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Shades of governmental financial reporting with a national accounting twist

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ABSTRACT

Malta is an example of an EU member state that is implementing governmental accounting reform in anticipation of the EU requirements. The proposed outcome from the new accounting system is examined and compared with the government reporting of another EU member state that has an established accrual accounting system, namely, the UK.

The influence of national accounting rules on UK's financial reporting and budgeting is now pervasive, especially for consolidation. The proposed accounting system in Malta emphasises the reconciliation of the cash deficit with the accrual deficit, however, more influence of national accounting rules is expected as the system develops.

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1. Introduction

The European Commission (EC) considers it important to harmonise governmental accounting systems of member states of the European Union (EU), and is in the process of developing the European Public Sector Accounting Standards (EPSAS) (Eurostat, 2013). Using the International Public Sector Accounting Standards (IPSAS) as its point of reference, the EC aims to minimise differences between the EPSAS and the requirements of the European System of National and Regional Accounts (ESA), being the standard applicable in the preparation of the statistical data submitted by EU member states.

Some member states already have an accrual accounting system in place. For example, in the UK, government reporting is based on International Financial Reporting Standards (IFRS), but with a twist of ESA influence. In the process of adapting the IFRS for the public sector, the UK Treasury refers to and adopts the rules/definitions used by the Office of National Statistics (ONS) (HM Treasury, 2015a). Other EU governments are considering, or are in the process of, reforming their governmental accounting systems. For example, in Malta, the government accounting reform is proceeding based on IPSAS because it is not expected that there will be any major differences between IPSAS and EPSAS (Ministry for Finance, 2013c).

The objective of this paper is to look at the proposed reporting output from the new accounting system in Malta and compare it with governmental reporting of another EU member state that already has an accrual accounting system in place, in particular the UK. Different reporting formats are identified, raising the question of why such differences should arise when similar financial reporting standards are used. IPSAS have emanated from IFRS, and except for IPSAS that have been specifically written for the public sector, there are no major differences. Moreover, the UK adapts IFRS for the public sector context, bringing IFRS closer to IPSAS. Irrespective of the standards used, shouldn't the underlying objectives of government

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financial reporting be the same? Would the fact that Malta is part of the Eurozone, while the UK is not, matter? Would this fact affect the perceived utility of government financial reporting? Particular reference is made to the boundary of the government reporting entity, which is an issue that has worried academics and practitioners alike (see, for example, Chow, Humphrey, & Moll, 2007, 2008; Heald & Georgiou, 2009, 2011). This paper highlights the dominant role of national accounting rules in government financial reporting.

The UK is chosen as a comparative with Malta due to the strong links between the two countries, especially with regards to accounting. Malta was a British Colony from 1800 up to 1964. The English language is the most advantageous inheritance, which is an official language in Malta. Financial reports are prepared in English, both for the private and public sectors, including government financial reports.

Accounting in the Maltese private sector can be described as Anglo-Saxon. The Maltese Companies Act 1995 is based on the British model, and companies are required to prepare financial reports that are IFRS-compliant. Prior to 1995, reference was made to British statements of standard accounting practice. And prior to the Accountancy Profession Act of 1979, it was common for accountants to study for professional examinations through British professional associations.

The current financial legislation for the Maltese Government's financial procedures and reporting is the Financial Administration and Audit Act of 1962, supported by the Government Financial Regulations 1966. The legislation is based on regulations existing during colonial times (Pirotta & Warrington, 2001). The cash-based accounting system centres around the budget preparation, and is similar to the cash-based reporting that the UK Government used prior to 2000. Government accounting reform at central level in Malta started in 1999 and continues. This extended period of change may partly be due to the influence of EU membership and the implications that this involves, which pressures are more apparent in Malta as the smallest member state (Jones & Caruana, 2014b). Due to the close links between the two countries, it may be surprising that Malta did not follow more closely on the steps of the UK model for its governmental accounting reform.

The outline of this paper is as follows. Section 2 highlights relevant literature, and Section 3 explains the research methodology. Section 4 briefly describes the governmental accounting systems of Malta and the UK. Section 5 analyses the proposed reporting output from the new Maltese accounting system, and highlights technical differences with UK financial reporting. The influence of national accounting in both countries is then assessed in Section 6. The concluding Section 7 summarises the study and attempts to answer the research questions as outlined in this section.

2. Literature review

'*Fiscal crisis begat accrual-based accounting in the past*', observes Jones (2014:70), referring to the New York City and State in 1976; the US Federal Government and New Zealand in 1990. The same appears to be happening with IPSAS and the Eurozone crisis in this century. According to Adler and Haas (1992:380):

> *[C]risis and dramatic events have the effects of alerting decision makers to the limitation of their understanding of the issue-area and of either triggering their search for advice from an epistemic community of experts or increasing their reliance on a community with an established foothold. Crises and new developments not only accelerate the diffusion process but also lend urgency to the task of re-evaluating current policies and coming up with alternatives.*

The financial and economic crisis that hit the EU in 2008, brought to the fore the role of the EC – Eurostat, in particular – as the guardian of the statistical data and reporting required by EU member states (Jones, 2014). Such reporting is a product of national accounting and is the main tool used by the EC to execute its function of budgetary surveillance of EU member states. It is also used by the European Central Bank (ECB) to fulfil its responsibilities towards the single monetary policy of the Eurosystem. Identifying lack of reliability of the statistical data as one of the main issues exacerbating the EU sovereign debt crisis, the EC decided to directly address the source of this data, and advocate a standardised public sector accrual accounting system to be applied uniformly in all EU member states (Eurostat, 2013). This calls for a suitable framework of financial reporting standards.

After carrying out a study on the currently available international financial reporting standards applicable for the public sector, namely, the IPSAS, and concluding that the IPSAS as they stand are not suitable for direct implementation by the EU member states, the EC has launched the EPSAS project (Eurostat, 2013). The objective of EPSAS are to develop a set of financial reporting standards that would be applicable for EU member states' government financial reporting. The intention is to keep differences between EPSAS, IPSAS, IFRS and ESA to a minimum (Heald & Hodges, 2015; Jones & Caruana, 2015c).

