

Think Ahead

ACCA

Setting high  
professional  
standards for  
public services  
around the world

# About ACCA

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. It offers business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

ACCA supports its **178,000** members and **455,000** students in **181** countries, helping them to develop successful careers in accounting and business, with the skills required by employers. ACCA works through a network of **95** offices and centres and more than **7,110** Approved Employers worldwide, who provide high standards of employee learning and development. Through its public interest remit, ACCA promotes appropriate regulation of accounting and conducts relevant research to ensure accountancy continues to grow in reputation and influence.

Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability. It believes that accountants bring value to economies in all stages of development and seek to develop capacity in the profession and encourage the adoption of global standards. ACCA's core values are aligned to the needs of employers in all sectors and it ensures that through its range of qualifications, it prepares accountants for business. ACCA seeks to open up the profession to people of all backgrounds and remove artificial barriers, innovating its qualifications and delivery to meet the diverse needs of trainee professionals and their employers. More information is available at: [www.accaglobal.com](http://www.accaglobal.com)



---

This report updates ACCA's policy positions on a range of themes for public services. It sets out ACCA's policies for members, governments, employers and a wide range of external stakeholders with an interest in public services.

The report:

- sets out criteria for achieving good governance that take into account both the 'hard' factors of systems, procedures and audit and the 'soft' factors relating to developing a strong ethical culture
- sets out criteria for achieving effective public financial management
- demonstrates the importance of the quality of information available (both financial and service delivery) to help inform decision making
- sets out criteria for effective performance management
- highlights the relevant key skills for finance professionals.

First published as Setting High Professional Standards for Public Services Around the World, ACCA, September 2010.

Second edition published February 2013.

Third edition published February 2016.



I am delighted to present this third edition of "Setting high professional standards for public services around the world".

I am delighted, on behalf of the ACCA Global Forum for the Public Sector, to present this third edition of "Setting high professional standards for public services around the world". This edition updates ACCA's policy positions on a wide range of public sector issues taking into account the significant recent and ongoing developments in and pressures on public service providers around the world. Our policies are an integral and important aspect of ACCA's global strategy and are consistent with it. The paper has a varied and wide-ranging scope, covering many key issues including models and principles for governance (page 9), effective public financial management (page 17), integrated reporting (page 21), the use of international standards for reporting and audit (page 23) and effective performance management (page 29).

ACCA is not itself a public service provider; however, it is a leading professional organisation for, and trainer of, finance professionals who play a very significant

role in the effective functioning of public sectors in countries around the world and inputting finance into politics. This paper sets out how the contribution of finance professionals is crucial to achieving effective public financial management and governance. It demonstrates how consistent policies led by finance professionals such as ACCA members help public service providers to meet the huge challenges in today's public sector.

I believe this paper will be useful to all stakeholders in the public sector. It will assist ACCA members in presenting and acting consistently with ACCA's global policy positions, and it sets out those policies clearly for a range of counterparts including governments, civil service organisations, agencies, employers and stakeholders with an interest in public services.

**Stephen Emasu**  
Chairman  
Public Sector Global Forum, ACCA







# Contents

<b>Introduction</b> – The importance of public services.....	<b>6</b>
<b>1. Criteria for achieving good governance in public services</b> .....	<b>9</b>
• The definition of good governance in public services	
• Models, frameworks and principles for governance	
• Developing policies for good governance	
• Tackling fraud and corruption	
<b>2. Criteria for achieving strong public financial management</b> .....	<b>17</b>
• Key challenges	
• Objectives of financial management	
• The effective finance function	
• Outcome-based budgeting	
<b>3. Information reporting</b> .....	<b>21</b>
• Integrated reporting	
• Financial reporting	
• Accounting standards	
• Narrative and non-financial reporting	
• Sustainability reporting	
• Standards and scrutiny	
• Audit	
<b>4. Criteria for effective performance management</b> .....	<b>29</b>
• The goals of performance management	
• Centralised performance management and local flexibility	
• Perverse incentives	
• Measuring quality as well as quantity	
• Measuring performance of partnerships and attributing success	
<b>5. Key skills for finance professionals in the public sector</b> .....	<b>32</b>
• Key financial management skills	
• How ACCA members demonstrate the skills needed by public services	
<b>Appendix: Definitions of the public sector and the public interest</b> .....	<b>35</b>
<b>References</b> .....	<b>38</b>



