. When the accounting reform started, however, the Task Force had appointed private audit firms to carry out studies on certain aspects of the accounting reform. These studies are referred to, but the influence appears to stop there. A professional association particular for accountants in the public sector does not exist. The MIA, which is the Maltese professional body for Accountants, is more concerned with the private sector.

When the government accounting reforms started, there was some enthusiasm even at the MIA, which set up a public sector committee with the involvement of an accountant in government employment. But the interest eventually waned mainly due to the passage of time and lack of initiative and interest from the government side. The professional body does not attempt to make governmental accounting reform a political issue or to somehow try to influence political decision-makers.

There are no **accounting standard setting bodies** in Malta. The private sector has been adhering to IFRS since 1995[102]. When the government accounting reforms started, the Task Force, with the assistance of a private audit firm, designed a set of MGAS, but these standards were never effectively used, and have now been replaced with the IPSAS. The PS (Interview 9) considers the IASB (and the similar IFAC and IPSASB) as more suitable to issue accounting standards since it is an internationally recognised body. While government officials do not take a direct interest in the pronouncements made by international bodies, such as IFAC and IPSASB, regarding public sector accounting reforms, these international standard setting bodies have still managed to influence the Maltese Government but only through the auspices of **the EU**.

Through their advice, talks and publications, the IFAC and the IPSASB have managed to make governmental accounting reform a political issue and have succeeded in influencing political decision-makers at EU level. The IFAC and the IPSASB can, therefore, be considered as reform drivers at EU level. It is then the EU, and Malta's membership in the EU, that acts as a reform driver for governmental accounting reform in Malta.

[102] The Companies Act of 1995 made this a legal requirement. The GAPSE were designed for small and micro businesses in Malta, and these are based on IFRS. Prior to 1995, the IASB's international accounting standards and the UK's Statements of Standard Accounting Practice (SSAP) were considered as best practice by the Accountancy profession in Malta.

Malta's EU membership status also requires due attention to be paid to the statistical reports that are submitted to the EU, which reports are the product of **national accounting**. These reports are so highly regarded and given utmost importance, that the standards on which they are based, namely the ESA95, are highly influential on the development of the governmental accounting reforms and are even affecting the reform concept itself. One can conclude that national accounting and the ESA95 are reform drivers that are proving to be very influential on the political decision-makers. This concurs with Heald and Georgiou (2011) who describe national accounting as an epistemic community. This issue is discussed further in sections 4 and 5.

This argument leads to assessing **the NSO** as a reform driver due to the role that this office plays in the accounting reforms. The advice of this office is sought for all financial decision-making, and it is involved in the accrual accounting reform to guide the political decision-makers as to the impact of any changes on national accounting and statistical reporting. The NSO is also a stakeholder because the government accounting reform will affect its work procedure. But it is also a reform driver due to the prominence it is given in decision-making. For example, comparing the NSO with the NAO, one can note a significant difference in the level of influence that these two offices can exert. In fact, the NAO cannot be considered as a reform driver in the Maltese governmental accounting reforms, and is only influential on matters that concern the office itself, for example, changes in the legislation concerning audit procedures. A similar conclusion can be drawn about the PAC. While the PAC can enquire about the accounting reform and encourage implementation, it has no actual power to enforce action.

Besides National Accounting, **epistemic communities** relevant to this study do not appear to exist in Malta. There may be scholarly networks or professional associations who share common views on the main features of the reform, but they are not effective, and they do not try to influence the governmental accounting reform process.

The analysis of the findings leads to the conclusion that, with the exception of the EU, overall the reform drivers either have no effect on the political reform promoters or may actually promote change but not in the originally intended direction. While the EU is a powerful reform driver, its views on the main features of government accounting reform are still under discussion, and thus its effect on the reform concept is still unknown. Having said this, however, it can be assumed that the EU would promote innovations.

3.2.2 Political reform promoters

Except for a short intermittent period when the **Prime Minister** himself was responsible for finance, ever since the accounting reforms at central government were launched, the **Ministers of Finance** were accountants by profession. This did not make any difference on the outcome, that is, the accounting reforms were not successfully implemented.

As members of the Executive, both held the power to begin and complete the reforms. The findings reveal that the two ministers perhaps did not share the same vision about the accounting reforms.

The Minister of Finance who initiated the reforms in 1999 believed in the importance of implementing accrual accounting at central government level, and upheld its importance as a management tool. His enthusiasm for the project infected the other actors and wholly supported the main reform driver, being the first Chairman of the Task Force. The Minister of Finance and the main reform driver shared the same views about the accounting reform and they are both described as 'champions' for the accounting reform. As at 2004, all the groundwork was ready to begin implementation, but then the Minister resigned from office due to internal political matters[103].

When the Minister of Finance changed in 2004, the thrust of the accounting reforms slowly waned. Various factors could have contributed towards this as suggested by the other actors in the reform. For example, the new Minister could have found himself overcome by a series of events including the demanding requirements of EU membership and euro adoption. Due to efforts in controlling debt and deficit to be in line with the Maastricht criteria, it was never opportune to expend funds on perhaps not so necessary back-end procedures like the implementation of a new accounting system. It could also have been a matter of different personal characteristics in that the new Minister, as an auditor, was perhaps disillusioned about the utility of accrual accounting at governmental level. One participant referred to the possibility of political jealousy, in that a new minister in office would wish to start with a new slate and thus dismantle the work done by his predecessor. Perhaps the new Minister of Finance was affected by a combination of all these factors.

[103] The Minister of Finance had contested for party leadership in 2004 but lost. This created some internal political friction within the party, and the Prime Minister took over the Ministry of Finance, appointing another accountant as Parliamentary Secretary at the Ministry. Subsequently, the Parliamentary Secretary became the new Minister of Finance.

The PS of the MFEI is the **chief financial adviser** of the Government. The position of PS is not political, but it is the highest grade in the civil service (after that of Principal PS), and the person filling this post is personally chosen by the Minister on the basis of mutual trust. The PS would thus reflect the policy of the Minister, and vice versa, that is the Minister acts on the advice of his/her PS. The new PS chosen by the new Minister of Finance assumed full and direct responsibility for the accounting reform project. His power is such that he can be considered as a political reform promoter, because all the other actors in the reform follow his decisions and directions.

Although the PS is very supportive of training, in particular in the accountancy field, the reform project is not his sole or main item on the agenda. Therefore, he cannot be described as a 'champion'. Perhaps this is why the project is now described as 'an orphan' (GT, Interview 14). While the PS is professional in the execution of his responsibilities, his background is statistics and economics, and thus his view on the accounting reforms tends to emphasise the importance of national accounting rather than government accounting. And the resulting direct influence he exercises on the reform concept is in that direction. He has managed to change the process of implementation to suit his views on the reform concept.

National Accounting and the NSO are thus the main reform drivers now affecting the political reform promoter. While the behaviour of the political reform promoter is directly influencing the reform concept, the implementation strategy, the institutional arrangements, the stakeholders, including parliamentary members, and even the reform drivers, for example, the members of the Government committees in charge of the accounting reform and the PAC.

The **members of parliament** in Malta are not political reform promoters, because the parliament is not strong enough to enforce reforms against the resistance of the executive (Lüder, 2002). The members of the opposition support the accounting reforms but they have no power to enforce it. They could influence the stakeholders and even perhaps the reform drivers, but they are not powerful to enforce any changes because the majority in parliament is the same as the executive branch. The actual level of support can only be tested should there be a change in government[104].

The analysis of the findings thus may lead to the conclusion that governmental accounting reform in Malta enjoys a lot of lip service but political will and support is lacking, as the process appears to be only apparent and half-hearted.

3.2.3 Stakeholders

Stakeholders are institutions or positions that are affected by the reform, either in a positive or a negative way.

Due to its involvement in the decision-making process including the annual budget preparation, the **NSO** has been included with the reform drivers, but it is as well a stakeholder since it does have an interest in a more informative accounting system that is more in line with the accrual system used in the National Accounts. Since the government uses a cash-based system for its accounting, the NSO is responsible for converting this data in accordance with the requirements of the ESA95. At present, the NSO places a lot of reliance on the work

[104] This hypothesis can be tested now by a future study, since the General Election held on 9th March 2013 resulted in a change in government.

of the Treasury in collecting accrual data from the government departments. As already described, the overall influence of the NSO may not be in line with the original reform concept and may have contributed to the redefining of the reform objectives, with more emphasis on the requirements of the ESA95.

On the other hand, the **NAO** and the **PAC** are stakeholders who are not so influential on the political reform promoters. Their views appear to be more in line with accounting reforms that are managerial-driven rather than accountability-driven. The same applies for the **IAID**, even though the latter appears to be more informed about how the reform concept has changed and appears willing to be flexible and open to any kind of change that results in an improvement in the accounting system.

The Maltese **members of parliament** are the representatives of the general public. Parliamentary members are stakeholders who, as already described, give the appearance of upholding an accounting system that would improve transparency and accountability but perhaps are not so well-informed of what changes are required in order to achieve this. The majority of parliamentary members do not have a financial background and includes mostly medical doctors and lawyers. Subsequently, they are easily persuaded by the opinions of the political reform promoters. One result of this is that the PS of the MFEI has convinced the majority of parliamentary members that an accrual accounting system is in use because reporting to the EU is on an accrual basis.

The **general public** as such does not appear to care for the accounting system used by the government. The main concern is the impact of the budget measures on the standard of living.

As already explained in the section about culture in institutional arrangements, there is no education being provided about public sector accounting that could perhaps trigger a particular interest by this stakeholder group. Perhaps the recent changes could initiate some form of interest in the future, but it is still too early to consider at this stage.

The **Treasury** is a very important stakeholder that has persisted in its work in the accounting reforms. Due to its reluctance to initiate reforms itself, however, it cannot be described as a reform driver. Even its potential influence as a stakeholder is dampened due to the position that it is taking with regards to decision-making, and in its persistence to regard itself as 'the executive arm' of the MFEI rather than the decision taker.

The **line departments** appear to be supporting the accrual basis because they are expecting that this will mean the end of the annuality principle, which would enable them to better plan and manage the resources that they are allocated and reduce the reliance that they feel they have at present on "*the mercy of the MFEI*" (DCS4, Interview 17). They appear to expect that they will have more autonomy with an accrual accounting system. Have they been given this impression in order to increase their support and co-operation to the reform? Or was this truly the original intention, which has now changed with the political reform promoters? It appears that the line departments are misinformed about what the implementation of accrual accounting would mean for them. Is this being done purposely to maintain their support and reduce resistance to change?

Perhaps the line departments would be satisfied with a new IT system, which is more user friendly, together with some freehand to carry forward unused funds. This appears to be their actual expectation as to how an accrual accounting system would affect them positively.

The analysis may therefore lead to the conclusion that the stakeholders are not offering any kind of resistance as the political reform promoter, namely the PS, has led the key stakeholders to at least a neutral position. According to Lüder (2002), such a situation should have a positive impact on the reform process, but in the case of Malta, the result is that the reform is proceeding in the direction chosen by the PS according to the 'revised' reform concept (as described in the following section).

3.3 Instrumental variables

3.3.1 Reform concept

The reform concept is the target that is being planned: innovations that allow the governmental accounting system to provide information useful for ensuring financial accountability and sound financial management. The literature suggests that it is a normative assumption that accrual accounting is superior to cash accounting. Comments like: "*Public sector accounting is tragically cash-driven*" (MIA, Interview 1); "*Reporting using accrual basis would be as it should*" (DCS5, Interview 20), appear to confirm this assumption.

The actors involved in the reform process hold various opinions about the requirements of the public sector, in particular the type of government accounting system. These varied opinions create an aura of uncertainty, detracting from the effectiveness of the requirements of the public sector reform as a stimulus. The behavioural variable is very important in this respect, because this uncertainty appears to also be affecting the development of the reform concept itself, according to the beliefs of the particular actors.

The cash-based system is criticised because it does not produce a comprehensive picture of the government's activities. On the other hand, the cash-based system is simple, understandable and does provide a "*good form of control*" (GT, Interview 14) and curbs over-spending. These arguments appear to support the view that cash-based accounting and reporting are still important for government, albeit not enough, and it would be ideal if the cash-based accounting system is complemented with some other form of accounting that would measure the efficiency and effectiveness of the government's operations.

The cash-based accounting system is also criticised because reports can be easily window dressed to suit political objectives, allowing "*more leeway for certain creative accounting*" (NAO1, Interview 15). But is this not true for any type of accounting system? From the experiences in the private sector, can the accountancy profession vouch that an accrual accounting system, producing reports according to IFRS, cannot be played around with to cater for the reporting entity's requirements? What about the level of subjectivity and the element of judgement required in IFRS accrual accounting reports? Anthony (1985:168) claims that "*all accounting reports are approximations*". However, Anthony (1985) overlooks the possibility that even the private sector may not have the intention "*to arrive at the best approximation possible*", but rather "*to come to a predetermined bottom line*." Such manoeuvres are not particular to government accounting.

The risk of manoeuvres can only be reduced with fiscal discipline supported by a solid system of internal control, irrespective of the type of accounting system. It is the system of governance that counts. Inefficiencies need to be dealt with at micro level, improving the quality of the input, so that benefits flow upwards, resulting in an accounting system that can be used as a management tool and support decision-making.

Will an accrual accounting system induce better discipline in the departments? Some of the stakeholders believe that it will, or rather expect it from an accrual accounting system, because on the other hand they do recognise that "*a good foundation*" is required in order to get a meaningful and useful result. The more technical stakeholders go a step further and recognise that accrual accounting would facilitate a management accounting system that is essential for decision-making like output measurement and investment appraisal.

When the accounting reforms at central level started, the idea was to implement a full accrual accounting system that will be used as a financial management tool, in addition to the cash-based system. The findings described in Chapter 5 reveal that uncertainty surrounds the utility of accrual-based budget. And the PS (Interview 9), who is a political reform promoter, is rather sceptic about the innovativeness of the accounting reform. While the DGA (Interview 2) confirmed that the actual output from the accounting reforms is a concept that is still work in progress.

The reform concept is under the direct influence of the political reform promoter, that is the PS, acting on the advice and opinions of reform drivers. The main reform drivers in the case of Malta appear to be the EU and National Accounting. The reform concept appears to have reacted to this feedback, and is now tantamount to providing more reliable data for national accounts and statistical reports. If this is now the reform concept, then one can argue that the reform concept has not only changed but is even being achieved, and, therefore, the government accounting reforms have been successfully completed and no further changes are required.

3.3.2 Implementation strategy

The main problem relating to staff qualifications has been identified and staff training is being provided. Until recently, the staff training provided cannot be described as systematic.

The process has always been authoritarian and centrally guided, which should be more conducive to a successful reform. However, central guidance appears to be lacking at present: the intention is there, but the change in the administrative structure and the behavioural variable have reduced the actual quality of this guidance.

A multi-step approach has been chosen, with the preparation of the trial accrual-based financial statements considered as the required pilot testing. But a new accounting system is required in order to initiate the implementation of the accounting reforms and this decision is still pending. So even though the planned implementation strategy appears to be adequate and ideal for a quick and successful implementation, the actual decision to proceed is still being withheld.