A common set of standards does not automatically result in comparability between entities that must comply with those standards (Tagesson, 2014:11). The way that preparers respond to rules and expectations would depend on the situation and possible consequences (Oliver, 1991). According to institutional theory, change in organisations is not driven by the search for efficiency but it is the result of processes that make organisations '*more similar without necessarily making them more efficient*' (DiMaggio & Powell, 1983:147). This means that organisations look for legitimacy instead of trying to be more efficient. The concept that describes the process of homogenisation is isomorphism.

DiMaggio and Powell (1983) identify three categories of isomorphism: (i) coercive isomorphism, related to political pressure exerted on organisations by institutions upon which they are dependent; (ii) mimetic isomorphism, which occurs when organisations, in situations of uncertainty, try to imitate other organisations that are perceived to be successful; and (iii) normative isomorphism, occurring as a result of professionalisation. Lande (2006:26) observes that if the forces or pressures that are exerted explain these movements of reform in favour of accrual based accounting, then this isomorphism

is not perfect, because, there are different definitions of accrual basis of accounting in various countries. These definitions result in different shades of governmental financial reporting and budgeting, even if they purport to follow the same financial reporting standards or very similar ones.

Heald and Georgiou (2011:467) describe the two disciplines of financial reporting/auditing and economics/statistics as epistemic communities. The institutional theory lens observes that 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 & Powell, 1983:152–153). The ESA, however, is more than an epistemic community because it forms part of the legal system. The influence of ESA is coercive in nature. The importance of ESA has been confirmed by the consultative study on IPSAS carried out by Eurostat and the ensuing EC report (Eurostat, 2013).

This paper shows how the interest in accrual accounting and the attendant reporting standards is more pronounced in times of crisis. While aiming for harmonisation, isomorphic pressures are not perfect, resulting in different forms of reporting. The national accounting baggage for governmental reporting cannot be ignored, and the coercive nature of national accounting rules takes precedence.

3. Research methodology

The exploratory questions posed by this study require a qualitative approach. Documentary research is used to extract, analyse and compare information regarding the proposed output from the governmental accounting system to be implemented in Malta and the current financial reports published by the UK Government.

In the case of Malta, the data is available from a public document issued by the Government of Malta in its process of acquiring a new 'Corporate Financial Management Solution' (CFMS) (Ministry for Finance, 2014). The problem with using this document is that government officials were reluctant to discuss its content because the tender had not yet been adjudicated at the time of this research. As a result, certain inconsistencies identified in the document could not be clarified and the author had to rely on the published content.

The comparative government financial reports used are the UK Whole of Government Accounts (WGA) (HM Treasury, 2015b) and budgetary reports (HM Treasury, 2015c). The UK government accounts are chosen as a comparative because they are convenient: they are available online from the UK Treasury website; they are in English; and to a certain extent, they are understandable to an accountant, because of their business-like format. Having said this, the complexity of the reporting entity and the adaptation of IFRS for the public sector, did not make the task of interpretation so straightforward. Indeed, in order to understand the underlying concepts, it was necessary to refer to the Financial Reporting Manual (FReM) (HM Treasury, 2015a), also prepared by the UK Treasury and available on its website.

4. Governmental financial reporting and budgeting in Malta and the UK

This section describes governmental accounting in Malta and the UK from the aspects of financial reporting, budgetary control and auditing. It will then describe governmental accounting reform in both countries and the roles of the Treasuries.

4.1. Financial reporting

The central government of Malta has a traditional budget-oriented cash-based accounting system. As relatively recent organisations, Local Councils and government entities are required to prepare financial statements that are IFRS-compliant. The underlying reason for the choice of IFRS at local government level may be the normative pressure exerted by the accountancy profession since Local Councils and government entities are audited by private audit firms (Jones & Caruana, 2015a). The fact that Local Councils in Malta use accrual basis while the central government does not is similar to the trend observed in other EU countries (Brusca, Caperchione, Cohen, & Manes Rossi, 2015; PwC, 2014).

Since the financial year ended 2000, in the UK, central government departments have produced accrual-based financial statements. As from the year ended 31 March 2010, the UK Treasury started issuing WGA by consolidating the central government, local government, and other entities identified by it as being part of the public sector. The accounting policies of the WGA are found in the FReM, and are based on EU-adopted IFRS, as modified by the UK Treasury to suit the public sector context. But not all entities included in the WGA follow the Treasury's FReM. For example, certain corporations apply IFRS directly; the health service has its own manual of modified IFRS; local government applies IFRS as adopted by the Chartered Institute of Public Accountancy and Finance (CIPFA) and the Local Authority (Scotland) Accounts Advisory Committee (LASAAC), referring to IPSAS and UK Financial Reporting Standards. The Consolidated Fund, which is at the heart of central government, remains cash-based.

The FReM of the UK Treasury refers to the International Accounting Standards Board's conceptual framework and adds two additional principles: parliamentary accountability and regularity (HM Treasury, 2015a: para.2.1.3). The financial statements include the statement of comprehensive income; the statement of financial position; statement of changes in equity; statement of cash flows; and the notes to the accounts. No parent company is disclosed given that the WGA are prepared for the purposes of Government and Parliament as a whole and not as a requirement of an individual entity. At departmental

Table 1
The main statements contained in the Maltese Government Financial Report, according to existing legislation.

An analysis of the movements on the Consolidated Fund as compared with the approved budget and the previous year's figures; identifying the recurrent deficit, the total deficit, the Public Sector Borrowing Requirement, and the extent of this being funded through new loans
An analysis of the various revenue heads and sub-heads, comparing budget estimates with actual, stating the reasons for the variations
An analysis of the recurrent expenditure, at line item level, comparing budget (revised estimate) with actual
The Statement of Assets and Liabilities (reflecting the overall end-of-year position of all the Funds and Accounts contained in the Financial Statements)
A list of Contingent Liabilities
Statement of Advances (Loans made by Government)
Statement of Investments (at book value, unless otherwise stated)
The Statement of Public Debt
A departmental income and expenditure account, showing the overall performance of each department, calcualted as revenue and other deposits less recurrent and capital expenditure, and less advances

level, the statement of comprehensive income is called the statement of comprehensive net expenditure; and the statement of cash flows includes a footnote to highlight cash flows with the Consolidated Fund.