**Expenditure on public services is significant: government expenditure accounts for more than one-third of GDP in most countries.**

Expenditure on public services is significant: government expenditure accounts for more than one-third of GDP in most countries such as France, Brazil and Angola. In some Western countries, such as Greece and Italy, government debt exceeds GDP. Public services are rapidly changing and the demands on them are growing, together with the costs.

Governments around the world are wrestling with a number of difficult and complex challenges – aging populations, the provision of quality education and health care and their associated costs, reform of welfare support, terrorism, crime and infrastructure costs – in which strategic reviews of services need to take account of the changing world. This is at a time when public expectations about the quality of public services are growing and long-lasting improvements are being sought in accountability and transparency in the spending of public funds.

The challenges of today are unprecedented. Continuing concerns about mountainous government deficits and debt levels in some countries, such as

Japan, are continuing to create alarm in the financial markets. The resulting austerity measures in many countries have put high levels of pressure on providers of public services to perform as well or better than in the past but at less cost; many must decide what to stop providing to save costs. Key to this is effective public financial management. In contrast, some countries have not suffered the effects of the financial and sovereign debt crises to the same degree and are experiencing increased demands for investment in public services infrastructure. Also, emerging economies face further challenges, such as the need to build up financial expertise and capacity. With all contexts in mind, it is more important than ever for governments and finance professionals to work together to tackle the current problems on four fronts: financial management, governance and performance management, operational management and fiduciary risk management.

Further challenges result from the ever-increasing complexity of the interface between public and private sectors. For



Finance professionals face the challenge of learning to ‘do things differently’ and clearly demonstrate a greater role and value for the profession in the delivery of public services.

example, in England the government is moving towards a more proactive approach in the field of Private Finance (PF2) and more recently the UK Guarantee Scheme (UKGS). In the former, the UK government is acting as a minority equity co-investor in project companies, sharing investment returns as an active participant, initially in the construction of schools. The UKGS is a government initiative providing guarantees for significant infrastructure projects in return for a commercially based fee. Both these initiatives combine a need for professional skills in handling public and private finance in ways not previously required. Finance professionals in the public sector must also keep pace with shifting governance landscapes around the world; examples include decentralisation and the devolution agenda in the UK and the debate more widely in Europe about the impact of European governance. Finance professionals face the challenge of

learning to ‘do things differently’ and clearly demonstrate a greater role and value for the profession in the delivery of public services. Integrated reporting is a good example of this and is addressed in Chapter 3.

It is critical that finance professionals working within public services are equipped with the right skills to deal with the challenges ahead. The spotlight is on them as never before. Although financial professionals, when compared with other professions (ACCA 2012a), are held in high esteem by the public, there is still more to be done to show how they create public value. ACCA is well placed to help tackle these challenges as it has a large international membership of 178,000 and 455,000 students, working in 181 countries in the public and private sectors. Organisations can benefit from the work of ACCA finance professionals, who adhere to a strong ethical code and are equipped