The reform concept has changed due to the extended length of the implementation period and the change in contextual and behavioural variables during this period of over 13 years. But perhaps it was never intended for innovations to be rapidly implemented.

The set up for the accounting reform is all there, but it may be that this is all for appearances sake as the political will to change is missing. For Brunsson (1989), Christensen and Lægreid (1998) and Pollitt (2000), there are differences between ‘reform talk’, ‘reform decisions’, ‘actual implementation of reforms’, and ‘results’ (Torres and Pina, 2004:450).

3.4 Lüder's FMR Model for the Maltese central government

The accounting reform of the Maltese central government has been a long winding process that is still unfinished business. The findings reveal that the process has experienced two phases. The reforms started out, in 1999, mainly managerial-driven, with the aim being a more efficient, effective and economic public management. The accounting reforms were part of a comprehensive administrative reform, and there was no apparent fiscal stress. Changes in the political reform promoters in 2004, resulted in the reforms becoming more accountability-driven, with major emphasis on external reporting. Some fiscal stress may be apparent here due to EU accession.

This change was not planned and did not happen intentionally, so the two periods cannot be described as particular phases of the accounting reform. The phased approach to the accounting reform was suggested by Bailey (1998) for transitional countries and was used by

Jorge (2005) and Haldma (2006). It does not appear to apply in this case, but as Haldma (2006) had concluded in the case of Estonian municipalities, the findings show that the materiality of various factors differ between the two periods resulting in different effects on the outcome of the accounting reform process.

As summarised in Table 14, a positive environment that was conducive to innovations at central government in Malta was present during the period 1999 to 2004. The overall positive effects of the behavioural and instrumental variables, together with the stimuli, could overcome the negative impact of the institutional arrangements. The environment appears to have changed to a negative one in the period 2004 to 2013. The only positive stimulus is the need to change the outdated IT system used for financial management, but even this could be replaced with a new version of an identical system. The institutional arrangements remain negative. The negative impact of the reform drivers and the political reform promoters have neutralised the position of the stakeholders and the reform concept itself. The length and quality of the implementation strategy are also having a negative effect on conduciveness to innovations. The long-winding process can be inflicting 'reform fatigue' on the project.

Since it appears that the political reform promoters and the reform drivers have taken the stance to await EU direction before proceeding with the accounting reforms, it is now essential for the EU to provide the appropriate stimulus in order for accounting innovations to proceed. While nothing can be done about the size of the jurisdiction, which has increased in its negative impact due to increased administrative burden, the political reform promoters have the power to affect the administrative structure, the civil service and even the culture, in order to make them more conducive.

Table 14: FMR Model in Malta - Interference of Environmental Conditions to Governmental Accounting Innovations

	1999 - 2004	2004 - 2013
Criteria	**Conduciveness to Innovation**	
CONTEXTUAL VARIABLES		
STIMULI:		
➢ Requirements of overall reform of whole Public Administration	+	=
➢ Dominating doctrine of superiority of business accounting	+	+/=
➢ Financial Pressures (from EU membership)	=/+	+/-
➢ Economic crisis	=	=
➢ New IT System requirement	=/+	+
	+	**=**
INSTITUTIONAL ARRANGEMENTS:		
➢ Legal system	-/+	+/-
➢ State structure	=	=
➢ Size of Jurisdiction	+/-	-
➢ Administrative structure	+/-	+/-
➢ Civil service	+/-	-/+
➢ Culture	-/+	+/-
	-	**-**
BEHAVIOURAL VARIABLES		
REFORM DRIVERS:		
➢ Government Commissions	-/+	+/=
➢ Professional Associations	+/=	=
➢ International Standard Setting Bodies	=	=/+
➢ EU	-/+	+/-
➢ National Accounting and statistical office	=	+/-
	+	**-**
POLITICAL REFORM PROMOTERS:		
➢ Members of Parliament	=	=
➢ Members of Government	+	+/-
	+	**-**
STAKEHOLDERS:		
➢ Statistical Office	=	+/-
➢ Audit Institutions	+/=	=
➢ Parliament	=	=
➢ General Public	=	=
➢ Treasury	+	+/=
➢ Line departments	+/-	-/+
	+	**=**
INSTRUMENTAL VARIABLES		
REFORM CONCEPT	**+**	**+/=**
IMPLEMENTATION STRATEGY:		
➢ Training	-/+	-/+
➢ Central guidance	+	+/-
➢ Authoritarian	+	+/-
➢ Multi-step	+	+/-
➢ Implementation period	+/-	-
	+	**-**
OVERALL ASSESSMENT	**Favourable +**	**Negative -**

KEY: + Favourable; - Unfavourable; +/ - Sometimes unfavourable; -/+ Moving towards favourable; +/= Moving towards not important; =/+ Moving towards important; = Not important/no effect.

(adapted from Jorge, 2003; and Haldma, 2006)

4 THE IPSAS DECISION

According to Chan (2006), accounting software is mindless without accounting standards. The importance of appropriate government accounting standards to guide the accounting reforms at central level in Malta was recognised right from the start. One of the sub-committees of the Accrual Accounting Task Force set up in 1999 was entrusted with this task. The MGAS Technical Advisory Committee, did not simply adopt the accounting standards available at the time but deemed it necessary to adapt them to suit the requirements of the Maltese Government.

The purpose of this section is to analyse how this process evolved over time with the changing circumstances, which affected the contextual, behavioural and instrumental variables, leading to the decision taken in February 2011 to adopt IPSAS in full. The EU's consideration of IPSAS for its member states and what may be the possible outcome of this interest are also analysed.

Some of the arguments arising in this section have been elicited by Jones and Caruana (2013a).

4.1 Which accounting standards?

Accounting reform at central government in Malta was initiated as part of wider reforms undertaken in public administration, in an effort to make the operations of the government more economic, efficient and effective. The underlying notion was to be more like the private sector, with a management information system that provides timely, accurate and reliable information on the financial and economic position and performance of the government. Business accounting practices and the underlying accounting standards were referred to for guidance as their superiority is taken for granted.

Accounting standards are required as a guide to achieve the desired output being a set of financial statements that provide a true and fair view of the financial performance and position of the government. Local Councils and government entities that applied accrual accounting from the outset were expected to comply with IFRS with no questions asked. Adherence with IFRS is taken for granted and no other alternatives are considered in spite of the difficulties in their application for public sector. This situation persisted even when eventually the MGAS were formulated. None of the Local Councils or government entities considered to change from IFRS. The application of IFRS may make sense for government entities with business-like operations, but may provide some difficulties in practice for Local Councils and entities that provide purely public services. The underlying reason for the choice of IFRS at this level may be the normative pressure exerted by the accountancy profession since Local Councils and government entities are audited by private audit firms. But the consulting audit firm is a private firm as well, and its advice to the contrary was not heeded.

The situation is completely different for the central government. It was never considered appropriate to adopt IFRS at this level. Perhaps here, the difference between government operations and the private sector is more pronounced and many difficulties were foreseen in their application. An attempt was made to devise a set of accounting standards that were more specific to government accounting requirements and the MGAS were formulated. Reference was made to IPSAS, but these were still being developed, and, in their absence on certain topics, IFRS were referred to. Perhaps this does not make much difference because IPSAS are based on IFRS, therefore, the emerging MGAS were still based on business accounting standards.

The difference lay in the attempt to simplify the international standards and make them more applicable and understandable for the local scenario. In particular, the MGAS Committee was expected to eliminate the choices offered by certain standards in order to streamline the financial reporting of the government departments and the ministries. According to two research participants (GT, Interview 14; IAID, Interview 21), the Committee never got around to finalising this task, therefore, the MGAS project was never really accomplished. Some of the MGAS were used by the Treasury in the preparation of the trial accrual-based financial statements for central government, and work had started on translating the accounting concepts in the MGAS to more understandable communication to government departments and ministries in the form of circulars that clarify the required procedures.

The application of MGAS may have proven to be a simpler solution, but the decision to abandon the project and adopt IPSAS in full was supported by a general consensus of the officials concerned and external bodies interviewed for this study. The decision to abandon the MGAS project was taken by the PS who effectively took over the Task Force in 2009. The decision for IPSAS adoption was, therefore, partly due to a change in the behavioural variable who was being subjected to a set of contextual and instrumental variables that were somewhat different from those experienced by his predecessor due to the time difference.

On the basis of their title, it is assumed that IPSAS are applicable for the public sector and should, therefore, provide a point of reference for government accounting. The fact that IPSAS are based on IFRS, that is, IPSAS are based on business accounting practice, is not only **not** seen as a problem but is considered as a good thing. The predominance of business accounting practice appears to be still present, therefore, in spite of officials saying that guidance is sought from sources specific for the public sector.

No studies have been carried out on the suitability of IPSAS for Maltese government accounting. The decision is not backed by some well devised plan as to their implementation[105]. The decision is to adopt IPSAS in full and then any problems that may require, for example, a policy of exclusion, will be tackled as they crop up. The decision to adopt IPSAS cannot be described as an informed decision and was based on other factors that will be described shortly. The study on the suitability of IPSAS was carried out by the EU Commission during 2012, which concluded that the IPSAS were not all directly applicable for government accounting and they do not all effectively address public sector specific needs. Some of the IPSAS require substantial revisions due to conceptual problems (COM(2013)114).

In a way then, the procrastination of the Maltese Government has proved advantageous since the EU Commission will now be carrying out the major work required on IPSAS to make them more suitable, and perhaps it will also eliminate the alternative accounting treatments available in these standards in order to promote harmonisation in practice (COM(2013)114).

[105] The decision was taken in February 2011. In 2013, the new administration commissioned the CIPFA to carry out a study in Malta, and an implementation plan was presented to the Ministry of Finance in October 2013. The Minister of Finance declared that the implementation of IPSAS will be a long-term project and he reiterated the importance of IPSAS for providing more reliable data for statistical reporting.

Hopefully, even the language used in the standards would be somewhat simplified to make them understandable by non-accountants. But the emerging EPSAS would still need to be adapted for the local context, meaning that the work that was done on the MGAS would need to be repeated in the future.

4.2 Credibility

Besides material resources and technical information, organisations also need social acceptability and credibility in order to survive (Scott *et al*, 2000:237). According to Lüder (2002), endeavours to improve international reputation may be a relevant stimulus for accounting reform, especially by developing countries. From the findings concerning what led the Maltese authorities to go for IPSAS, it appears that credibility and international reputation was the main factor, in spite of the country being classified as an advanced economy by the IMF.

The literature refers to developing countries attempting to mould their accounting systems in order to meet donor requirements (Godfrey *et al.*, 1995). Malta does not have loans with the IMF or the World Bank. But as an EU member state, it tries its best to balance the costs of EU membership with the EU funds that it may be eligible to. In this sense, then, it is understandable that the country would try its best to accommodate EU's reporting requirements in order to achieve its end. Hence its propensity to adopt IPSAS in full.

All the EU member states are subject to financial stress in order to meet the EU's strict financial requirements. In the case of Malta, one cannot exclude the possibility that this financial stress may be compounded by some sense of insecurity fostered over years of colonialism and paternal government. Thus making credibility a bigger issue.

On the other hand, international reputation and credibility did not act as a stimulus for accrual accounting reform. While the Maltese Government gives the impression that it is all for IPSAS adoption, reluctance to actually implement accrual accounting is still apparent, even because of the fear of how this will affect the current system used to prepare EU reports, which to date has proven satisfactory to serve its purpose. The result is, therefore, a hybrid sort of cash and accrual accounting system: an illusory sort of financial reporting system because the output is not being used as a management tool across the board for better decision-making to improve efficiency and effectiveness of the public sector. Perhaps it is being used to improve economy because the underlying aim is to satisfy EU financial targets and not to exceed the Maastricht criteria. For example, the balanced budget concept that is being considered for inclusion in the Constitution of Malta.

According to the PS (Interview 9), Malta needs to be recognised by international organisations, and by respectable and developed countries *'and recognition is gained by using international standards*'. The PS emphasised the importance of credibility, stating that '*the economic survival of the country is partly dependent on its credibility*'. In the AG's view (Interview 13), transparency, accountability, comparability are all very nice reasons for adopting IPSAS, but the most important factor is being credible with international organisations. Even though the MGAS were based on IPSAS, they lacked the *'brand name'* (NAO2, Interview 4). The MGAS are not recognisable and thus would not provide the required credibility.

The IPSAS are recognisable and credible because they are issued by international accounting standard setters who are considered as experts in the field of accountancy. There is an element of ambiguity here because while some sceptism as to the suitability of business accounting practices is expressed, the government officials are susceptible to normative pressures exerted by the accountancy profession. It is assumed that IPSAS are tried, tested and are correct because they are international standards issued by an international body, and "*after all, they are based on IFRS*" (AG, Interview 13).

Mimetic isomorphism is also manifest in the IPSAS decision. Mimetic isomorphism emerges in an environment of uncertainty as a powerful force that encourages imitation. The generic lack of accounting knowledge in the public service, the lack of knowledge on IPSAS and the lack of planning as to their implementation, creates an environment of uncertainty and ambiguous goals. According to institutional theorists (March and Olsen, 1976; DiMaggio and Powell, 1983), such an environment leads organisations to model themselves on similar organisations whose practices are considered to be legitimate or successful. The majority of the research participants have the impression that IPSAS have already been adopted by many countries, or at least, they will soon be, due to the interest being shown in them by the EU Commission.

4.3 The size of the jurisdiction, standards and decoupling

The small size of the country has already been described in section 3.1.2 as an institutional variable that may be acting as an implementation barrier for accounting reforms at central government level. In the Maltese context, due to limited resources of the administration, which are constantly being restrained in order not to exacerbate the financial situation, the actual number of government officials is limited and specialisation is barely possible. On the other hand, like any other member state, the country is required to adhere to the same level of regulation emanating from EU membership. The result is a handful of the same practitioners being responsible for the various features and implications of the accounting reform, including different sets of standards.

Besides adhering to the requirements of national legislation for government accounting, the same group of people need to deal with: MGAS, as these are still referred to in the collation of accrual data for the compilation of trial accrual-based financial statements; IFRS, as these are used by local councils and government entities; and with standards relating to reporting to international bodies and to national accounting, in particular, the ESA95. The IPSAS decision has added another ingredient to the process. The majority of these practitioners are not even accountants by profession, and it is therefore not surprising how all these standards are observed as external pressures that do not remain distinguishable. The effort by these practitioners to find some short-cuts to try and satisfy all these demands is also understandable. Limited resources will be concentrated on satisfying the standards and the reporting that are considered as more important due to related or expected benefits, which in the Maltese case appears to be the ESA95. For example, on the question of consolidation, the limitation of the reporting entity to the boundary of the general government definition according to the ESA95, appears indisputable. But the end result may be rather confusing, for example, if the objective to implement IPSAS is perceived as a way how to better meet the ESA95 requirements for external national reporting, then the original objective of IPSAS to enhance decision-making, transparency and accountability by producing information that can be used as a management tool across all levels of government may be lost.