4.2. Budgetary control

In Malta, financial management and control centres around the annual budget, which is prepared by the Ministry for Finance and presented to Parliament for approval. The annual Appropriation Act authorises the budgeted expenditure to be issued from the Consolidated Fund. The Accountant General at the Treasury then takes over, and inputs the detailed budgeted expenditure limits in the Departmental Accounting System. These cannot be exceeded without the approval of the Ministry for Finance. Very limited carrying forward of unused funds is allowed through below-the-line accounts, which would also require the approval of the Ministry for Finance.

All revenues and expenditures are recorded in the Consolidated Fund. At the end of the financial year, the Accountant General draws up a Financial Report as required by the Financial Administration and Audit Act (Article 67). Table 1 shows the main statements contained in the Maltese Government Financial Report. The Report focuses on actual performance against the annual cash budget.

The UK FReM elaborates the UK Treasury's budgeting system, and describes the links with financial accounting and reporting through various reconciliations. For example, departments financed through central budget funds are required to prepare the Statement of Parliamentary Supply in order to satisfy the parliamentary accountability principle. This statement reports to Parliament on variances between actual results and the supply estimates voted by Parliament in respect of each budgetary control limit. The notes to the Statement include a reconciliation between the actual results and the net operating costs shown in the Statement of Comprehensive Net Expenditure. The Statement of Parliamentary Supply follows the budgeting principles used in the Supply Estimates laid before Parliament; that is, they are prepared on a similar basis as the National Accounts and comply with ESA, as adapted and interpreted in the Consolidated Budgeting Guidance (HM Treasury, 2015a: para.3.2).

4.3. Auditing

The Maltese Government Financial Report is audited by the Auditor General of the National Audit Office, and the Auditor's Report is presented to Parliament within 12 months of the financial year end. The UK government financial statements are audited by the Comptroller and Auditor General as the supreme auditor. The Auditor's opinion on the WGA has been qualified due to disagreements arising on the definition and application of the Accounting boundary, and also because of different accounting principles used by the entities included in the consolidation (HM Treasury, 2015b:161–3).

4.4. Accounting reform

The Accrual Accounting Task Force was set up in 1999 with the remit to take all necessary measures to implement an accrual accounting system for the Maltese Central Government. The project of this Task Force required three outcomes: 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.

A previous study on central government accounting reform in Malta (Jones & Caruana, 2014b) reveals that, on the instructions of the Accrual Accounting Task Force, the Treasury started collecting accrual data from the government departments, and, as from 2002, began compiling trial accrual based financial statements for internal use. These trial financial statements were never published because they are incomplete and not audited. They were continued in order to provide the opening balances for the new accounting system. But the decision to acquire a new IT system and actually start implementation rests with the Ministry for Finance.

Accrual data is collected on a quarterly basis, and has proved essential for the National Statistics Office (NSO) to meet the statistical reporting requirements according to ESA. Once these EU reporting requirements were being met in 2004, the

work on the changeover of the accounting system waned (Jones & Caruana, 2014b). The requirements of the IT system were drafted and shelved; work on the new Public Finance Management Act was haphazard and never finalised; while accounting standards were drafted but never used. In 2011, the decision was taken to fully adopt the IPSAS.

In March 2013, the general election resulted in a change in administration. A new Minister of Finance was elected in office. His first task was to enhance the functioning of the NSO with the aim of improving the statistical data collected, in particular, the data that is reported to the EU. According to the Minister of Finance, the NSO plays a vital role "in providing the necessary information the Government requires to guide the country towards stability and greater economic growth" (Ministry for Finance, 2013b).

The Minister then targeted the accrual accounting reform process. The Ministry for Finance appointed CIPFA to carry out a scoping study and identify the best way forward. The Minister agreed with CIPFA's recommendation that the reform should proceed based on IPSAS, since it is anticipated that there will be no major differences from the proposed EPSAS, given that the IPSAS are indisputably the ideal reference for the development of the EPSAS (Ministry for Finance, 2013c). CIPFA's six-year plan is perceived as achievable and beneficial for society in general, with the underlying aim of the accounting reform project being to produce more reliable data for government finance statistics (Ministry for Finance, 2013a).

In January 2014, the Ministry for Finance issued a public tender for the government to acquire both the IT hardware and software for a CFMS (Ministry for Finance, 2014). The tender document is important because it lays down the specifics of the IT system required to implement an accrual accounting system across the central government, and also provides details of the financial reports that are required and the level of consolidation.

It has always been intended to retain the current cash-based accounting system and implement accrual accounting as an add-on (Jones & Caruana, 2014b, 2015a). In fact, "the proposed solution needs to support both models concurrently" (Ministry for Finance, 2014:75). The same applies for budgeting, with one of the objectives of the CFMS being "to create coherent financial and budgetary systems that conform both to cash and accrual based methodologies" (Ministry for Finance, 2014:79).

The Core component of the CFMS is basically the replacement of the current system but with the additional accrual system (according to IPSAS) complementing the cash-based system, for both financial accounting and budgeting. The CFMS recognises that "the budgetary process is the fulcrum of a Government's operational functions, where allocations of budgets out of yearly parliamentary appropriations are provided to Ministries and Departments" (Ministry for Finance, 2014:102).

The proposed system is to allow the carry forward of budgetary funds in certain instances; quoting, as examples, EU funding, deferred capital expenditure, or multi-year contracts. The system is required to produce a cash versus accrual budgeting analysis. While various levels of reporting are identified, it appears that consolidation is planned up to ministries and departments, that is, at central government level only. The system would also need to cater for other types of international reporting which apply various standards, including "EU standards in development" (Ministry for Finance, 2014:106), that is, the EPSAS.