Figure 1: The virtuous circle of what makes excellent public services



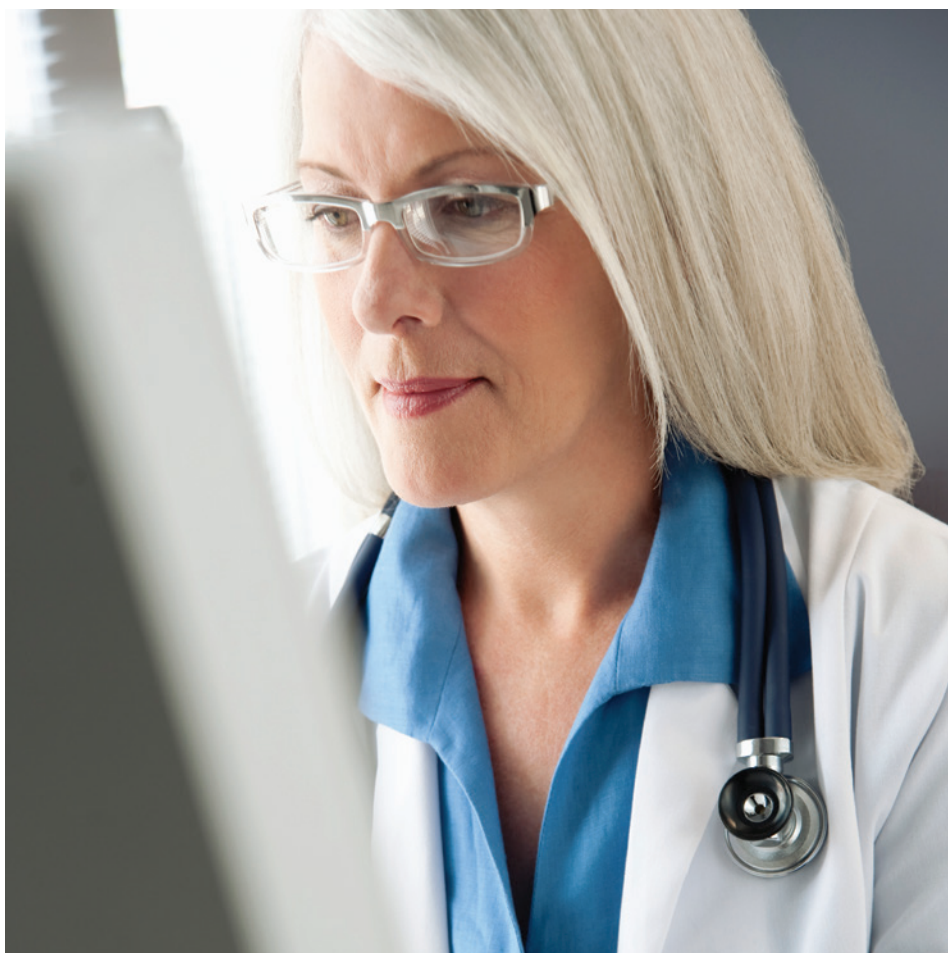
**Public sector finance professionals must work within the political context and environment and need a range of skills to deal with the associated limitations, conflicts and risks.**

with both private and public sector skills. More specifically, ACCA's members in public services work across a diverse range of organisations, including government departments, regulators and auditors, and health care providers, and in regional and local governments. This also means that they are well placed to share best practice, experience and knowledge on a host of technical issues. Public sector finance professionals must work within the political context and environment and need a range of skills to deal with the associated limitations, conflicts and risks.

The composition and definition of the public sector varies by country, so for the purposes of this report the wider term 'public services' is used. Arguably, this reflects the public sector landscape today most accurately. It recognises that public

services may have some element of government funding, ownership, public direction or regulation, in different combinations, but there is no longer a need for sole direct government ownership. Some different definitions and the rationale for using the term 'public services' are set out in the Appendix.

The following chapters set out what ACCA believes are key criteria for the effective provision of public services – a virtuous and mutually reinforcing circle of good governance, effective financial management, information reporting, and effective performance management. We believe this is needed to provide the necessary transparency, accountability, efficiency and effectiveness that the wider public demands and deserves from public services.





# 1. Criteria for achieving good governance in public services

Good governance in the public sector encourages better informed and longer-term decision making as well as the efficient use of resources. It strengthens accountability for the stewardship of those resources.

## 1.1 THE DEFINITION OF GOOD GOVERNANCE IN PUBLIC SERVICES

Good governance in the public sector encourages better informed and longer-term decision making as well as the efficient use of resources. It strengthens accountability for the stewardship of those resources... Good governance can improve organizational leadership, management, and oversight, resulting in more effective interventions and, ultimately, better outcomes. People's lives are thereby improved. (IFAC Public Sector Committee, 2001)

There are many definitions of governance, but this appropriately outlines the idea in relation to public services.