The institutional arrangements necessary to deal with IPSAS implementation do exist in the form of the MGAS Committee, or what is now being called the IPSAS Committee. But the same group of people are involved as in the main Task Force and in the other sub-committees that are supposedly dealing with changes in legislation and the IT specification requirements. Some of these officials are also involved in the GFSC that is responsible for national accounting and EU statistical reporting. Other officials that are involved in the accounting reform, including those particularly responsible for IPSAS adoption, have many other responsibilities that are prioritised. The result is that the institutional structure that exists is not functioning. Moreover, since EU reporting requirements in the form of statistical reports based on accrual data are being met, the impression is given that accrual accounting has been implemented, and that accrual reporting will now be enhanced with the implementation of IPSAS.

Institutional theorists refer to this gap between formal structure and the work activities as decoupling (Meyer & Rowan, [1977] 1991). Decoupling refers to the situation in which an actual organizational practice is different from the formal organizational structure or practice, meaning that the adopted practice is not integrated into the organization's managerial and operational processes (Dillard *et al*, 2004:509). The advantage of decoupling is that possible inconsistencies and anomalies of technical activities are effectively hidden from public view and it is assumed that the formal structure is really working as set or predetermined. Decoupling may also happen when there are high symbolic gains from the adoption of the practice but equally high costs associated with its full implementation (Scott, 2001:173), as in the case of IPSAS. Previous studies[106] have found that public sector accounting systems implemented to satisfy government mandates are rarely used for internal decision-making and control, and the primary use of elaborate, mandated management accounting systems is to legitimise the organization's activities to external parties by creating the impression that the organisation is well-controlled and demonstrating that resources are being used rationally (Geiger and Ittner, 1996:550).

4.4 Effect of the IPSAS decision on the accounting reform

According to the NAO1 (Interview 15), the IPSAS decision will improve the quality of the accounting reform. Such opinion is based on statements issued by the accounting standard setter itself and are, therefore, the result of normative pressure exerted by the accountancy profession. The opinion is, therefore, a presumption as it is neither based on in-depth knowledge about IPSAS requirements nor on evidence from other countries. Institutional theorists would refer to such statements as being based on a 'myth' (Meyer & Rowan, [1977] 1991).

It is not expected that the IPSAS decision will make the rate of the accounting reform at central government level in Malta any faster. It is recognised that a lot of work is required in order to go through each IPSAS and to assess its suitability for the local context. But, as already explained in section 3.1.2, the institutional arrangements are lacking and as a result the IPSAS Committee is not functioning. In fact, work on IPSAS has been stalled as there

[106] For example, Covaleski & Dirsmith, 1991; Geiger & Ittner, 1996; Bogt ter & van Helden, 2000; Harun and Robinson, 2010.

appears to be a consensus amongst the higher officials that since such work is being undertaken by the EU Commission, then it would be best to await the EU's decisions and directions. This is very convenient because it is the way for the authorities to overcome their uncertainties and appear to be doing the right thing - by succumbing to coercive pressure, embarrassing questions in the future will be avoided (Meyer & Rowan, [1977] 1991). But it appears to be a way of further stalling the accounting reform.

4.5 The EU involvement

The PS (Interview 9) claimed that EU pressure had nothing to do with his decision to adopt IPSAS. While this may not be deniable, the fact that IPSAS were being heavily discussed at EU level is confirmed by the Treasury Officials (Interviews 13, 2). The decision of the PS was communicated to the government officials involved in the reform in February 2011, while the proposed directive of the EU Commission was issued in May 2011. The PS was, therefore, very aware of the importance being given to IPSAS at EU level.

The emergence of IPSAS is described as the most significant development among the many government accounting changes that are happening (Sutcliffe, 2003; Jones & Pendlebury, 2010). The adoption of IPSAS in local and central governments is completely voluntary because the IPSASB does not have the power to force any jurisdiction to endorse IPSAS (IFAC, 2010). It appears that IPSASB's normative pressure was not strong enough to convince governments to adopt IPSAS. Various governments are still reluctant to adopt accrual accounting, let alone IPSAS. While those countries that have adopted some form of accrual accounting did not adopt IPSAS in full, but preferred to pick and choose from the accounting standards available: national accounting standards and GAAP; IFRS; and IPSAS.

Chan (2003) suggests that IPSAS would be more enforceable if international organisations set an example by adopting IPSAS themselves, which the UN, NATO, OECD and the EU Commission, have done (Ball, 2011a). In this way, normative and cognitive-cultural pressures may have swayed governments to do the same. But such pressures did not prove to be strong enough. It should be pointed out that even the EU Commission itself did not fully adopt IPSAS (Grossi and Soverchia, 2011).

Chan (2003) also suggests that international organisations should link IPSAS adoption to membership obligations. IPSAS adoption can be made a condition for receiving international grants and loans, or it can be called upon in international agreements specifying convergence criteria for fiscal policy (for example, in the Maastricht Treaty). Jones and Pendlebury (2000:153) found surprising the EU's absence in accounting policy-making at supranational level, especially in view of comparable data that would be required in a single market with a single currency. Increased interest in IPSAS by the EU was envisaged by Lüder and Jones (2003:5):

> *The European Union has not so far shown any interest in harmonising governmental accounting in the member states but this may change under the influence of IPSAS in Europe.*

This interest materialised in November 2011:

> *The Commission shall assess the suitability of the International Public Sector Accounting Standards for the Member States by 31 December 2012.* (Council Directive 2011/85/EU)

The interest of the EU in IPSAS for its member states became evident, therefore, with the advent of the economic crisis as the Council Directive 2011/85/EU is part of the Six-Pack legislation put forward by the EU in order to strengthen the budgetary frameworks of the member states. Perhaps IPSASB's normative pressure was successful at this level and at that point in time as it had targeted the EU Commission during a vulnerable period: at a time when the EU Commission and Eurostat were trying to re-establish their own reputation and legitimacy on an international scale as it appears that they had not been successful in monitoring the state of the economies of the member states through the reporting that was being required.

Perhaps the first step should have been for Eurostat to assess the format and content of the statistical reports that it was requiring from the member states and the adequacy of the ESA95 as the standard on which the statistics are based. But instead of assessing the effectiveness of statistical reports in meeting their objectives, Eurostat deemed it necessary to go to the roots of these reports and investigate the possibility of an overhaul of the systems from which the underlying data for these reports are extracted. The implementation of accrual accounting systems by the governments of the member states is deemed the necessary first step, and with it the adoption of IPSAS. The proposed directive issued in May 2011 had suggested the adoption of IPSAS by member states within three years. The opposition and political lobbying that such a proposal instigated can be expected, resulting in the Commission to take a softer approach and first consider the suitability of IPSAS for adoption by the member states by carrying out a study.

The study was carried during 2012 as described in the findings. The study concluded that the IPSAS as they stand cannot be fully implemented as they are not totally suitable for public sector accounting requirements. But this was not the end of the story as the EU Commission persists on its mission, and it has presented a plan of action to consider and revise each IPSAS as necessary, resulting in the EPSAS. The EPSAS will be issued by a purposely set up institutional structure to provide them with the required legitimacy that will make them acceptable by the member states. This will circumvent one of the main objections by member states regarding the suitability of the governance structure and authority of the IPSASB to issue accounting standards for governments.

If the report that the EU Commission has presented to the Council and the European Parliament on 6th March 2013 (COM(2013)114) is convincing, the recipients can then exert coercive pressure on members states and thus overcome the resistance shown so far by some governments to adopt accrual accounting for their public sectors. One may argue that the type of accounting practiced by governments should be at the discretion of each individual government, and that coercive pressures should not be the basis of legitimacy of government accounting practices. Such measures appear invasive in democratic institutions.

According to the EU Commission's report (COM(2013)114), the governments of the member states are not contrary to the implementation of some form of accrual accounting in their public sectors. The objection is mainly directed towards the adoption of IPSAS, or at least some of the standards. The EU Commission considers that a single set of accrual-based accounting standards at all levels of government throughout the EU would generate *'distinct benefits'* for public sector management and governance, even at micro level, by improving *'transparency, accountability and comparability of financial reporting in the public sector, and may serve to improve the efficiency and effectiveness of public audit*' (COM(2013)114:4). But the Commission's main concern is that *'the system of fiscal statistics has not sufficiently mitigated the risk of substandard quality data being notified to Eurostat'* (COM(2013)114:4). The EU Commission considers that harmonised accounting standards would considerably improve the requisite statistical data at macro level, because:

> *this would allow for the use of common bridge tables to compile the entity accounts into ESA accounts, thus greatly facilitating the statistical verification process.* (COM(2013)114:5)

This assumption, however, cannot be completely validated by the findings of this research. The findings in Chapter 7 reveal that the base line for the compilation of the deficit reported to the EU is the deficit calculated on a cash basis. 'Accrual adjustments' are then carried out according to the ESA95 standard requirements (which standard is common for all EU member states). Data extracted from accrual-based accounting systems of local councils and government entities is also revised in order to make it ESA-compliant. Harmonisation of statistical data at macro level is, therefore, already present through the ESA95. While the cash flow data is used as a basis for macro reporting.

The necessity for all member states to implement accrual accounting at micro level in order to improve statistical data at macro level is, therefore, questionable. And even the attending requirement for IPSAS in order to harmonise the proposed accrual accounting systems. The increased level of subjectivity required in accrual-based reporting, and its implications, is perhaps not being given due consideration. Any accounting system can be undermined by the manipulation of underlying transactions, and financial integrity can only be enhanced by better monitoring, audit and internal control. As Chan (2006) had commented, the IPSAS' claims on the quality of financial reporting appear to assume the existence of a strong system of internal control in a government's financial management and accounting system.

The reliability of statistical data used for macro reporting is questioned when statistically significant differences arise between the deficits calculated in the Financial Account and Non-Financial Account in national accounting. According to the NSO (Interview 24), these differences arise because the data used in the two accounts emanate from different sources and at different times. This appears to be a drawback of the national accounting system, and the solution to such a statistical problem need not require the involvement of the government accounting systems at micro level. After all, government accounting systems at micro level only provide the data that will be used for national accounting and, otherwise, it does not interfere with the system of national accounting.

Respondents to Eurostat's public consultation identified the fact that IPSAS are not in harmony with ESA95 as a reason for not adopting them. A rather surprising reason since the two sets of standards are targeted for two totally different types of reporting with totally different objectives. Having said this, however, more than one of the participants in this study expect that the adoption of IPSAS would bring government accounting data more in line with ESA95, in the sense that less adjustments would be required to be made to the government accounting data when it is used for statistical reporting. This expectation concurs with the conclusion reached by Jorge De Jesus and Jorge (2011) in their comparative study of five EU countries, but it is somehow doubtful when one considers the adjustments that the NSO is required to carry out on data extracted from accrual-based accounting systems in order to make it ESA-compliant. The advantage of an accrual accounting system would be that accrual data, like payables and receivables, would be generated from the accounting system. But even these two items would need to be reviewed in order to make them ESA-compliant, especially receivables.

Respondents to Eurostat's public consultation expressed their concern that the requirement for government financial reporting at micro level to be accrual-based and IPSAS-compliant would involve a duplicated effort. This concern appears to be justified since the deficit reported according to IPSAS would still need to be revised to make it ESA-compliant. The solution that is being considered by the EU Commission is to revise IPSAS in a way that there would be minimal differences with the ESA95 requirements. But, as described in the findings of chapter 7, the objectives of these two sets of standards are different. In order for convergence of these two standards to be even considered, the underlying objectives of government financial reporting need to be re-defined. Alternatively, as mentioned earlier, the suitability and effectiveness of the statistical reports need to be assessed.

In order for the EU Commission's interference with member states' government accounting systems to be justified, the output from such systems should be useful and meaningful for all parties concerned. It should be possible for the debt and deficit data, that are the main EDP indicators, to be directly derived from the government accounting systems. Such a possibility should be examined beforehand in order to entice governments to even consider changing their current reporting systems, and not simply be considered as a possible long-term objective (COM(2013)114:5-6). A long-term objective that could be considered is to perhaps change the main EDP indicators of deficit and debt to reflect targets that can be determined from financial reporting figures and exclude the GDP denominator. After all, such figures like the GDP are not used by any other economic entity except governments, when the argument for the need of governments to be as accountable and transparent as private sector entities is so often emphasised. But perhaps such a suggestion may not be acceptable for economists.

4.6 Superiority of the ESA95

In the Maltese context, section 4.3 has already hinted on the dominance of the ESA95 over other standards. The ESA95 statistical reports are given paramount importance by Maltese officials, with the NSO (Interview 24) describing them as *'the accounts of the government'* because they are used for decision-making at national level and even at EU level.

The NSO appears convinced that Eurostat will not change the ESA95 rules, and is rather expecting IPSAS to be more flexible and in line with ESA95. It appears that the NSO is expecting a totally different IPSAS objective and/or a totally different type of accrual accounting for government. The fact that one of the objectives of IPSASB is to build IPSAS on IFRS so that government's accounting is more in line with business accounting appears to be irrelevant for the NSO.

Accounting standards setting bodies are referred to as epistemic communities in the literature. Epistemic communities stem primarily from normative isomorphism usually as a result of professionalisation where individuals of a similar calling assemble and become organised in order to establish, promote and practise a cognitive base and to legitimise their activities (DiMaggio and Powell, 1983:152-153). Acting as a group, their influence on the reform process is strengthened (Laughlin and Pallot, 1998). Lüder (2002:8) recognises epistemic communities as reform drivers who aim at making *'governmental accounting reform a political issue and influence political decision-makers in a specific way'*. Heald and Georgiou (2011:467) describe the ESA95, the standard used for national accounts by EU member states, as an epistemic community.

The superiority of ESA95 over IPSAS, both at national (Maltese) level and even at EU level, is evident from the analysis of the findings emanating from the interviews and even from the findings of the EU Commission's study and the subsequent report. The ESA95 appears to be the dominating doctrine for government reporting intra-EU member states. The pressure that it exerts on governments is coercive rather than normative. According to Scott (2001:53), *'force, fear and expedience are central ingredients of the regulatory pillar'*, and thus the ESA95 can exert coercive pressure on government accounting including any proposed reforms. After all, unlike IPSAS, the basis of legitimacy of ESA95 is legally sanctioned by the directives issued by the EU Council and Parliament. The ESA95 is more than a reform driver. It forms part of the legal system, and is therefore, a contextual variable - a law that is affecting the accounting reform. In Malta, this contextual variable appears to be very powerful - directly influencing the political reform promoters and the reform concept.

5 NATIONAL ACCOUNTING

As observed in the UK by Jones (2000a), the distinction between Government Financial Reporting, Government Budgeting and National Accounting appears to be becoming less clear in the eyes of the Maltese Government authorities. While it is recognised that they entail different techniques, it appears that there is very little understanding between national accounting, government budgeting and the accounting discipline.

Up till only recently, the relationship between the financial report and the budget was very clear, since both were being prepared on a cash basis. But now statistical adjustments as calculated in national accounting are encroaching on the budget, to show the General Government deficit together with the percentage to GDP ratio. These are stated as targets and measures, but given that there is hardly any parliamentary discussion concerning how these figures are calculated, it is not clear whether the link between any decisions taken on budgetary allocations and their effect on the national accounts is understood at all.