The other component of the CFMS includes various add-ons that are an essential part of the whole business model of Government and completes the full accrual based financial framework. The proposed solution is to provide systems for the management of: Budgetary Preparation and Forecasting; Financial Assets and Liabilities; Public Debt and Loan Financing; Grants; EU Co-Funding; Project Costs; Contract Costs; Transfer Pricing; Business Intelligence; and integration to e-government services. Government reserves the right to implement one or many or none of these systems and services at any time, during or after, the implementation of the Core component.

The priorities of the current Maltese Minister of Finance are evident in the new piece of legislation enacted in August 2014. The Fiscal Responsibility Act 2014, is all about budgeting, accountability and performance targets – which targets are specifically those laid out in EU Council Regulations concerning the excessive deficit procedure, budgetary surveillance and coordination. Article 41 of the new legislation describes the Government Annual Report as basically a Budgetary execution report, comparing actual results with the fiscal targets being the Maastricht criteria. According to Article 41, the purpose of the annual report is to provide information about the actual results of the previous year in comparison with the budget and to explain (and justify) any deviations from the Government's medium-term objectives and how such deviations will be addressed. The medium-term budgetary objective is defined in Article 2 of the same Act as that required by the 1997 Surveillance and Coordination Regulation (that is, Council Regulation EC 1467/97, as amended by EC 1056/2005 and EU 1177/2011 of 8 November 2011). The Government Annual Report is to 'explain the outcome of the budget in the context of the Government's European commitments, in particular the terms of the Stability and Growth Pact' [Art. 41(2)(e)].

The UK accounting reform of 2000, retained the traditional annual cash-based budget and the annuality principle, but with accrual-based additions. The budgeting reform of 1997 had introduced a three-year budget, with flexibility to carry forward unspent funds from one year to the next within the three-year period. This medium-term budget is used to manage the government, and is now prepared exclusively on an accrual basis. The Spending Review of 2010 covered a four-year period, but since the economic recovery was not as strong as expected, the Spending Round of 2013 covered a single year – 2015/16. The Spending Review of 2015 once again covers a period of four years.

4.5. The roles of the Treasuries

The Maltese Fiscal Responsibility Act 2014 does not mention the proposed accrual accounting system or the ensuing financial reports based on IPSAS (or whatever). It does not mention the Treasury, but refers only to the Ministry for Finance

as being responsible for the execution of this law. The Treasury is regarded as a department within the Ministry of Finance, responsible for maintaining an effective accounting methodology and relevant accounting systems across Government; monitoring the Government's cash flow position; and determining the size and composition of the Government's capital structure. The mission statement of the Maltese Treasury is rather low profile when compared with that of its British counterpart. The UK Treasury is the economic and finance Ministry, responsible for maintaining control over public spending; setting the direction of the country's economic policy; and working to achieve strong and sustainable economic growth.

The UK Treasury dominates budgeting and accounting of the central government (Jones & Caruana, 2015b). Its powers and responsibilities extend to the economy as a whole, and include both fiscal policy and monetary policy (although the technicalities of the latter are in the hands of the Bank of England). It plays a crucial role in managing the government's financial risk. Besides being responsible for the WGA governance framework, including the financial reporting framework, the UK Treasury is also responsible for the Spending Reviews (that set departmental spending budgets over several years) and the Budget and estimates process (required to obtain statutory authority to consume resources and spend cash) (Jones & Caruana, 2014a).

5. Technical differences in the accrual financial reports of the two countries

The tender document issued by the Maltese Government includes sample layouts of the financial and statutory reports required from the new accounting system (Ministry for Finance, 2014:297–335), both at entity level and consolidated for the Government of Malta. Given that the system is required to be IPSAS and IFRS compliant (Ministry for Finance, 2014:103, 104, 106, 118), the proposed output conforms with the norm of accrual-based reporting and includes the statement of financial performance, balance sheet and cash flow statement. Budgetary statements are also required. The following analysis includes a comparison to the UK's WGA (HM Treasury, 2015b) and Budget (HM Treasury, 2015c), where appropriate, highlighting some anomalies.

5.1. *The Statement of Financial Performance*

The Statement of Financial Performance in the Maltese CFMS is required both by function and nature of expense. The current financial legislation in Malta requires such presentations in the cash-based report prepared by the Treasury, and the requirement is being maintained, most probably because the analysis by nature would facilitate reconciliation with the budget appropriation format.

Operating revenue includes finance income and parliamentary appropriations. While IAS 1 *Presentation of Financial Statements* would not normally define finance income as part of operating revenue, the corresponding IPSAS 1 does not specifically exclude it. On the other hand, it appears that IPSAS 1 requires parliamentary appropriations to be accounted for directly in net assets/liabilities. Similarly, in the UK, parliamentary appropriations are not included as income for departments, but are accounted for through reserves (HM Treasury, 2015a). However, parliamentary appropriations are included with revenue in the proposed reporting sample of the Maltese CFMS.

Operating revenue also includes taxes, licences and fines. This is in line with IPSAS 1 but quite different from UK reporting. Since the majority of this income is required by statute to be paid into the Consolidated Fund, the collecting department would be acting as an agent. The collecting department can only record as revenue that part that it is allowed to retain by law. The collection of taxes, licences and fines are then reported in a separate statement for the UK Treasury to include in the consolidated financial statements for whole of government (Jones & Caruana, 2015b).

The UK method of reporting taxes, licences and fines appears to make more sense accounting wise, reflecting substance over form of the transactions. First of all, collecting departments are only acting as agents for government when collecting this income that is payable by law by citizens, and therefore, their reporting should not assume that income is somehow being generated by the collecting departments' activities. From an accountant's perspective, tax departments are not revenue generating departments but revenue collectors. Tax departments do not make tax law – Parliament does. The inclusion of taxes, licences and fines in the revenue of collecting departments decreases the comparability of the financial reports of the various ministries and departments, giving an unfair advantage to revenue collecting ones. It would make more accounting sense to report revenue from taxes, licences and fees in the consolidated financial statements only. This reasoning is also supported by IPSAS 23 *Revenue from non-exchange transactions*, which states that tax collected on behalf of third parties will not give rise to an increase in net assets or revenue of the agent. The collecting agency cannot control the use of the tax money collected, let alone use it for its own benefit (par. 12). It is the individual government imposing the taxes that can recognise the assets and revenue in respect of those taxes, and not the collecting agency (par. 61).