## 1.2 MODELS, FRAMEWORKS AND PRINCIPLES FOR GOVERNANCE

Public services play a major role in society, and effective governance can encourage the efficient use of resources, strengthen accountability for those resources and improve the services themselves.

A diversity of frameworks and models set out the principles behind good governance, and some may be useful for public service organisations. For example, the Organisation for Economic Cooperation and Development (OECD) has published six principles of corporate governance, updated in September 2015 (OECD 2015). The OECD principles are used worldwide as a benchmark for standard setting and identifying best practices. While they focus on publicly traded companies, the principles may be a useful tool to improve governance in the public sector. The World Bank's *Public Expenditure and Financial Accountability Framework* (World Bank 2005/2011) includes a strong element on governance, and the International Monetary Fund (IMF)'s *Code of Good Practices on Fiscal Transparency* (IMF 2007) sets out guidelines on governance to support improvements to the architecture of an international financial management system.



ACCA does not advocate a 'one-size fits all' model or approach, as public sector organisations will have different objectives and governance structures to support them.

Some frameworks are specific to the public sector. In 2014, International Federation of Accountants (IFAC) and the Chartered Institute of Public Finance and Accountancy (CIPFA) published *International Framework: Good Governance in the Public Sector*. This framework aims to establish a benchmark for aspects of good governance in the public sector with a view to encourage better service delivery and improved accountability. While the Framework does not intend to replace existing codes, it has provided us with a powerful point of reference in reviewing this publication.

ACCA does not advocate a 'one-size fits all' model or approach, as public sector organisations will have different objectives and governance structures to support them. However, the principles of good governance in the International Framework, developed in reference to the body of work that exists internationally, can help those concerned with the governance of public services. It can be helpful both in assessing strengths and weaknesses of current governance practice and in considering ways to improve it by contrasting them with common principles of good governance.

The Framework argues that, to deliver good governance in the public sector, both governing bodies and individuals working there must try to achieve their organisation's objectives while acting in the public interest at all times, consistent with the requirements of legislation and government policies. Good governance principles of the Framework encapsulate accordingly the IFAC's definition of the public interest, that is: the net benefits derived for, and procedural rigor employed on behalf of, all society in relation to any action, decision or policy (IFAC 2012b, for further discussion, see A2. Definition of the 'public interest'). The first two principles of the Framework are particularly relevant in this regard:

**A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law**

This principle builds on the fact that the public sector uses a significant proportion of publicly raised money and sets out the stewardship responsibility. The public services are accountable not only for how much but also how they spend and, furthermore, have an overarching responsibility to serve the public interest in adhering to the requirements of legislation and government policies.

**B. Ensuring openness and comprehensive stakeholder engagement**

To maintain the trust and confidence that they are acting in the public interest, public sector entities need to ensure openness in their activities. Stakeholder engagement is important in making sure that the services provided are contributing to the achievement of intended outcomes.

In addition to these overarching principles for acting in the public interest, the Framework also sets out principles that help the public sectors setting up effective arrangements by:

**C.** defining outcomes in terms of sustainable economic, social and environmental benefits;

**D.** determining the interventions necessary to optimise the achievement of the intended outcomes;

**E.** developing the entity's capacity, including the capability of its leadership and the individuals within it;

**F.** managing risks and performance through robust internal control and strong public financial management; and

**G.** implementing good practices in transparency, reporting, and audit to achieve effective accountability.

In the rest of this section, we discuss governance objectives, accountability and risk management, fraud and corruption. In following sections, we also cover public financial management, performance management and reporting and audit among others. In doing so, we have reflected on these principles where appropriate.



For the public to hold those responsible for public services to account, information needs to be understandable, accessible, clear and timely.

### 1.3 DEVELOPING POLICIES FOR GOOD GOVERNANCE

*Corporate Governance and the Risk Management Agenda* (ACCA 2008), sets out three broad principles for developing governance and risk management policies. These principles provide a starting point for considering how policies might be applied and adapted to public services.