Since the 'deficit that matters' is calculated according to ESA95, which standard uses a form of accruals, it is assumed that the national accounting deficit and the government financial reporting deficit will be brought closer together if the latter is produced from an accrual accounting system at micro level. But the underlying conceptual differences are being ignored. The gap may even become wider since one of the fundamental concepts in accrual accounting - the distinction between capital and revenue expenditure - does not apply in the calculation of the ESA95 deficit. Given that the two deficits are measuring different things, any attempt to reconcile them is pointless because it would be meaningless. It would appear a meaningless exercise for an accountant, and perhaps even from an economist's point of view. But such a reconciliation may provide some sort of comfort for the practitioner, especially if s/he is asked to explain the two different figures. Would a politician be interested in such a reconciliation? Or would s/he choose the deficit that is more politically convenient?

This analysis is not trying to establish which type of reporting should be used for government's decision-making. For sure, any accounting system that provides financial information on an entity's activities, resources and performance, should suit the requirements of the stakeholder users - it should be 'a **useful** Financial Management Information and Reporting System' (Barton, 2011). Due to external macro pressures described in the previous section, the Maltese Government appears to be finding National Accounting as the most meaningful system. But if National Accounting is to be used for decision-making, due care needs to be given to the reliability of the reports from this system, as also pointed out by Jones (2000a), since not all the figures used in National Accounting are subject to an audit. As described in Chapter 7, this is an issue that is recognised and being discussed by SAIs at EU level.

It is also very important to bear in mind that satisfying standard requirements is not the solution nor is it a guarantee that the information provided is sufficient. As the research participants pointed out (PAC, Interview 5; IAID, Interview 21), the picture that is reported should be both reliable and wholesome.

5.1 The reporting entity

The findings reveal the importance given to the general government definition of the ESA95. The level of consolidation up to general government level is deemed to be of utmost importance, regardless of IPSAS requirements. Is this a question of expedience?

The national accounts are an account for the whole economy, incorporating the activities of both the public and the private sector. The definition of what is public and what is private are described as 'empty' by Jones (2000b) because the underlying standards, both the ESA95 and the SNA, do not identify the public interest activities, resulting in a definition of 'general government' that does not incorporate all the activities of the government. This does not really matter for the preparation of the national accounts themselves since they purport to account for the whole economy, but which activities and government entities are classified as part of general government then become extremely important in the view of the purposes of these accounts. In particular for the EU, the criteria of convergence for the EMU are defined in terms of general government debt and deficit in the national accounts figures, and even the granting of EU funds to support the regions are partly based on these figures.

Given that the definitions of 'control', 'ownership' and 'prices that are economically significant' are rather hazy, reliance is placed on that part of the ESA95 definition of general government that states that an entity is excluded from 'general government' if it is capable of generating revenue that exceeds 50% of its cost of sales - an arbitrary measure decided by the experts. This results in the general government figures to include the activities of the ministries and government departments at central level, plus local government, plus the activities of the so-defined EBUs[107], and to exclude all the rest. The general government definition includes social security funds operated by the government or in which the government has an interest (such funds are absent in Malta).

[107] An EBU is a government entity, however it may be called - a board; unit; foundation; authority; corporation; limited liability company - that has a governance structure apparently independent of the government, has its own accounting system, which entity, however, is still financially dependent on central budget funds because it is not able to generate revenue that at least covers 50% of its cost of sales.

Governments are thus not only tempted but in fact endeavour, by applying all their available financial skills, to keep the size of their general government sector as small as possible. Various schemes are devised, including the use of Special Purpose Vehicles (SPVs), using the loophole provided by the ESA95 definition, in order to divest the government from its commitments and liabilities. Lüder (2000) describes various examples of such schemes, which he calls 'creative accounting'. The ESA95 definition also provides an incentive for governments to shift spending from their budget onto entities that fall outside the general government sector. According to the IMF (2012), such cost shifting not only undermines the financial performance of these entities, but also undermines the quality of fiscal statistics and reduces the effectiveness of fiscal rules. When NSIs detect such problems and reclassify the entities into general government, the resulting effect on the fiscal data is unrealistic[108] and causes havoc in financial management due to lack of comparability. The IMF (2012:11) identified such revisions as one of the sources of fiscal shocks during the crisis.

Business accounting consolidation rules according to IFRS and IPSAS follow a control approach, while the ESA95 appears to follow a risk and rewards approach. The IPSAS, therefore, require a wider definition of the general government sector and this is one of the major objections of the member states for their application. Will the EPSAS extend the general government boundary, or will the proposed EU standard setting body succumb to political pressure and retain the status quo?

[108] The final adjusted data would present a more wholesome picture, but the resulting changes in the data would not reflect the real events due to the inclusion of previously unreported fiscal activity.

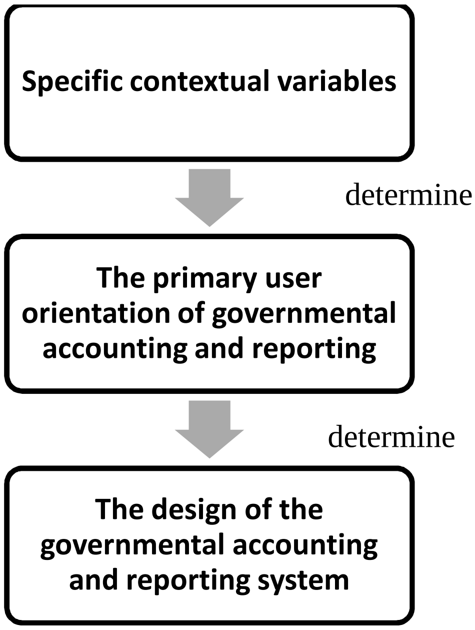
6 LÜDER'S FMR MODEL RE-VISITED

Despite all the revisions, Lüder's FMR Model (2002) still does not address the 'why' of government accounting systems themselves (Jorge *et al.*, 2011). Even its predictability is limited because the extent to which the modules interact is not known (Christensen and Yoshimi, 2001). This section draws on the findings from the research and the literature to analyse the criticism of the model.

6.1 Why accrual accounting?

The FMR Model was derived from Lüder’s (1989, cited in Jorge *et al.*, 2011) initial hypothesis which stated that specific contextual variables determine the orientation of the primary user, and then this determines the design of governmental accounting and reporting (Figure 16). Lüder's initial hypothesis had expected an explanation for a relationship between the contextual variables and the contents of the governmental accounting systems (Lüder, 1989). Lüder’s empirical research seemed to confirm this hypothesis because the observed cross-country governmental accounting differences were partly due to differences in national political-administrative settings. Research revealed, however, that the relationship is conducive and not causal.

Figure 16: Hypothesis initially stated underlying Lüder's comparative study



(Source: Jorge *et al.* (2011), Page xii)

The FMR Model, therefore, only tackles the upper part of the hypothesis (Jorge *et al.*, 2011). It emphasises the contextual approach of the reform process, that is, 'why' do governmental accounting systems experience changes towards a more informative system. The model does not provide explanations for the actual design and contents of a governmental accounting system. During Lüder's project, some accounting and financial reporting theoretical issues were discussed and clarified, and national governmental accounting systems were classified according to those aspects (Lüder, 1989, cited in Jorge *et al.*, 2011), but this approach was discontinued. The expected explanation for a relationship between the contextual variables and the contents of the governmental accounting system was neglected.

The adoption and application of accrual accounting methodology by governments appears to be taken for granted as the reform concept in Lüder's FMR Model (2002). Accounting research literature is rich with studies that have applied Institutional theory to explain a range of accounting phenomena, both contemporary and historical (Gomes, 2007). According to Gomes (2007:74), these studies[109] have used the institutional perspective to collectively demonstrate *'that accounting practices represent means through which organizations can accomplish external legitimacy and document institutional compliance with external requirements'*. Accounting researchers have used the concepts of legitimacy, institutional isomorphism, decoupling, and the notions of power and self-interest involved in the process of institutionalisation of accounting practices, to highlight the institutional pressures that are exerted through the actions of different actors in such process.[110]

The key concepts of institutional theory are presented in Chapter 3. Institutional theory focuses on the taken-for-granted nature of organisational forms and practices, and provides explanations of phenomena that do not reflect the behaviour of rational actors driven by clearly perceived interests (DiMaggio, 1988:7).

Institutional theorists are not convinced when only technical reasons are used to justify the adoption and maintenance of practices or procedures. It is considered that technical explanations are used to hide significant political and cultural factors (Meyer & Rowan, [1977] 1991). Accordingly, the explanation for the incorporation of different elements in the formal structure of an organisation, which elements are institutionalized in society, effectively increases the organisation's legitimacy and its survival prospects (DiMaggio & Powell, 1983;

[109] Gomes (2007:74) refers to, for example, Ansari & Euske, 1987; Chalmers & Godfrey, 2004; Covaleski & Dirsmith, 1988; Fogarty, 1996; Geiger & Ittner, 1996; Gupta *et al.*, 1994; Rahaman *et al.*, 2004; Rollins & Bremser, 1997.

[110] Gomes (2007:74) refers to, for example, Burns, 2000; Christensen, 2003a; Covaleski & Dirsmith, 1988; Covaleski *et al.*, 1993; Dirsmith *et al.*, 1997; Granlund & Lukka, 1998; Hussain & Hoque, 2002; Lapsley & Pallot, 2000.

Meyer & Rowan, [1977] 1991:50; Scott, 1987, 2001). Accounting practices and technical procedures tend to become taken-for-granted means to accomplish organizational ends; and once they are institutionalized, they make the organization appear appropriate, rational, and modern. Their use displays responsibility and avoids claims of negligence (Meyer & Rowan, [1977] 1991:45).

Institutional theorists have contributed significantly to a better understanding of the relationship between organisational structures and practices and the wider social environment in which organisations are located (Beckert, 1999:777). Underlying most research on institutional theory is an assumption that intra-organisational structures and procedures, including accounting, are largely shaped by external factors rather than cost-minimising objectives (Moll *et al.*, 2006). Institutionalism defends a holistic and contextual analysis of specific practices and processes within the whole organisation, where even history plays an important role (Powell, 1988; Scott, 1987). Institutional theorists consider that no organisation is a technical system alone: organisations exist in an institutional environment that defines and delimits social reality, while there are multiple institutional environments which vary across time and space (Scott, 1987:508; Scott and Meyer, 1991:111).

The empirical findings of this study appear to uphold Lande's (2006) view that the expected isomorphism is not perfect, in that the application of the business accounting principles and practices in the government accounting reforms have been distorted to accommodate the goals of the organisation as identified by the actors. While technical reasons are not clearly understood, the fact that the accounting system conforms to institutional norms and requirements, even if symbolically, presents a set of rewards.

Lande (2006) explains that this imperfect isomorphism has resulted in governments adopting different types of accrual accounting systems. The peculiarities of a governmental accounting system are linked with the political, social, legal and cultural features of a country, but are **not** bound by them. The effect of pressures at macro level on a given context and behavioural variable cannot be generalised and thus cannot be captured in a comprehensive model. Institutional theory implies that there is no exclusive relationship between the contextual variables and the contents of the governmental accounting system. Even though all countries may be subject to similar levels of coercion, normative forces and mimetic tendencies, the effects of these pressures on the individual country would depend on national political and economic factors. Perhaps government accounting systems cannot then be conveniently classified due to the various factors that affect the content.

6.2 Lüder's FMR Model through the Institutional Theoretical lens

Jorge *et al.* (2011) maintain that the empirical validity of Lüder's FMR Model is questionable due to speculative features of the complex multi-causal relationships between the variables in the framework. The authors refer as well to 'black-boxes' being certain variables in the model, for example, behavioural variables and reform concept, which affect and are affected by the reform process, but it is not known exactly how or to what extent they do this. Similar to Christensen and Yoshimi (2001), Jorge *et al*. (2011) are referring here to the lines of influence and the lines of impact connecting the various variables in the model.

Lüder's FMR Model started out as a contingency model based on contingency theory, placing more importance on the technical requirements, resource streams, information flows and influence relations. Lüder extends the original contingency theory approach to include variables of collective behaviour (Lüder, 1994). The development of the model introduced more internal and external variables, at both micro and macro level; and the analysis of the cultural and institutional variables at macro level would attribute importance to symbols, cognitive systems, normative beliefs, and the source of such elements. According to Scott (1987), contingency and institutional theories can be used together to better understand the instrumental and symbolic roles fulfilled by coordination and control practices that are used in contemporary organisations. Scott (1987:507-9) has observed that separate application of the two theories provides an incomplete understanding of the different roles played by various practices.

The contingency theory perspective suggests that an organisation focuses on its technical activities and shapes its work processes to promote those activities while protecting them from disturbances in the external task environment (Gupta *et al*., 1994). The contrasting institutional perspective is that an organisation gains legitimacy by conforming to external expectations of acceptable practice, and thus may ceremonially adopt elements of formal organisational structure to demonstrate the rationality of its operations to external constituents, rather than to control organisational members (Meyer and Rowan, 1977; DiMaggio and Powell, 1983). Gupta *et al.* (1994) point out that despite the apparent inconsistency between these two perspectives, theorists working within each recognise its interrelation with the other. Institutional and technical factors are dimensions along which environments vary, and both place pressures on organisations to which they must be responsive in order to survive (Powell, 1991:186).

It is being suggested that Luder's FMR Model should be three dimensional in order to capture the variables at macro level and the forces they exert through the lens of Institutional Theory, as in Figure 17; and the variables and lines of impact and lines of influence at organisational and micro level, as in Figure 18. The holistic features of Lüder's model are retained as the two planes are interconnected: the common connecting variables between the two levels are the political reform promoters, the reform concept and part of the institutional arrangements. The variables noted in each cluster are as identified in this empirical study in the Maltese context.

Godfrey *et al.* (2001) combines Lüder's Model with theories of diffusion of innovations to provide a better insight into the social, political, economic and organisational factors affecting the innovation process. In this study, Lüder's Model is combined with Institutional theory resulting in a hybrid model that better explains what is happening in the Maltese context. Godfrey *et al*.'s (2001) hybrid model also takes into consideration internal and external organisational structural characteristics affecting organisational innovativeness. In the model being proposed by this study there is no separation between the initiation phase and implementation. The forces exerted at macro level are continuous and not limited to particular stages.