The reporting sample in the CFMS requires the calculation of surplus/deficit from operating activities and from non-operating activities. This is not in line with IPSAS 1 as updated for financial reporting years starting from 1 January 2008. The updated IPSAS only requires one total for surplus/deficit for the period. Given that this tender document has been in the pipeline for quite a number of years (Jones & Caruana, 2014b), perhaps it was not updated before it was issued in early 2014. The same applies for reporting of extraordinary items. Unlike IAS 1, which specifically precludes the reporting of extraordinary items as a line item on the face of the operating statement, IPSAS 1 does not; however, the updated IPSAS 1 does not specifically require reporting of extraordinary items. In the UK, departmental financial reports disclose annually managed expenditure separately (HM Treasury, 2015a), in order to make a distinction between controllable and

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non-controllable expenditure, however, only one line item for "net expenditures" is reported in the WGA (HM Treasury, 2015b).

5.2. The Statement of Financial Position

The assets in the Statement of Financial Position in the Maltese CFMS are laid out in the same order as in IPSAS 1, that is, in order of liquidity, starting from the most liquid asset (cash and cash equivalents) to the least liquid one (intangible non-current assets). This presentation is more commonly found in the financial statements of financial institutions. Hopefully, there is a meaningful purpose for such presentation and not to give the impression that governments are some form of financial institution. In the UK's WGA, assets start from the least liquid to the more liquid, which is the normal presentation in IFRS statements of non-financial institutions.

The Net Assets/Equity in the proposed Statement of Financial Position lists the Public Credit Reserve, the Contingencies fund reserve, the Profit/loss reserve and the Consolidated Fund – perhaps referring to the share of the reporting entity in these funds. Net assets/equity in the UK financial statements are referred to as 'Taxpayers' equity' (HM Treasury, 2015b).

5.3. The Statement of Changes in Net Assets/Equity

The Statement of Changes in Net Assets/Equity shows the movements in the consolidated balance, revaluation reserves, accumulated unused appropriations, other reserves and the accumulated surplus/deficit. The movement in the accumulated unused appropriations is described as 'net unutilised Budgets Appropriated for deferred use', confirming the possibility that the annuality principle in budgeting may not be strictly upheld in the proposed new legislation (as suggested by the requirements of the Core component described in Section 4.4). The movement in other reserves is described as 'Net gains/(Losses) not recognised in the Statement of Financial Performance' – this would be the same as other comprehensive income in IFRS statements, and the same as in IPSAS 1.

5.4. The Statement of Cash Flows

The CFMS requires the Statement of Cash Flows to be prepared using both the direct and indirect methods.

The format of the Cash Flow Statement using the direct method is the same as in IPSAS 2, which is basically the same as in IAS 7 *Statement of Cash Flows*. The cash flows from financing activities include the Parliamentary Appropriation, which in the Statement of Financial Performance is, however, included as part of operating income (refer to Section 5.1). Cash flows from operating activities include taxation, licences and fees. In the UK WGA, these cash flows are identified in a separate note below the Statement of Cash flows, indicating them as cash flows related to the consolidated fund (HM Treasury, 2015b).

The Cash Flow Statement using the indirect method is laid out on a quarterly basis. The reason for quarterly reporting could be to have more regular reporting of cash flow data to enable better monitoring, and also because NSO data is required quarterly for ESA reporting. It is interesting to note that the Parliamentary Appropriation is not included in this statement, neither as a cash flow from operating activities nor as a cash flow from financing activities. Since the indirect method starts with 'surplus/(deficit) from ordinary activities', which includes the Parliamentary Appropriation, perhaps it was not deemed necessary to reverse it and show it as a separate line item. Or perhaps its exclusion is only an oversight, because Parliamentary Appropriation is clearly shown as a financing activity in the direct method format.

5.5. Budgetary reports

IPSAS 24 *Presentation of Budget Information in Financial Statements* requires a comparison of budget with actual amounts to be included in the financial statements of entities that are required to make their approved budgets publicly available. The output from the proposed CFMS requires Statements of budgeted financial performance and position at central government level, that is, consolidated. While actual figures are required to be shown alongside the budget figures, variances are not calculated. In fact, IPSAS 24 does not make compulsory the disclosure of variances.

The format of the Statement of Budgeted Financial Position is the same as the primary document (described in Section 5.2), except that Reserves only indicate the accumulated surplus. While it is understandable why the share of the consolidated fund is not required at this level, it is not very clear why the other reserves, for example the revaluation reserve, are missing. Granted that such reserves are not controllable and do not involve cash flows, but the planned financial position statement would be incomplete if they are excluded.

The format of the Statement of Budgeted Financial Performance (refer to Table 2) is not in line with the primary document (described in Section 5.1). Finance income is not included with operating revenue but is shown as non-operating; while extraordinary items are not budgeted for separately. Since the statement is for central government as a whole, budgetary appropriations are not included as part of operating revenue. They are reported separately as a line item after the net surplus or deficit for the period, and are referred to as '*shortfall in consolidated fund activities under cash basis*' (refer to Table 2). A separate statement, called '*Budgeted Financial Statements Reconciliation of Deficit on a Cash Basis to Deficit/Surplus on an Accrual Basis*', is then required to reconcile these two items.

Table 2
Statement of Budgeted Financial Performance.