1. To ensure that the board, as representatives of the organisation's owners, protects resources and allocates them to make planned progress towards the organisation's defined purpose.
2. To ensure that those governing and managing an organisation account appropriately to its stakeholders.
3. To ensure that shareholders and, where appropriate, other stakeholders can and do hold boards to account.

In most cases these principles are directly applicable to public services. The following sections present the specific context or the principles for public services in a number of key areas. These are:

- accountability to the public;
- developing a governance model and shared accountability;
- risk management; and
- individual good conduct – micro-level accountability.

#### 1.3.1 Accountability to the public

The purpose of public services is to serve the public in various ways (providing services, setting standards, improving well-being, for example) rather than to increase shareholder value.

In the private sector boards account for their stewardship to shareholders, but they also consider other stakeholders where appropriate, noting that their long-term interests is likely to be best served by taking account of wider considerations. For public services, the overall accountability is to the public, often through parliaments or democratically elected representatives of the public. In doing so, however, public services need to take into account a number of factors, including:

- electoral accountability;
- transparency of decision making;
- transparency of accounting practices;
- performance management, with reporting on organisational objectives as well as on financial management; and
- stakeholder or service user involvement in decision making, for example through consultation or participative bodies.

For the public to hold those responsible for public services to account, information needs to be understandable, accessible, clear and timely. Therefore, ACCA is supportive of the core ideas set out by the Centre of Public Scrutiny (UK) for promoting transparency, accountability and inclusiveness of information in public services as foundations of planning and delivering public services (The Centre for Public Scrutiny, accessed 2016).

#### 1.3.2 Developing a governance model and shared accountability

Many public services do not have the company stewardship (to shareholders or specific stakeholders) model that is commonplace within the private sector. However, there are usually parallels of stewardship and accountability to be drawn with the company stewardship model, which may require adaptation to public services. Depending on their structure, governing bodies will need to consider:

- the relationship between elected government officials and professional management, with clearly defined roles, responsibilities and rules of conduct and probity;
- the reporting or oversight relationship with other organisations within or outside public services, with clarity about responsibility and shared standards of governance; and
- ways of ensuring accountability and managing risk to fulfil the organisation's goals without preventing flexible partnerships or impeding service delivery arrangements

**ACCA (2008) recommends that boards should consist of non-executive and executive members and that no single individual should dominate the decision-making process.**

ACCA (2008) recommends that boards should consist of non-executive and executive members and that no single individual should dominate the decision-making process. Equally, governing bodies should aim to work collaboratively without a dominating individual. Members of a governing body should have a sound understanding of financial and management issues and of the organisation's public welfare priorities, including sustainability in its broadest sense. This is also applicable



to public services that are led by directly elected politicians, where there may be a single individual who is formally accountable for decisions.

Recently issued European Audit Regulation (EU/537/2014) and Directive (2014/56/EU), intended primarily for companies whose shares are traded on a capital market, requires that an audit committee of such entities should include someone who has 'competence in accounting and/or auditing'. Even though the Regulation and Directive are not directly applicable to the public sector entities that may not have an audit committee, public services may consider applying the principle so that someone with a sound financial background independent of the finance director be on their governing body. A challenge common to both private and public sector entities is for independent directors to ensure sufficient time commitment to be able to effectively address financial and management issues, especially where they may be involved in a number of organisations.

Government organisations are often viewed by the public as accountable for a range of

outcomes that may not be wholly under their control (perhaps because of cross-border effects or unexpected natural disasters). When establishing a common understanding of the purpose and an appropriate governance structure for an organisation, the governing body should be clear about where the organisation does or does not have control, and therefore unable to be held accountable. For example, an organisation with good governance might have established a contingency plan and effective decision making in anticipation of, or in response to, a natural disaster. This might help the organisation to mitigate its negative impacts, but will not stop the incident from occurring.