Figure 17: Governmental Accounting Reforms in Malta at macro level

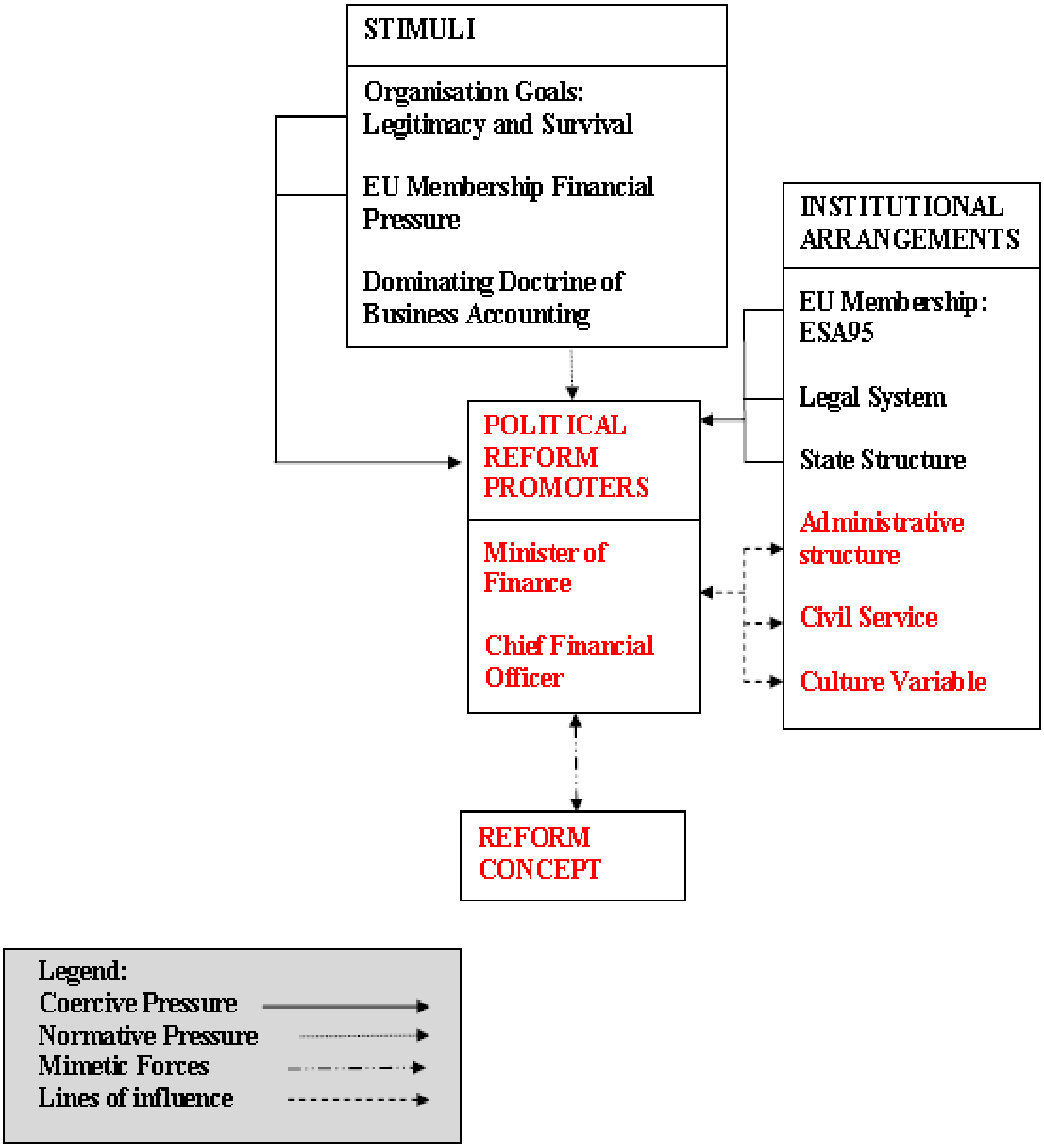
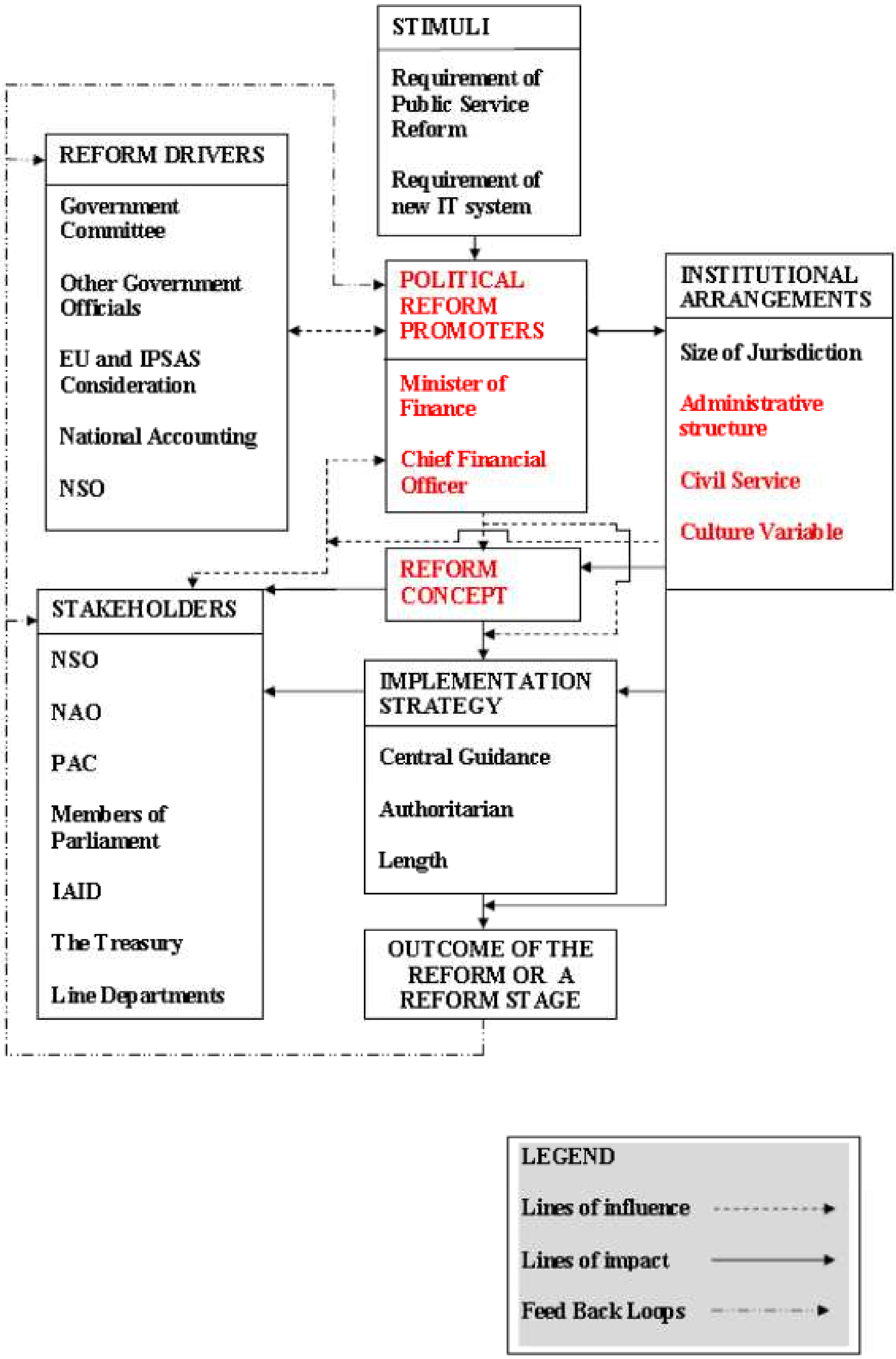


Figure 18: Governmental Accounting Reforms in Malta at micro level



The rationale behind this suggestion is to attempt to differentiate between the extent of some forces (lines of impact and lines of influence) affecting the reform process. The political reform promoters are more exposed to pressures at the macro level, and they also tend to act as a buffer for lower level actors from the effects of these institutional forces.

The Administrative Structure and the Civil Service are also included in the macro level plane because the political reform promoters appear to carry out changes in these two variables not only for instrumental purposes but also to appear to comply with general expectations. The appointment of certain government officials who are not appropriately qualified or not interested in the reforms is one example. Scott (1992:211-212) refers to staff training as another example:

> *Training staff indicates both instrumental competence and also ceremonial conformity to societal expectations that call for such credentials.*

The culture variable defined in Lüder's Model (2002) needs to be expanded because it overlaps with the behaviourable variable. As explained in section 3.1.2, the cultural variable proved rather ambiguous and difficult to analyse in the Maltese context as the characteristics tend to vary according to the individual.

In the case of Malta, when the outcome from the first stage (1999-2004) was fed back into the process, it encountered a situation (2004-2013) where the political reform promoters were being affected by a macro-environment that was exerting a stronger coercive influence due to financial pressures from EU membership. Legitimacy and survival as organisational goals were more prominent active stimuli at macro level. The dominating doctrine of business accounting was also in a position to exert stronger normative pressure.

7 SUMMARY

The governmental accounting reform process in Malta, at central level, is described in two phases: pre- and post-2004. The feedback loops in Lüder's FMR Model (2002) provide for the analysis of long and multi-step reform process, as in the case of Malta.

The accounting reforms started in 1999, and the original stimulus was managerial-driven. By applying Lüder's FMR Model (2002), the environment in the first phase is assessed as conducive to change. The certainty surrounding the reform concept and the strong individualistic character of the behaviourable variables, combined with the supportive relationship of the political reform promoter and the reform drivers, appear to be the main positive drivers for change. The normative forces were active at micro and organisational level.

The environment changed in 2004: the actors changed, facing new challenges that accompany EU membership. The financial stress at macro level became the new stimulus, which, combined with the new political reform promoter, changed the reform concept in order to satisfy the demands exerted by macro forces. The driving force is thriving for legitimacy based on coercive forces. The reform process in the second phase is described as 'illusory' because the changes are not targeted towards improvements in financial management but towards satisfying the statistical reporting requirements of a supranational body. The environment in the second phase of the reform process is assessed as not so conducive to change. While the organisational structure to carry out the reform exists, it is not functioning, but awaiting the push from the EU (at macro level). Perhaps the project is suffering from 'reform fatigue' due to the long time that it is taking.

Contrary to expectations, the evidence indicates that the small size of the country is actually acting as a negative factor on the government accounting reform process. And this has been exacerbated in the second phase due to increased administrative demands from the macro environment. The only tangible positive stimulus in the second phase is the requirement to change the outdated IT system currently in use. This situation has been created due to the length of the reform process. However, it does not necessarily mean that the new system would necessarily result in a change in the new reform concept.

An environment of uncertainty is a powerful force that encourages imitation. The decision by the Government of Malta to adopt IPSAS does not appear to be well-informed, and is based mainly on the need for credibility and legitimacy. There is a gap between the formal structure and the actual implementation of these standards, but the most important factor appears to be to create the impression that the process is acceptable and is under control. Such decoupling indicates an element of mimetic isomorphism in the IPSAS decision.

In the meantime, the study of IPSAS undertaken by the EU is very convenient for the Maltese authorities to overcome their uncertainty, as succumbing to coercive pressure would avoid embarrassing questions in the future. But this expectancy can only result in delaying further the governmental accounting reform in Malta.

The superiority of ESA95 over IPSAS is due to the fact that the basis of legitimacy of ESA95 is legally sanctioned, while that of IPSAS is not - at least, not yet. In the Maltese context, the ESA95 is more than a reform driver. It is a contextual variable because it forms part of the legal system. The coercive influence of ESA95 on the reform process in Malta appears to be very powerful - directly influencing the political reform promoter and the reform concept.

The application of Lüder's Model (2002) in the Maltese context, as analysed in section 3.4, resulted in the accounting reform process at the central government level to be explained in two phases. The strongly positive behavioural variable and the defined reform concept in the first stage produced gradual and evolutionary changes. The driving force of the decision making process were norms, values and unique cultures, developed through a process of institutionalisation and adaptation. The changes were in line with the cultural institutional theories, focusing on the organisational level and task environment.

When the outcome from the first stage was input into the second, where it encountered different behavioural and contextual variables and a different reform concept, the process of financial management reforms appears to have slowed down. The symbolical changes in this phase can be described as due to adjustment to the environment, stressing isomorphism and convergence; more focus on the organisation at the macro level, in line with myth theories.

Change is the underlying theme of this study. Lüder's Model (2002) tries to explain the environment that induces change in governmental financial management reporting systems. The Model is based on organisation theory that is a theoretical framework dealing with change.

Change is instigated by both time and space. Past events and situations effect and affect change. This study gives due importance to the historical aspect of the context, because the colonial inheritance and the traditional paternal system of government appear to have affected and are affecting the governmental accounting reforms in Malta.

Even though this is a one-country study, events happening outside the island's shores are important because they also effect and affect change. While it is important to consider forces and variables at both micro and macro level, it is being suggested that these are not assessed at the same level but parallel to each other: with the macro level acting like an overhanging cloud on the micro and organisational level, but still with a common actor and connecting institutional variables. The rationale is that forces at macro level mainly affect the political reform promoter, who then sieves these through to micro and organisational level.

The magnitude of the effect of the macro level forces on the reform process at micro level cannot be generalised. This would depend on political and economic factors, and also on the behaviourable variable. In Malta, the effect of macro level forces on the behaviourable variable appears to be very strong, especially in the environment of the second phase of the accounting reform.

CHAPTER 9: CONCLUSION

1 INTRODUCTION

The constitutional crisis of the 1980s, and the Maltese Government's determination to apply for EU membership, led to extensive reforms in the public service. One of the pillars is improvement in the financial management of the government, including the adoption of modern accounting methodologies. While government auditing evolved over time and now adheres to international standards, government accounting and reporting remains cash-based, focusing on budgeting and budgetary control. The applicable financial legislation is based on regulations inherited from colonial times.

The Ministry of Finance set up the Accrual Accounting Task Force in 1999 with the remit to take all necessary measures to implement an accrual accounting system for the central government. It was decided from the outset that any accrual accounting reforms will be an add-on to the current cash-based accounting system, emphasisng the importance of the budget.

Since 2002, in the absence of a new accounting system that can handle accrual accounting, the Treasury has been compiling trial accrual-based financial statements by integrating accrual data collected from the departments with the cash-based data generated from the accounting system. These financial statements are not audited and are not published because the data is incomplete. In the meantime, a decision was taken in 2011 to adopt IPSAS.