Government of Malta Statement of budgeted financial performance For the year ending 31 December 20X1 (in millions of euro)	20X1 Budget	20X0 Actual
Operating revenue		
Taxes	X	X
Fees, fines, penalties and licenses	X	X
Revenue from exchange transactions	X	X
Grants received	X	X
Other operating revenue	X	X
Total operating revenue	X	X
Operating expenses		
Wages, salaries and employee benefits	X	X
Supplies and consumables used	X	X
Depreciation and amortisation expense	X	X
Other operating expenses	X	X
Total operating expenses	X	X
Surplus/(deficit) from operating activities	X	X
Finance costs	X	X
Interest receivable	X	X
Gains on sale of property, plant and equipment	X	X
Total non-operating revenue (expenses)	X	X
Net surplus/(deficit) for the period	X	X
Shortfall in consolidated fund activities under cash basis	X	X

Source: Ministry for Finance (2014:312).

The reconciliation (Table 3) starts with the cash deficit and adjustments are divided into two – those that decrease the cash deficit and those that increase it – to end up with the surplus or deficit as per accrual basis. The statement is actually a mixed format of the Statement of Cash Flows, and the reasons why the IPSAS 2/IAS 7 format is not used instead are not clear. It could be that the objective of the Statement of Cash Flows is not appreciated or perhaps the format is perceived difficult. Whatever the reason, there is a clear indication that such a reconciliation is or would be required specifically by Parliament for budgetary purposes. In the UK, departments are required to prepare such a reconciliation as part of a statement required in order to satisfy the principle of accountability to Parliament (HM Treasury, 2015a).

5.6. Other reports

The CFMS is required to produce reports on a cash basis as well. These are the same as the reports being produced from the current Departmental Accounting System, and include various comparative returns of revenue, recurrent and capital expenditure, with variances. These reports are all prepared on a cash basis and are required by the current financial legislation as part of the Treasury's financial reporting responsibilities to Parliament.

A quarterly report analysing expenditure using the ESA coding structure, showing totals for the quarter and year to date is another requirement. This report would be required by the NSO for ESA reporting, but it is not clear whether the report is required on a cash basis or an accrual basis. It is assumed that this report will be on an accrual basis to avoid certain adjustments that would be required for statistical reporting, given that the latter are prepared on a form of accrual basis.

6. Governmental financial reporting with a national accounting flavour

It is surprising how the CFMS for the Government of Malta does not make more emphasis on the requirements of the NSO and ESA reporting. In a previous study by Jones and Caruana (2014b), these were identified as contextual variables of a coercive nature on the accounting reform in Malta. The underlying objective of all these changes is to provide more reliable data for statistical reporting to the EU (Eurostat, 2013; Ministry for Finance, 2013a). But the output from the CFMS does not include, for example, a reconciliation between the accrual surplus/deficit and the ESA deficit; neither are debts in the financial reports reconciled with debts in ESA reports. Such reconciliations are published in the UK WGA; in fact, the influence of ESA is pervasive throughout financial and even budgetary reports in the UK (HM Treasury, 2015a, 2015b, 2015c). Heald and Georgiou (2011) consider well-documented reconciliations between figures derived from national accounts and IFRS-based financial reporting as extremely important for fiscal transparency. Such reconciliations are missing from the proposed CFMS for the Government of Malta.

Granted that it is not the objective of the CFMS to produce ESA reports, since these are the remit of the NSO and not the Treasury. ESA reporting is, however, considered important to guide all types of government decisions so that the country's

Table 3
Budgeted Reconciliation Statement.

Government of Malta Budgeted financial statements reconciliation Of deficit on a cash basis to deficit/surplus on an accrual basis For the years ending 31 December 20X0 and 20X1 (in millions of euro)	20X1 Budget	20X0 Actual
Shortfall in consolidated fund activities under cash basis	X	X
Adjustments increasing the deficit		
Decrease in debtors	X	X
Grants received taken to statement of financial position	X	X
New loans taken to statement of financial position	X	X
Contribution to sinking fund taken to statement of financial position	X	X
Cost of assets sold during the period	X	X
Increase in creditors	X	X
Depreciation charge for the period	X	X
Repayments from Corporation/Authorities taken to statement of financial position	X	X
Foreign loans taken to statement of financial position	X	X
Total adjustments increasing the deficit	X	X
Adjustments decreasing the deficit		
Portion of grants received taken to statement of financial performance	X	X
Loan repayments taken to statement of financial position	X	X
Contributions to sinking fund taken to statement of financial position	X	X
Productive investment taken to statement of financial position	X	X
Infrastructure expenditure taken to statement of financial position	X	X
Social projects taken to statement of financial position	X	X
Increase in stocks	X	X
Advances to Corporations/Authorities taken to statement of financial position	X	X
Total adjustments decreasing the deficit	X	X
Surplus/(deficit) as per accruals basis	X	X

Source: Ministry for Finance (2014:314).

performance is within the fiscal framework required by the EU. It is contradictory, therefore, that the Government considers spending so much money on a system that would (or should) simply provide more reliable data for EU reporting without making more effort to target reporting that really matters for the government. The utility of accrual financial reporting for decision making is an issue that has been researched and the findings indicate that actual use is rather low (for example: Collins, Keenan, & Lapsley, 1991; Ezzamel, Hyndman, Lapsley, & Pallot, 2005; Paulsson, 2006; ter Bogt, 2004; ter Bogt, Van Helden, & Van Der Kolk, 2015).

Of course, it is expected that an accrual accounting system would introduce more rigour in record keeping and more accountability and transparency in financial reporting, but the related benefits are only conjectures and not tangible. An accrual accounting system would also facilitate the use of an adequate cost and management accounting system that would provide tools for management planning, control and decision making. The fact that the cost and management accounting system is considered as peripheral in the CFMS is disturbing because it gives the impression that expected use of the system by management is perceived as limited.

Going back to the link between government and national accounting, determining which entities are being included in the proposed consolidated financial reports is very important. The main difference between the FReM and IFRS is the adaptation and interpretation of IAS 27 *Consolidated and separate financial statements*. The UK Treasury prefers to apply consolidation rules that are similar to those applied by the ONS for national accounting (HM Treasury, 2015a: para.10.2.3; HM Treasury, 2015b:57). The WGA do not incorporate all public sector entities; in fact, they disclose a list of entities that are included in the consolidation and those that are not. As a result, besides the central government, the UK WGA consolidates local government and some financial and non-financial corporations. On the other hand, the UK does not publish financial statements consolidated at central government level, which has been criticised as lack of transparency (Heald & Georgiou, 2011).