The governance of public services and agencies can be complex because the provision of public services can involve more than one agency and can be outsourced to the private or third sector. Where services are contracted out from one agency to another, good governance practice would be to ensure that the contract includes obligations to report on processes, decision making, financial management and reporting, and outcome. This should help the commissioning organisation to fulfil its responsibility to its own stakeholders to the standards as if it were providing those services directly. Particularly, accountability for spending public money should be clearly understood by all bodies contributing to the partnership, with each partner clearly acknowledging the financial risk it is assuming.

Partnership that involve shared responsibility for outcomes without legal contractual arrangements have existed for some time between different government agencies in some countries (such as the Netherlands, Sweden and Germany) and are becoming increasingly institutionalised in others (including New Zealand, the UK and Zimbabwe). Such flexibility can be a valuable way of developing services that focus on the public's needs rather than the organisations' structures.

Governance arrangements should guard against the potential for partnership and collaborative working to be used as an opportunity for avoiding responsibility. Public services should explore forms of governance arrangements so to enable a partnership that maintains opportunities for stakeholders to hold governing bodies to account both as separate organisations and, if appropriate, collectively.



Organisations should work to a model in which reasonable risks can be taken, with a clear and competent justification of the reasons why they are necessary.

### 1.3.3. Risk management

Risk management is important for public sector entities as well as for the private sector entities particularly in the light of financial instability and austerity challenges in recent times. There is much attention to how governing bodies approach and consider risks in the light of their specific objectives and outcomes, and manage and mitigate negative impacts should risks materialise. Governing bodies must have effective tools for managing strategic and operational risks across the organisation, covering aspects which range from the identification, assessment, monitoring and managing by way of internal control systems.

In its publication on risk and internal controls, the Financial Reporting Council (the FRC) discusses that 'good stewardship by the board should not inhibit sensible risk taking that is critical to growth. However, the assessment of risks as part of the normal business planning process should support better decision-taking, ensure that the board and management respond promptly to risks when they arise, and ensure that shareholders and other stakeholders are well informed about the principal risks and prospects of the company' (FRC, 2014). The fundamental ideas apply to public services as much as to the private sector, taking also account of non-financial risks and rewards for outcomes.

Organisations should work to a model in which reasonable risks can be taken, with a clear and competent justification of the reasons why they are necessary. Risk need not be viewed solely as a negative issue. Positive, structured management of risk can set an appropriate risk appetite for an organisation, ensuring its ability to seize opportunities effectively.

Risk governance faces numerous challenges, from uncertainty to fiscal constraints, from the fact that risks are constantly changing and rewards to investments in risk management can vary. In the words of the OECD (2014a), 'the costs are obvious at present but the benefits may or may not show in the future'. While there have been significant achievements in bolstering risk resilience, such as learning from past experiences, the heightened level of risk awareness and information sharing, and improvement in risk management practices, the change in risk environments continue to present challenge to public services. The OECD set out policy-level recommendations that can also be useful for public services in principle:

- promotion of forward-looking risk governance that takes into account complex risks;
- emphasis on the role of trust;
- establishment of a shared understanding of acceptable levels of risk at all stakeholder levels;
- decision on an optimal and complementary mix of resilience measures;
- adoption of a whole of society approach to engage all actors in strengthening resilience;
- acknowledgement of the important role of institutions and institutional gridlock in making risk measures effective in increasing resilience; and
- employment of diagnostic frameworks to identify institutional barriers and realign incentives to boost resilience.

Finally, an ACCA report (2012b) discusses the problem of risk and how, to a great extent, anyone and everyone in an organisation is, or should be, aware of a risk in their activities and manage appropriately. The report also looks further at how accountants in a wide range of roles contribute to managing risk as part of their normal work with their analytical skills, objectivity and constructive curiosity. It also looks at management accounting, financial forecasting, internal reporting and other disciplines that support decision-making procedures and explores their importance as components of an integrated risk-management approach.