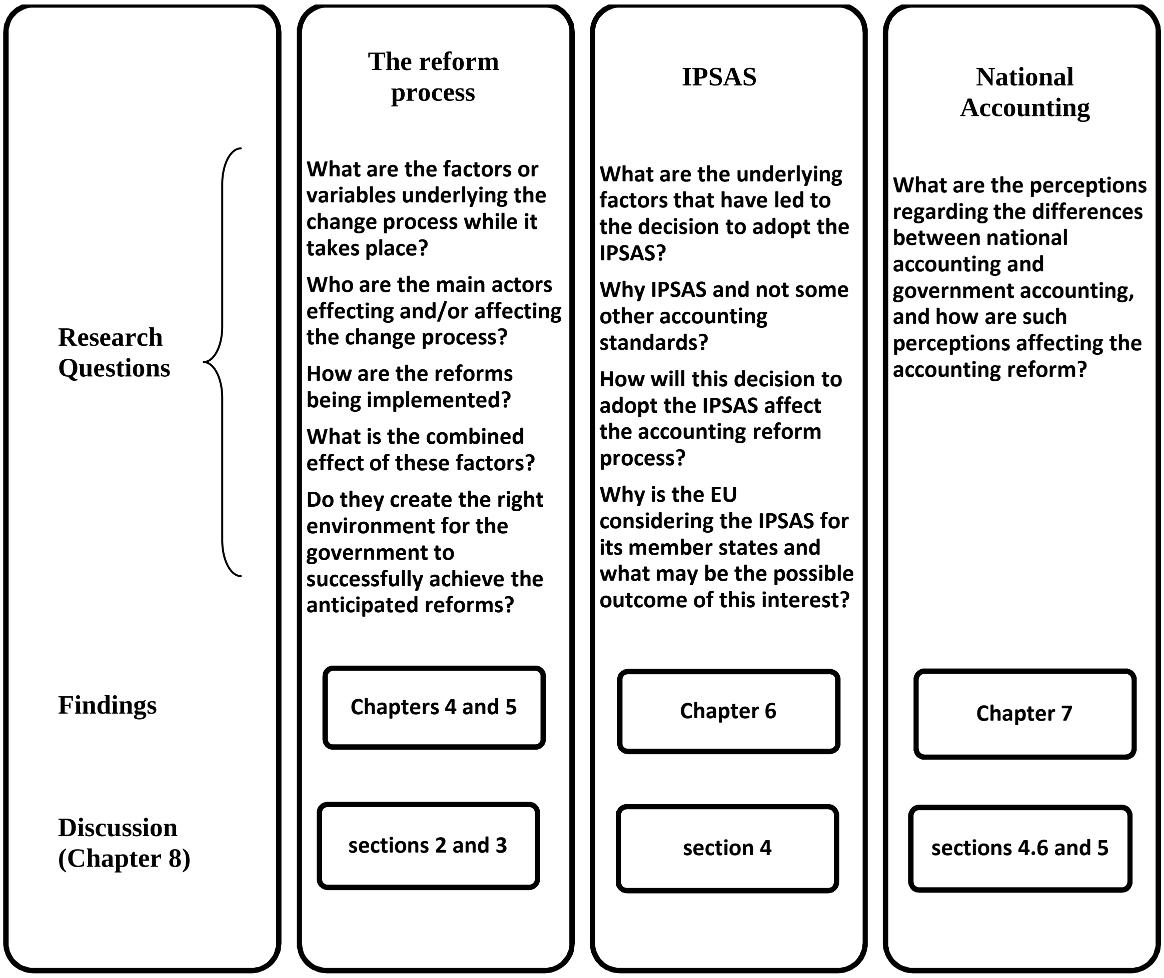
Malta became an EU member state in 2004 and joined the Eurozone in 2008. The accrual data collected from the government departments is also used for the preparation of statistical reporting according to national accounting standards. Since the country's reporting requirements to Eurostat are somehow being satisfied with a system of patched-up cash-based accounting data, the implementation of accrual accounting appears to have been put on the 'back burner'. Given that the EU Commission is studying the introduction of accrual-based public sector accounting systems across all EU member states, and the possibility of promulgating the EPSAS, the Maltese administration is now awaiting further directions from this source.

2 RESEARCH OBJECTIVES AND METHODOLOGY

The basic research question is the 'how and why' of accounting reforms being carried out by the central government of Malta. The circumstances leading to the adoption of IPSAS are analysed, together with the perception of national accounting versus government accounting.

An empirical study, supported by documentary research, where various actors (reform drivers, political reform promoters, and stakeholders) were interviewed to try to identify the contextual, instrumental and behavioural variables underlying the government accounting reform in Malta, and to explain why and how these variables are affecting the environment as to its conduciveness for the reforms. The format and contents of the questionnaire used during the interviews were based on Lüder and Jones' (2003) EuroCIGAR study, which clarifies what constitutes governmental accounting and how it is to be described, thus providing a framework for research.

Figure 19: The research questions, findings and discussion



The research objectives of this study are threefold, as shown in Figure 19. Using Lüder's Model (2002) focuses the research to answer the questions on government accounting reforms in Malta. The decision to adopt IPSAS and the increased interest in IPSAS being shown by the EU for government accounting of member states make these aspects current and relevant, and are thus included as objectives of this study. The importance given to statistical reports of national accounting by practitioners adds another dimension to the study.

This one-country study contributes towards the already existing wide repertoire of CIGAR studies that have used Lüder’s FMR Process Model (2002). Described as a paradigm for CIGAR, Lüder's Model is applied in a different context, that of the central government of Malta.

Lüder’s Model (2002) has been criticised for not explaining the contents of government accounting, and for certain 'black boxes' in not considering the extent of certain variables and how the variables interact with each other (Christensen and Yoshimi, 2001; Jorge *et al*., 2011). These criticisms are analysed through the lens of organisational theory that underlies the Model.

3 LIMITATIONS

The subjectivity involved in certain interpretations of the data cannot be excluded. The values of both the research participants and of the researcher are unavoidably reflected in this study. The study endeavours to present the findings in an acceptable way that presents convincing but debatable arguments.

The classification of actors involved in the accounting reform into stakeholders, reform drivers and political reform promoters, is not as straightforward as it seems in theory. Perhaps the behavioural cluster of variables needs to be better explained, or perhaps it is difficult to capture these distinctive meanings in theory.

The research process, in particular, the period of the interviews, was slightly disrupted due to political developments that culminated in an early electoral campaign. This affected the availability of political actors that had agreed to participate in the study. As explained in section 4.3 of Chapter 2, these difficulties were overcome and compensatory measures taken.

4 THE MAIN RESEARCH FINDINGS

The findings confirm the centrality of the budget in government accounting and parliamentary proceedings. The findings indicate that the long-winding reforms at the central government level in Malta may only be illusory because once the statistical reporting requirements for Eurostat were achieved, the accounting reforms stopped and the original raison d'être appears to be lost. While the original stimulus was managerial-driven, the changes in the actors that occurred over time, together with the financial stress that naturally accompanies EU membership, appear to have blurred the reform concept. Contrary to expectations, the evidence indicates that the small size of the country may actually act as a negative factor on the government accounting reform process. This appears to be compounded by the financial pressures that naturally accompany EU membership. It also appears that the availability of IPSAS, and their consideration by the EU Commission for member states, are acting as another deterrent.

4.1 Accounting reform process

The governmental accounting reform process in Malta, at central level, is described in two phases: pre- and post-2004. As suggested by Jaruga and Nowak (1996) and Chan *et al.*

(1996), the feedback loops in Lüder's Model (2002) proved particularly adequate for the analysis of a slow and multi-step reform process, as in the case of Malta. The environment of the first phase of the accounting reforms is assessed as conducive to change, mainly due to the strong forces exerted by the behavioural variable together with the certainty surrounding the reform concept. These conditions changed in the second phase, and were replaced by stronger forces at macro level, which resulted in an environment that is not so conducive to change. While the organisational structure to continue the reform exists, it is not functioning, but is waiting for directions from the EU.

Contrary to Pallot's (1995) conclusion that smaller countries follow a managerial-driven approach to implement governmental accounting reform, it appears that in Malta, the second phase is more accountability-driven. The first phase appears to conform to Pallot's suggestion, but then the direction changed after 2004 due to the macro context becoming more powerful. The approach came to resemble more of that of larger countries.

The reluctance of the PS to impose systems on current structures, and the NAO's concerns regarding the defects of the present legislation and procedures, appear to confirm Caperchione's (2000) assertion that an accounting reform can only result in a proper governance tool if considered in the context of wider public administration changes. Accounting reform is not a simple technical exercise (Caperchione, 2000). It is also recognised that accrual accounting is not *"some panacea that will solve our problems"* (IAID, Interview 21) because *"problems are solved by taking decisions*" (PS, Interview 9).

The behaviour of the politicians and high level administrative officials involved in the Maltese governmental accounting reform appears to confirm that public leaders stand to gain from 'double-talk'; this is described in the literature as when they talk as if they intend to act, even if they have no intention of doing so and have no idea of what to do if they run into problems of implementation (Goffman, 1974). The accounting reform often features in the Budget Speech delivered by the Minister of Finance to Parliament, but nothing transpires. The appearance that accounting reforms are an ongoing process is maintained; this may help the organisation to strengthen the legitimacy of its actions and ensure survival. But perhaps it was never intended for innovations to be rapidly implemented.

Various debacles have taught politicians that being totally honest may have disastrous consequences. The reluctance to implement accrual accounting methodology at central government level may arise from the fear to be too transparent, and may not be a matter of losing control over the budget and government finances as suggested by Jones and Lüder (2011). However, uncertainty and fear of the unknown may then justify Jones and Lüder's (2011) conclusion.

On the other hand, there is no similar hesitation in the case of Local Councils and government entities, and these are required to adopt accrual accounting methodology. According to Lüder and Jones (2003), this appears to be a normal trend in most countries. In the case of Malta, there is also no objection for the IFRS framework to be followed by these government entities. But the IFRS framework is not considered as applicable for Central Government.

4.2 Financial Reporting Standards for government

The decision by the Government of Malta to adopt IPSAS does not appear to be well-informed, and is based mainly on the quest for credibility and legitimacy. These factors are important for the survival of any organisation; and may be even more important for a small state which may be more vulnerable to external pressure. Just by stating that IPSAS will be adopted provides a "*certain relaxation*" (AG, Interview 13); actual implementation is a different story. The accounting reform will now proceed according to EU direction. This expectancy can only result in delaying further the governmental accounting reform in Malta, but this may be convenient due to uncertainty surrounding the reform concept and to avoid embarrassing questions in the future.

The EU is examining the IPSAS to assess their suitability for adoption by the member states. The underlying idea is to require the member states to implement accrual-based public sector accounting systems. One may argue that the type of accounting practiced by governments should be at the discretion of each individual government, and that coercive pressures should not be the basis of legitimacy of government accounting practices. Such measures appear invasive in democratic institutions.

The counter-argument being made by the proponents of this idea is that harmonised reporting is required by the member states in order to ensure better monitoring and thus strengthen the budgetary frameworks of the member states. This brings forth two issues. First, that the IPSAS are financial reporting standards and do not provide any guidance on budgeting, budgetary accounting and control. Secondly, reporting to Eurostat is already harmonised because all member states adhere to ESA95, and cash flow data is used as the basis for this macro reporting.

Reporting according to ESA95 appears to have not been sufficient for the EU Commission to properly monitor the financial and economic situation of the member states. However, the EU Commission appears to be overlooking the possibility that the problem lies with the ESA95, and instead prefers to 'normalise' the underlying government accounting systems that feed the data for statistical reporting and national accounting. The English would call this behaviour "beating around the bush" because no level of accrual accounting methodology can ensure the reliability of accounting data; only proper internal control and audit procedures can perhaps sustain fiscal propriety, together with enforceable legislation that supports political responsibility, accountability and transparency.

4.3 The influence of national accounting

Limited resources of a relatively small administration would concentrate on satisfying the standards and the reporting that are considered as more important due to related or expected benefits, which in the Maltese case appears to be the ESA95.

This perspective is leading to situations where government accounting and national accounting are confused, or fused into one and the same thing. The AG confirmed that in the absence of a clear accounting rule, or in the absence of an accounting standard, the Treasury refers to the ESA95 which provides "*more strict rules and guidelines*" (AG, Interview 13). One important aspect identified in this research is the definition of the reporting entity, the limitation of the ESA95 General Government definition, and the consequences of this restricted reporting boundary especially in times of crisis.

The research participants expect that an accrual accounting system would bring government reporting and statistical data more in line and that fewer adjustments would be required to be made to the government accounting data when it is used for statistical reporting. This expectation concurs with the conclusion reached by Jorge De Jesus and Jorge (2011) in their comparative study of five EU countries, but it is somehow doubtful when one considers the adjustments that the NSO is required to carry out on data extracted from accrual-based accounting systems in order to make it ESA-compliant.

The ESA95 statistical reports are used for decision-making, both at national level and even by the EU. But are these reports comprehensive and sufficient?

The study carried out by the EU Commission confirms the importance of ESA95 for all member states. The ESA95 appears to be the dominating doctrine for government reporting intra-EU member states. Heald and Georgiou (2011) consider ESA95 as an epistemic community, because it exerts influence over government accounting. But in the Maltese context, ESA95 is more than a reform driver. It is a contextual variable because it forms part of the legal system. The ESA95 is engrained in the institutional variable that affects government accounting, exerting strong coercive pressure.

5 THE IMPLICATIONS OF THE FINDINGS

The findings indicate that the reform concept in the Maltese government accounting reform has changed from the implementation of a full accrual accounting system to a hybrid cash and accrual accounting system: an illusory sort of financial reporting system because the output is not being used as a management tool across the board for better decision-making to improve efficiency and effectiveness of the public sector. The reform concept in the second stage of the accounting reform in Malta is more aligned to satisfying reporting requirements at macro level. The change in the environment has shifted the emphasis of the accounting reform process from organisational level to a macro level.

Using the institutional theoretical lens while applying Lüder's Model in the Maltese context suggests that the model can better explain what is happening by expanding the model three-dimensionally. A distinction is made between forces and variables at macro and micro levels. The forces at macro level mainly affect the political reform promoter, who then sieves these through to micro and organisational level. The holistic features of Lüder's Model are retained because the two planes are connected by common variables being the political reform promoter, part of the institutional arrangements, and the reform concept itself.

Lüder's Model (2002) strikes a balance between the demand of the technical and institutional environments, as emphasised by Brunsson (1989). The proposed amendment to two connecting planes is emphasising the balance between the technical and institutional environments; and it is also illustrating how myth theories often focus on phenomena at macro level and relate these to effects and implications on an organisational level, as described in the literature (Scott, 1987; Gupta *et al.*, 1994; Christensen, 2003b).

This proposal aims at extending the discussion surrounding the criticism of Lüder's Model in not clarifying the extent and direction of the lines of influence and the lines of impact. It is important to point out that the proposed model cannot be generalised: the effect of pressures at macro level on a given context and behavioural variable cannot be generalised and thus cannot be captured in a comprehensive model. Even though countries may be subject to the same types and levels of pressures - coercive; normative; mimetic - the effects of these pressures on a particular country would depend on national political and economic factors.

The same arguments can be used for the other criticism of Lüder's Model in that it does not explain the why of the content of governmental accounting systems. The peculiarities of a governmental accounting system are linked with the political, social, legal and cultural features of a country, but are not bound by them. Institutional theory implies that there is no exclusive relationship between the contextual variables and the contents of the governmental accounting system. Perhaps government accounting systems cannot then be conveniently classified due to the various factors that affect the content.

6 RECOMMENDATIONS

The long-winding accounting reform at central government level in Malta may be suffering from reform fatigue. And perhaps it is convenient to wait for further directions from the EU. But once these instructions are received, it is important to learn from past mistakes.

It appears important that the institutional arrangements are not used to scatter the responsibilities of the committee that is ultimately responsible for the accounting reforms. In other words, all the aspects of the accounting reform should be the responsibility of one committee in order for the reforms to have the possibility of success.

Staff training to enhance accounting skills should proceed; and such staff should be placed in challenging accounting positions with rewarding remuneration. Care should be taken about the importance given to National Accounting and statistical reporting in order not to confuse these with the ulterior objectives of government accounting innovations. While more attention should be given to the other stakeholders to increase their involvement and awareness of the accounting reforms, in particular the Treasury, in order to enhance its important participatory role in the project.

The findings point to the importance of clearly defining the responsibilities of the actors involved in the accounting reform; these responsibilities should be spelled out and not assumed, otherwise it may result that nothing is actually done. Lack of communication between the different levels of management is another drawback that needs to be overcome.

The quality of the implementation strategy is very important, and this can be effective if the project has a legitimate owner capable of co-ordinating and backed with suitable legislation.