Fig. 1 shows the information flow from all existing systems in Maltese government departments, and illustrates how these are integrated with the central government data using the Corporate Financial Data Repository. The CFMS in Malta is designed to consolidate at central government level, and it is assumed that these financial reports will be published. It is being envisaged that the reporting output from other independent accounting systems can be integrated with the central government data at this point, that is, through the Repository. The other entities making up the general government sector, that is the local councils and the relevant corporations (called extra budgetary units) all have their own accrual based accounting systems. The system, therefore, provides potential for their consolidation.

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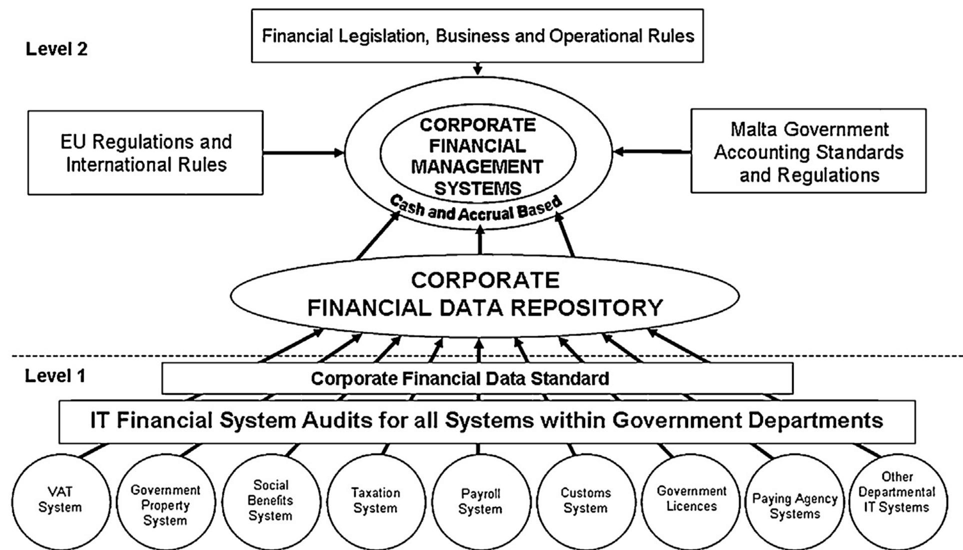

Fig. 1. Corporate financial management information flow.

The fact that local councils and corporations are IFRS-compliant while central government would be IPSAS-compliant would not be problematic for EU reporting, because all this data would then need to be made ESA-compliant anyway. But for government accounting, consolidating financial reports using different financial reporting standards could be a problem. The use of different policies in the consolidation of the UK WGA is identified as a problem (Chow et al., 2007; Heald & Georgiou, 2011) but not one that would require fundamental changes in the system (Jones & Caruana, 2015b). It would lead to a qualification in the Auditor's Report, as for example occurred in the 2014 UK WGA because the central and local governments used different valuations for infrastructure assets (HM Treasury, 2015b:162–3).

In the UK, the ESA rules are also adhered to by government departments when they reconcile actual results with budgeted expectations and spending allocations in the departmental reports submitted to Parliament (HM Treasury, 2015a). This is considered necessary because the budgeting principles used in the Supply Estimates laid before Parliament are compiled on a similar basis to the National Accounts and comply with ESA, as adapted and interpreted in the Consolidated Budgeting Guidance (HM Treasury, 2015a). Perhaps the Maltese Treasury would develop similar inclinations over time.

In the case of Malta, the emphasis appears to be more on cash flow reporting, with more importance given to the reconciliation between accrual and cash deficits (refer to Table 3). It is not known which deficit the NSO will choose in order to carry out the ESA adjustments: that is, when compiling the Table 2A for Excessive Deficit Procedure reporting, will the NSO choose the cash-based deficit on the consolidated fund as the starting working balance, or will it choose the accrual deficit in the IPSAS statements? Whichever deficit is chosen, the NSO has to make it ESA-compliant, and this working is published by the NSO but it is neither considered as part of the Treasury's accounting system nor is it included in the financial reports. The Financial Estimates (the budget) include a one-line item (called 'General Government adjustments') that changes the cash-based deficit to the ESA deficit (Ministry for Finance, 2015). It appears that Parliament is satisfied with this one-line adjustment and there is hardly any parliamentary discussion on how these figures are calculated – confirming that it is not clear how parliamentary fund allocation decisions are linked with these statistical figures or whether they are understood at all (Jones, 2000, 2014). These two deficit figures (cash-based and ESA) are required by the current legislation to be presented to Parliament. Should future legislation require the IPSAS deficit to be presented to Parliament, then for the sake of transparency and accountability, it should be accompanied by a reconciliation between the accrual-based deficit and the ESA deficit.

The root of the differences noted in the financial and budgetary reporting of the two countries could be the due to the underlying legislative context that give the relative powers and responsibilities to the Treasury. As described in Section 4, the Treasury in the UK is the Ministry of Finance; in Malta, the Treasury is only a department within the Ministry of Finance. The UK Treasury dominates government accounting and budgeting, at both micro and macro levels, and its responsibilities extend to both fiscal and monetary policies of the country. This may be the underlying reason for the concern shown to accommodate the ONS rules. The role of the Maltese Treasury, on the other hand, is more limited. For example, the Maltese Treasury is not involved in the budget preparation; this is the responsibility of the Budget Office within the Ministry for Finance, assisted by the NSO. Under the current financial legislation, the reporting of the Maltese Treasury centres more on budget execution at micro level, that is, how the actual results compare with the budgetary estimates prepared by the Budget Office. The Maltese Treasury is, therefore, not involved in fiscal policy decisions – these are the remit of the Budget Office and the NSO. The importance of these two offices has been confirmed in the Fiscal Responsibility Act 2014.