As to the proposed EPSAS and the link of government accounting reporting with EU statistical reporting, perhaps a more fruitful debate would surround the suitability of the latter should this be directly extractable from audited financial statements. The debate could extend to the reconsideration of the Maastricht criteria themselves, so that the fiscal targets are calculated from audited financial data.

7 FUTURE RESEARCH

This research was carried out during the final term of an administration. The General Elections resulted in a change in government on 9th March 2013. This means a change in the behavioural variable in the form of a new political reform promoter, namely, the Minister of Finance. The new minister is an economist and not an accountant like his predecessors. Further changes are anticipated in the institutional variable as the EU proceeds with the IPSAS/EPSAS project and any future EU Directives concerning public sector accounting are transposed into Maltese legislation and implemented. Such a change in the variables would warrant a repetition of this study in the future, to analyse how they are affecting the conduciveness of the environment towards accounting reform. Changes in the content of government accounting would also be worthy to note.

An interesting period of change is envisaged, as the EU Commission undertakes the EPSAS project. According to Makaronidis (2012), it is indisputable that IPSAS are used as a basis of reference for the promulgation of EPSAS. A future study may examine the process undertaken and determine how and why an IPSAS is directly adopted, slightly adapted, or overhauled.

Another issue highlighted by the EU Commission's report on IPSAS is the requirement of any future EPSAS to converge as much as possible with the ESA95 (COM(2013)114). How this will be achieved and the resulting effects on both government and national accounting could be another aspect of the current changes that warrants further research.

8 CONCLUDING NOTE FOR FUTURE CIGAR

This one-country study contributes towards CIGAR by introducing Malta in this field of research. As the smallest EU member state, it is an interesting case study, and the accessibility of the participants enriches the empirical research. The timing of this study is also opportune: in the wake of governmental accounting changes instigated at supranational level; and backed by 25 years of CIGAR.

Change is the underlying theme of this study. Change presents challenging opportunities for researchers. In the case of CIGAR, the aim of future accounting research - looking at governments through the eyes of the accountant - should include a better understanding of political, legal, economic and social environment in which government accounting is immersed: an environment that is continuously changing. When studying governments, the unique panorama would be better understood should the eyes of the accountant not be "glazed" by private sector accounting practice.

In other words, accountants should not just prop their accounting baggage on the table. They should look for useful and relevant tools inside. For example, from their experience in the private sector, accountants are very aware that any accounting system is susceptible to errors and intentional manipulation. Even an accrual accounting system could be undermined and is no guarantee for proper and complete reporting. It is the system of governance that counts, that is, ensuring that appropriate fiscal legislation and rules are in place that promote fiscal probity, accountability and transparency. And it would prove pointless to have a complicated accounting system that is not supported with adequate internal controls, external audit, and enforceable rules. These building blocks are a must before attempting to complicate matters.

An accrual accounting system has the potential to provide improvements in financial management, but it cannot be viewed as an end in itself. Accounting reforms, therefore, cannot be viewed as a simple technical exercise of changing from cash basis to accrual. The proposed accounting system, or rather, the proposed financial reporting system, should be useful, and provide relevant and reliable information. In order to be useful, there has to be the expertise to use the output from the system properly. In order to provide reliable information, the accounting system needs to be backed by a good governance structure. In order to provide relevant information, the particular needs of the users have to be considered. What drives users to seek particular information? What is their overarching goal? What are the benefits? Is the information used for decision making?

Research shows that governments refer to national accounting for their decision making, especially governments of EU member states because of its added value and implications. And this brings forth the questions: "Which financial reporting standards should be used for the output from the government's accounting system? Shouldn't this decision be left for the government to decide in order to cater for the particular requirements and conditions of its jurisdiction?" At the end of the day, Parliamentary discussions still centre around the cash budget, with emphasis on resource allocations depending on the political agenda.

Change for the sake of change is no change at all. Change should be undertaken to solve a problem. A problem is identified and something is done to solve it. For example, in Malta, the end users in the departments are dissatisfied with the strict application of the annuality principle in the budget. Will this problem be solved with the introduction of accrual accounting? Or, in other words, need it be solved in such a drastic way? Or is it a question of government policy?

Rather than to solve problems, research shows that in the case of government accounting, reforms are undertaken more as a signalling device to appear more legitimate. Perhaps this is just as well because in order to survive, organisations need more than just resources: they require credibility and legitimacy as well. So while accrual accounting practices do have the potential to help solve problems by providing data that can make organisations more efficient and effective; they also have a legitimising effect, which perhaps satisfies political objectives.

The way that the IPSAS decision was taken by the Maltese Government appears like a signal so that the government appears more legitimate - "we're doing the right thing, even though we don't know exactly how we are going to go about it, and neither are we sure whether the end result will be of any value really". But the decision is politically attractive.

Even the EU's interest in IPSAS and the proposed EPSAS indicates that this is being done so that it appears that it is doing the right thing. It does not appear to make sense to require member states to apply a set of financial reporting standards for government accounting, for the simple purpose to take some data, and turn it all around in order to suit another reporting system. Somehow it appears to be a waste of resources - time and money. The possibility that the problem may lie with the ESA95, statistical reporting requirements and national accounting is not considered. So is the problem being tackled holistically?

Adopting IPSAS or any other reporting standards is not a guarantee of sound financial management and accountability. The EU may be worrying the wrong end of the stick by taking this track of regarding the implementation of a standardised public sector accounting system in EU member states as a way of improving the budgetary control framework. It may result in giving the signal that government accounting is legitimate, but are problems going to be solved in this way?

9 CONCLUDING PERSONAL COMMENT

On a personal note, as an accountant myself, I did not expect to reach certain conclusions when I embarked on this project. I feel that the work that I have done has helped me to widen my perspective on certain issues in an effort to understand.

Research has proven to be a very rewarding way how to learn. The available literature is awesome, and continuous reading is a must in the research process, in order to appreciate what has already been written and integrate, extend or simply debate the arguments put forward by others.

Overall, this research process has been a humbling experience and this is only the beginning. The possibility of contributing further to the wide ocean of knowledge is challenging and exciting. I hope that in this way I can better understand and help others to do so as well.

APPENDICES

APPENDIX A: FORMAT AND CONTENT OF THE RESEARCH INSTRUMENT

Table 15: The research instrument

Introduction	The introduction is tailor-made to suit the interviewee, by providing some facts from the documentary research which involve the interviewee. Then I ask the interviewee to elaborate on his/her involvement in the accounting reform, and for an opinion about the process. For example, I ask: '*Does the accounting reform make sense to you*?'
Part A - Accounting	This part is divided into four sections and concerns the financial reporting aspect of the ***reform concept***: ➢ An overview of the current accounting system and the proposed accrual accounting system; ➢ Measurement focus, both current and as proposed; ➢ Disclosure issues that may need to be tackled in the proposed system; ➢ Consolidated financial statements, that is, the level of consolidation that is intended. And here is where I ask them about the distinction between national accounting and government accounting.
Part B - Budgetary accounting and budgeting	This part is divided into four sections and deals with another aspect of the ***reform concept,*** being the budget and performance measurement: ➢ Budgetary accounting; ➢ Accrual budgeting; ➢ Budgeting principles; ➢ Output measurement.
Part C - Context of the reforms	This part is divided into four sections: ➢ The process of setting new accounting norms and rules and other ***institutional arrangements***; ➢ The main ***stimuli*** that triggered the reform, and factors that may be holding back the reform; ➢ The identification of the ***key players*** in the reform process; ➢ The planned ***implementation strategy***.
Part D - IPSAS	This part concentrates on the IPSAS decision: who decided? Why? Why IPSAS and not some other standards? How will IPSAS be adopted and implemented? I refer the participant to Art 16(3) of EU Council Directive 2011/85, and then ask about their reaction and expectations.

APPENDIX B: DESCRIPTION OF RESEARCH PARTICIPANTS

Thirty-six participants were identified (refer to figure 20). Eight did not participate (indicated in *italics* in figure 20), resulting in twenty-eight actual interviews.

Figure 20: The research participants

Political Reform Promoters (2):

politicians and/or government officials who initiate a reform and have the power to enforce it

- the Permanent Secretary at the MFEI
- *The Minister for Finance, the Economy and Investment*

Stakeholders (25):

depending on their discretionary powers, these actors may affect the reform process

- Two Parliamentary members (members of the Public Accounts Committee)
- The Accountant General
- The Director for Government Accounting
- An Accountant at the Treasury
- The Director General for Internal Auditing and Investigations
- The Deputy Auditor General
- The Assistant Auditor General
- The Director for Financial Policy Development and Analysis
- The Budget Office
- The Director General for Strategy and Operations Support
- The Manager at MITA responsible for new IT system
- *The Principal Permanent Secretary (Head of the Civil Service and Secretary to the Cabinet)*
- Nine Directors for Corporate Services
- *Three Directors for Corporate Services*

Reform Drivers (9):

these actors may influence the decisions of political actors

- The Technical Officer of the Malta Institute of Accountants
- *The MEP vice chair of the Economic and Monetary Affairs Committee of the European Parliament*
- A MITA official on the Departmental Accounting System
- The ex-head of the Accrual Accounting Task Force (retired)
- A partner at the private audit firm that was responsible for writing accounting standards specifically for the Maltese government (prior to the decision to adopt IPSAS)
- A Member of the Government Finance Statistics Committee from the National Statistics Office
- The ex-Director of the Budget Office
- *The Shadow Minister for Finance*
- *The preceding Minister for Finance (ex-EU Commissioner for Health)*

APPENDIX C: INTERVIEW SCHEDULE

Table 16: The Interview Schedule

No.	Interview date	Notes	Abbreviation
1	8/10/11	Technical Officer, The Malta Institute of Accountants	MIA
2	27/10/11 and later	Director Government Accounting, The Treasury	DGA
3	30/11/11 and later	Accountant, The Treasury	TA
4	1/12/11 and later	Assistant Auditor General	NAO2
5	2/12/11	Chairman, Public Accounts Committee	PAC1
6	6/12/11	Member, Public Accounts Committee	PAC2
7	6/12/11	Director General Finance, Office of the Prime Minister	DCS1
8	14/12/11	Ex-Director General Special Projects, MFEI	XDGS
9	9/1/12 and later	Permanent Secretary, MFEI	PS
10	10/1/12	Director Corporate Services, Ministry for Infrastructure, Transport and Communication	DCS2
11	13/1/12	Manager, Malta Information Technology Authority (MITA)	MITA2
12	17/1/12	Director Financial Policy Development and Analysis, MFEI	DFPDA
13	27/1/12 and later	Accountant General, The Treasury	AG
14	31/1/12	Partner, Grant Thornton Audit Firm	GT
15	5/3/12	Deputy Auditor General	NAO1
16	12/4/12	Director General Finance, Ministry for Health, the Elderly and Community Care	DCS3
17	19/4/12	Director General Finance, Ministry for Justice and Home Affairs	DCS4
18	20/4/12 and later	The Budget Office, MFEI	BO
19	3/5/12	Director General Strategy and Operations Support, MFEI	DGSOS
20	3/5/12	Ministry for Resources and Rural Affairs	DCS5
21	1/6/12	Director General, Internal Audit and Investigations Directorate (IAID)	IAID
22	6/6/12	Manager Finance, Ministry for Education, Employment and Family	DCS6
23	6/6/12	Manager for Schools Finances, Ministry for Education, Employment and Family	DCS7
24	19/6/12	Manager, National Statistics Office	NSO
25	6/8/12	Ex-Director General Budget Office, MFEI	XBO
26	9/8/12	Ministry for Gozo	DCS8
27	11/9/12	General Manager, Malta Information Technology Authority (MITA)	MITA1
28	28/9/12	Director Corporate Services, Ministry for Justice, Dialogue and Family[111]	DCS9

[111] Following a Parliamentary re-shuffle in June 2012, the Ministries were increased from nine to twelve. The Ministry for Justice, Dialogue and Family is one of the "new" ministries resulting from the changes in portfolio.

Figure 21: Hierarchical Structure identifying the Public Accounts Committee

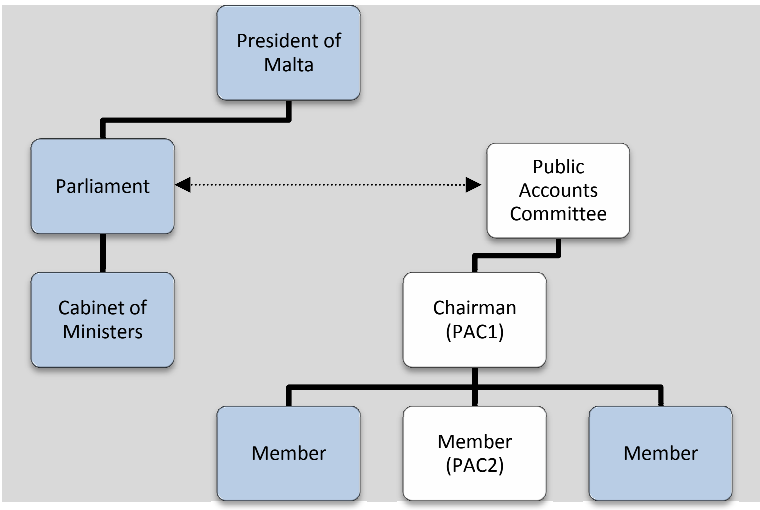


Figure 22: Hierarchical Structure for the National Audit Office

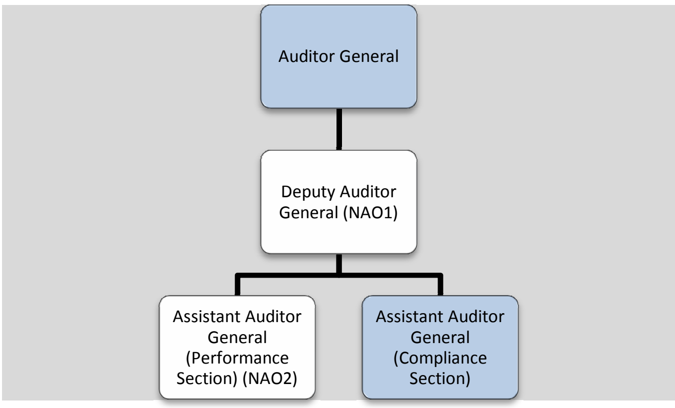


Figure 23: Hierarchical Structure identifying the Internal Audit Directorate and one DCS

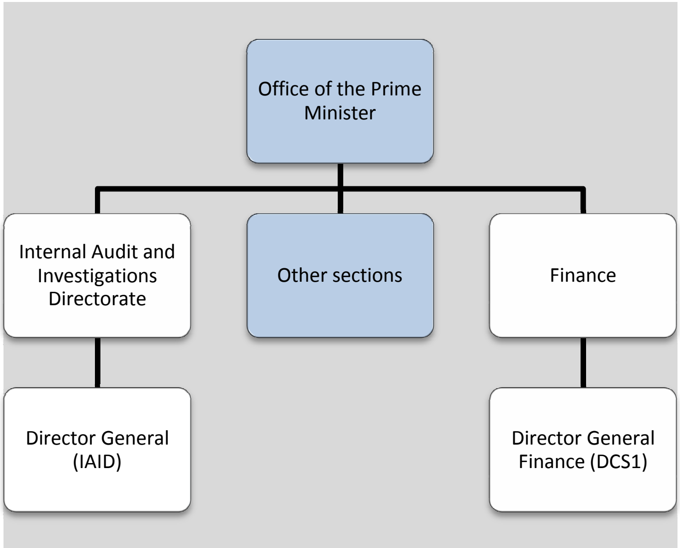


Figure 24: Hierarchical Structure identifying the other DCS and the MITA

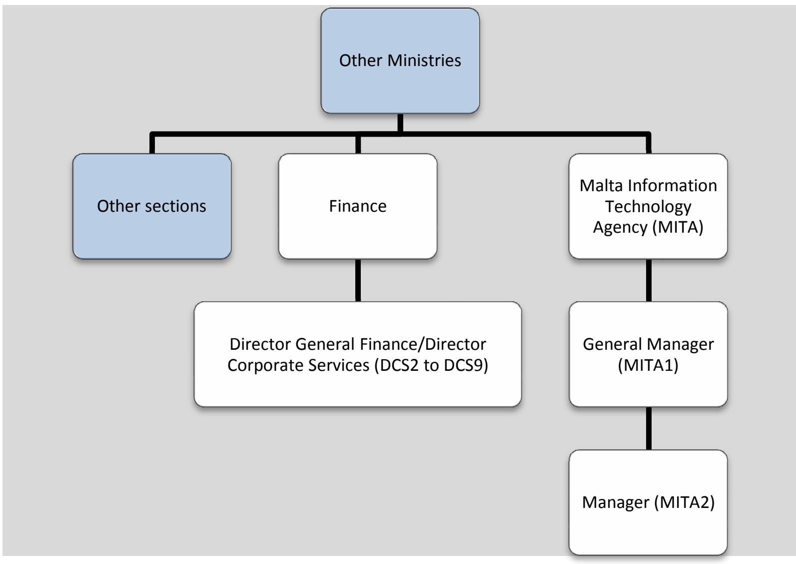


Figure 25: Hierarchical Structure for the Ministry of Finance identifying the Permanent Secretary, Financial Policy Directorate, the Budget Office, The Treasury, Strategy & Operations Directorate and the National Statistics Office

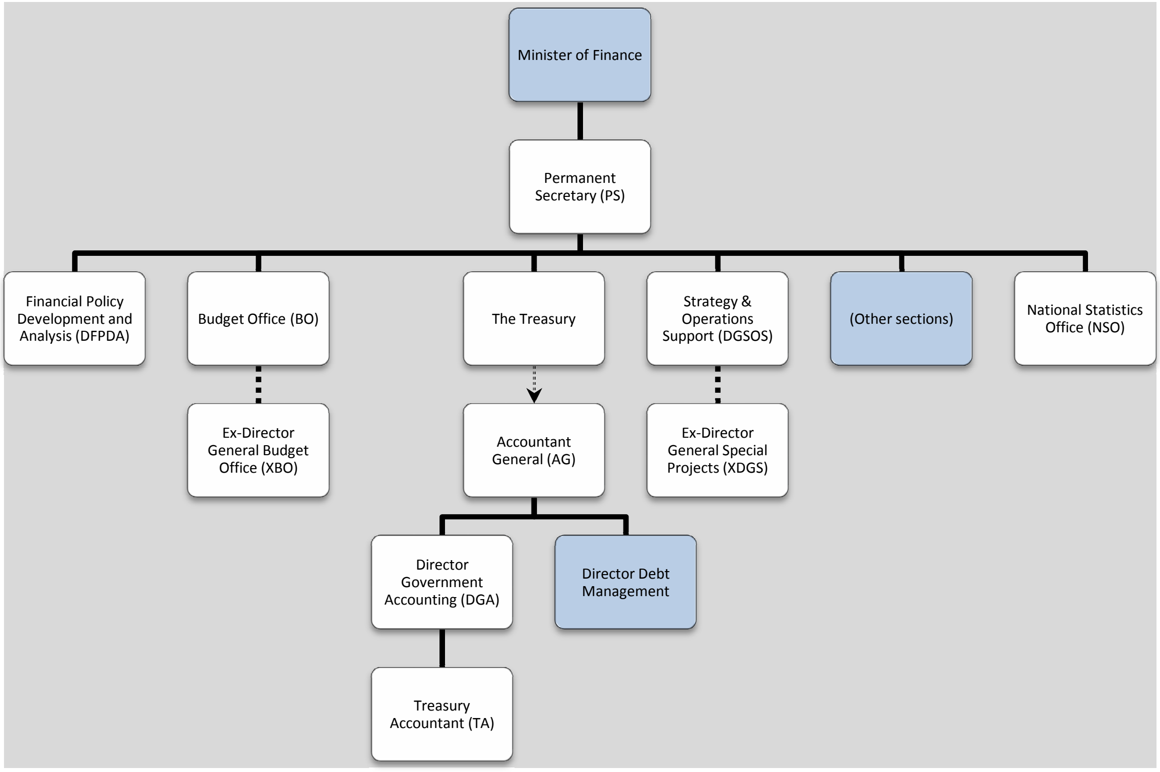


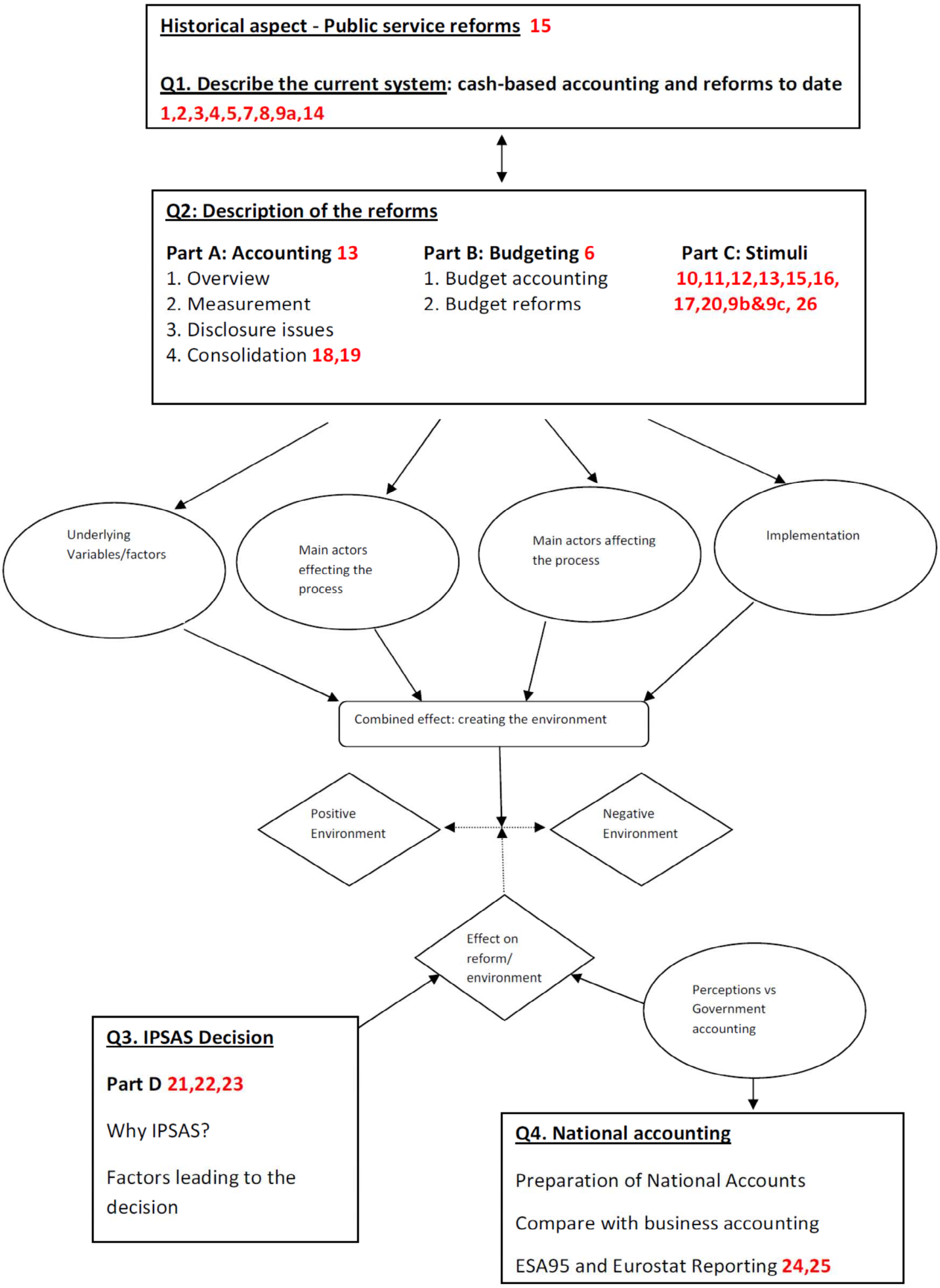
Figure 26: Other participants, external to the government

Malta Institute of Accountants, Technical Officer (MIA)

Grant Thornton (Audit Firm), Partner (GT)

APPENDIX D: THEMATIC MAP

Figure 27: Thematic Map



APPENDIX E: DEFINING AND NAMING THE THEMES

1. **THE DAS - Describe the Current System**
    a) Implementation
    b) How it works; double entry; coding
    c) Pros & Cons
2. **CASH BASIS**
    a) Importance of Cash basis
    b) Advantages
    c) Disadvantages
    d) Financial Reporting and audit: procedure and defects
    e) Abuses
    f) Perception of Cash Basis - negative
    g) Perception of Cash Basis - positive
3. **ACCRUAL ACCOUNTING**
    a) Expectations - positive
    b) Advantages
    c) Disadvantages
    d) Perception of accrual accounting - negative
    e) Purposes of accrual accounting
    f) Public vs Private
4. **REFORM CONCEPT & EXPECTATIONS**
    a) Importance of accounting system
    b) Which accounting system?
    c) Reform Concept
    d) Reform Expectations and reservations
5. **REFORMS**
    a) Beginning of the reforms and the Accrual Accounting Task Force
    b) Reform work to date
    c) Trial Financial Statements
    d) Rate of reform
    e) Immediate Plans
    f) Planned Accrual Accounting System
6. **BUDGETING**
    a) Importance of Budgeting
    b) Budgeting at present
    c) Accrual budgeting
    d) Budgetary control

7. IT SYSTEM

a) MITA and new system
b) Issue of tender factors
c) New IT system - Committee, specifications and disagreements
d) IT System and cost
e) IT System and staff
f) Implementation and anticipated problems

8. LEGISLATION

a) New legislation: gradual changes vs major overhaul
b) Reinforce fiscal discipline
c) Update the budgetary process
d) The definition of the "reporting entity"
e) Work done on new legislation (scrapped?)
f) New legislation and the NAO (disagreement)
g) Current legislation and defects
h) Introducing modern financial management concepts
i) Is a new legislation required to introduce accounting reforms?

9. THE TREASURY AND THE REFORMS

a) The work of the Treasury on the reforms
b) A more active role of the Treasury
c) The MFEI and conflicts with the Treasury

10. CHAMPION

a) Previous Minister of Finance
b) Ex-Director General Special Projects
c) MFEI vs Treasury
d) Limited resources - MFEI
e) Limited resources - Treasury
f) "Orphan" project

11. POLITICIANS

a) Politicians vs Civil Servants
b) Politicians and the reform
c) Political decisions
d) Politicians and training
e) Reporting accrual to Parliament
f) Effect of General Election on reform process

12. HUMAN CAPACITIES

a) Staff attitude towards reforms
b) Change in culture required
c) Human resources and training
d) Civil servants with a vision

13. AUDIT

a) NAO and the reform
b) Importance of NAO involvement in the reform
c) Problems for the NAO
d) Qualified Audit Report and the reform

14. DEPARTMENTS

a) Departments and reforms
b) Functions and responsibilities of DCS in the accrual accounting project
c) Lack of feedback to DCS on project

15. DECENTRALISATION AND CENTRALISATION

a) Organisation structure and problems
b) EBUs and the DAS
c) Decentralisation and NPM
d) Problems with entities
e) Central Control and post-NPM(?)

16. NEGATIVE FACTORS

a) Small country and culture
b) Change in Minister
c) Crisis and priorities
d) Mentality and resistance
e) IT System specifications - disagreement
f) Effect of new legislation on operations
g) Staff training - lack of professional staff
h) Government level of pay does not attract professionals
i) Lack of funds for IT system
j) Political aspects (no political will; forward planning not desirable; too transparent)
k) Lethargy at all levels (even EU) and lack of vision (no champion)
l) Meeting EU obligations (and ESA assumed as a replacement for accrual accounting)
m) Waiting for EU decision
n) MFEI is understaffed
o) Time span taken

17. POSITIVE FACTORS

a) IT system needs to be replaced
b) EU requirements (ESA helped change mentality)
c) Previous Minister's vision
d) Ex-Director General Special Projects as driver
e) Government is more experienced
f) Political pressures
g) Local criticism and private audit firms
h) To be like the private sector
i) To appear more progressive (especially with the EU)
j) Comparability with other countries' reporting

18. THE REPORTING ENTITY

a) Not specified in current legislation (and rather hazy in proposed/scrapped)
b) Assumed definition
c) Importance of ESA definition - General Government
d) IPSAS 6 not referred to
e) Financial Engineering encouraged by ESA definition

19. CONSOLIDATION

a) Consolidation or aggregation?
b) No problem envisaged due to use of different standards
c) Level of consolidation
d) Objective of consolidation
e) Costs involved

20. THE MALTA INSTITUTE OF ACCOUNTANTS (MIA)

a) Interest of the private sector in the public sector
b) Private sector/MIA involvement in the reforms
c) MIA level of interest
d) MIA and members' interests
e) MIA and limited resources

21. MGAS

a) MGAS Development
b) MGAS based on IFRS/IPSAS
c) MGAS Committee and the "Financial Policy Development & Analysis Unit"

22. IPSAS

PART D of interviews **plus**

a) Importance of Standards
b) Importance of IPSAS
c) IFAC & IPSAS and MIA obligations
d) IPSAS & IFRS & MGAS → IPSAS decision*
e) IPSAS adoption/adaption and the ESA effect
f) IPSAS, the EU and ESA
g) IPSAS Committee
h) IPSAS training

23. SOVEREIGNTY*

a) IPSAS and sovereignty

24. THE EU

a) Before the EU - the IMF
b) EU Policies & Outlook
c) EU and reforms
d) EU Reporting - importance
e) EU Crisis

25. NATIONAL ACCOUNTING

a) EDP & ESA 95
b) National Accounts Preparation
c) National Accounting vs Business Accounting
d) ESA vs IPSAS and accrual accounting
e) National vs Government accounting
f) Mixing up the two
g) Importance of EDP
h) NSO as decision-maker and "accounts" preparer
i) Eurostat power
j) Eurostat Missions and the NAO
k) NAO involvement in upstream data missions
l) Eurostat reporting and the DAS Coding system
m) EDP as reform driver

26. SMALL COUNTRY AND CULTURE

a) Relative size of civil service
b) Public employees skills
c) Learning from other countries
d) Limited resources and practical implications

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