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Another significant difference arises from the fact that Malta has the euro as its currency while the UK does not. Like other Eurozone countries, monetary policy is exercised by the Central Bank of Malta, as directed by the ECB. This means that the monetary policy affecting the euro area is decided by the ECB. As a member of the Eurosystem, the Central Bank of Malta contributes to monetary policy decisions through the participation of the Governor in the Governing Council of the ECB. The Central Bank is also responsible for the implementation of these decisions in Malta, using a range of monetary policy instruments approved by the Governing Council of the ECB. On the other hand, monetary policy in the UK is its own, and it falls under the responsibilities of the UK Treasury and the Bank of England.

7. Conclusion

This paper contributes towards comparative international governmental accounting research by highlighting and analysing the differences between the financial reports of two countries that are (or one soon to be) both accrual-based. This paper is important because it further confirms that financial reporting standards do not guarantee conformity. Different interpretations arise from the interests and objectives of the implementers, and even vary according to the intended use of the financial report.

The comparative analysis of the reports produced from the two accrual accounting systems of Malta and the UK shows that the purpose of government financial reporting appears to be basically the same: parliamentary accountability is highlighted in both countries, with budgetary accounting and reporting remaining at the heart of the system. But the output from the two accounting systems is different, even though they use similar financial reporting standards, because the implementers twist the rules and expectations to suit their own ends, as suggested by Oliver (1991).

Some of the differences in the output noted in Section 5 are merely cosmetic, but other technical differences result in quite different reports and interpretations, for example:

(i) What is income of a reporting entity? Should a department that is collecting taxes on behalf of the government report those taxes as its own income?
(ii) The accounting treatment of the budgetary allocation. For a department, the budgetary allocation represents its spending limit as authorised by Parliament. Should the allocation of funds from the central budget be reported as income of the department or as a movement in taxpayers' equity?
(iii) Different reconciliations – which is more useful? A reconciliation of the accrual deficit (or net expenditures) with the cash-based deficit or reconciling the accrual deficits and debts with the ESA deficits and debts as reported in national accounting?

The fact that Malta is part of the Eurozone while the UK is not, establishes the fundamental difference that Malta has one less weapon in its arsenal to guide its economy because monetary policy is controlled by the ECB so that it is in line with the objectives of the Eurosystem. The UK has its own currency and thus needs to (and can) devise its own monetary policy. This important difference appears to affect the roles of the respective Treasuries, and consequently, the financial reports produced are perceived in a different light. While the UK's WGA are considered as another important tool for managing the government's financial risk through its monetary policy, in Malta, the governmental financial reports are not required for this role – in fact, they are only being considered as an important feeder for national accounting, the latter being the decision-making and ultimate control tool. The ECB refers to national accounting statistics submitted by Eurozone countries for its monetary policy making.

Another crucial difference arising from the comparison concerns the accounting boundary: which public sector entities are to be included in the consolidated governmental financial statements? This is a very complicated question because of the complexity inherent in government structures and the various relationships that exist between the entities. Perhaps different consolidation levels should be considered, depending on the ultimate purpose and scope of the consolidated report. Accommodating national accounting definitions of the accounting boundary does have practical utility, but the result does not present the complete picture of a government's financial situation. It may also lead to audit qualifications, as in the UK, because the consolidation rules would not be compliant with the requirements of financial reporting standards.

As noted by Grossi et al. (2009), countries that produce WGA, that is, the UK, Australia and New Zealand, have all worked directly with IFRS at some point or another but attempt to converge these accounting requirements with national accounting requirements when it comes to consolidation. The UK's WGA do not embrace all public sector entities as purported by their title (Jones & Caruana, 2014a). The UK Treasury does this intentionally in order to report in line with the national accounting definitions. This is perceived as a dangerous practice by Heald and Georgiou (2011) because, during difficult economic times, governments may be tempted to play around with the boundaries of their reporting even at national level, leading to lack of fiscal transparency and accountability.

In the case of Malta, the CFMS is planned for consolidating at central government level, with the potential to widen the reporting boundary by integrating other reporting entities. The extent of the consolidation is not yet known, but it would not be surprising if the Maltese Treasury would want to report in line with the NSO, since it is the NSO that provides "necessary gauges for government to guide the ship of State" (Ministry for Finance, 2013b), and not the Treasury.

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The importance attributed to the NSO by the Maltese Ministry of Finance confirms the coercive pressure, described in the literature, that is exerted by ESA on government financial reporting. It is contradictory that the proposed output from the new accounting system does not give ESA reporting due importance. The reason for this contradiction could be the apparently hurried issue of the tender. Or could it mean that the IPSAS adoption and implementation are merely 'ceremonial'? The answer to this question is beyond the objectives of this paper and warrants further research.

Alignment with national accounting rules is perhaps more apparent in the UK system because of the macro fiscal role of the WGA, and because the accounting system is more developed. The government accrual accounting system in Malta is still at an embryonic stage and the thrust that it will take still needs to be observed. However, the symptoms are already there: the influence of national accounting practices has already been observed in the current modified cash-based accounting system and in the recent legislation. More of the same would not be surprising as the system develops, especially if and when the EPSAS project materialises.

The normative pressure of IFRS/IPSAS compliance is felt on an international scale, and intensified during the EU sovereign debt crisis. In these times of uncertainty, mimetic pressure may be expected as entities try to imitate the practices of those perceived as more successful. This may partly explain why the Maltese Government re-ignited the accounting reform process in 2013. The influence of ESA on governmental financial reporting in Malta and the UK has been highlighted. The coercive nature of ESA is common in all 28 EU member states, and prevails over the other forms of isomorphic forces. These isomorphic pressures, however, are acting on established institutions that are inherently different. This study shows that these isomorphic pressures are not perfect because when they interact with other institutionalised internal rules, routines and norms, the resulting output would still be a different shade, albeit of the same colour.

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