### 1.3.4. Individual good conduct – micro-level accountability

Research conducted by ACCA shows how culture in an organisation influences the behaviour of individuals and groups (ACCA 2014). The culture determines the way things get done in the organisation, what values are supported, what objectives are pursued and how the organisation intends to meet these objectives; in many cases, an organisation's culture determines how individuals behave 'when no one is looking'.

Culture is however difficult to define and even harder to link with behaviour. ACCA's research concludes that, by setting the organisation's value and objective, leaders shape the culture of the organisation. By walking the talk, corporate leadership has a

Ensuring an effective and safe whistleblowing procedure is also important in promoting ethical behaviour, as long as the organisation shows that actions are taken accordingly.

key role to play in maintaining ethics and integrity. They are also responsible for developing guidance on ethical behaviour and ensure there are effective sanction mechanisms in place to refrain individuals from acting unethically.

ACCA's work on culture and behaviour also highlighted how creating an environment where people feel comfortable to discuss any dilemma or concern is one of the most



effective ways to promote ethics (ACCA 2014, Appendix 3); holding regular small group conversations can help staff speaking up and sharing experience so that issues are addressed before they materialise and become a risk for the organisation. Ensuring an effective and safe whistleblowing procedure is also important in promoting ethical behaviour, as long as the organisation shows that actions are taken accordingly.

In ACCA's view, the process of developing, updating and monitoring this guidance should be transparent and inclusive of the organisation and its stakeholders, including the public (ACCA 2010a). To be effective, ethical codes and practices need to be relevant to the way each public service operates.

It cannot be assumed that all countries and public entities have an institutionalised approach to ethical behaviour. Where such an approach is not followed, it is all the more important that there is strong ethical

leadership and that leaders set the right 'tone from the top'.

Performance management also has a significant impact on individual's conduct. The research on culture and behaviour showed that a focus on measures and targets can have unintended consequences lower down in the organisation, creating a performance culture driven by measurement imperative and this, at the expense of services providing (in ACCA 2014).

ACCA recommends that organisations should encourage the adoption of ethics-based cultures that have the aim of ensuring they act transparently and with an appreciation of the long-term interests of their stakeholders (ACCA 2009). Irrespective of the ethical arrangements in place, organisational leaders should adopt certain principles of public life (for example, by Nolan 1995), and should consider adding 'respect' and 'public service' as additional principles for reinforcing ethical considerations. ACCA (2012b) highlights that much has been done across all sectors and that finance professionals have a key role in encouraging the seven corporate governance principles.

ACCA (2012b) also includes a recommendation on transparent remuneration for executives to promote organisational performance. Transparency and levels of remuneration in public services can attract significant public attention because employees are paid from public funds. Organisations should produce transparent principles for remuneration, for instance making comparisons with similar leadership positions in other sectors. In some cases, remuneration of elected officers may be necessary in order to allow equality of access to political representative roles. Where this is the case, the pay must be transparent and open to a level of challenge from the public. It may therefore be necessary for the contracts of senior staff (anywhere in the world) to include a standard requirement that their remuneration be disclosed within the annual report, with no option to refuse. The World Bank's *Annual Remuneration of Executive Management, Executive Directors and Staff* is a good example of transparent reporting (World Bank 2012).



A single action that finance professionals can take is to promote the importance and adoption of whistle-blowing legislation and policies with governments around the world.

#### 1.4 TACKLING FRAUD AND CORRUPTION

A key element of good governance in public services is the tackling of fraud and corruption. There is growing recognition around the world of the devastating impact that fraud and corruption have on countries, economies and the public. Fighting fraud and corruption is a priority for most governments; Transparency International's Corruption Perceptions Index 2014 noted that corruption is a problem for all countries. The survey noted the following concerns:

- not one single country gets a perfect score and more than two-thirds scored below 50 on a scale of 0 (highly corrupt) to 100 (very clean);
- Denmark, New Zealand and Finland top the list, meaning that they were assessed as being the most effective countries in the world in tackling corruption and preventing it from happening within their jurisdictions, while North Korea and Somalia are at the bottom; and
- poorly equipped schools, counterfeit medicine and elections decided by money are just some of the consequences of public sector corruption. Bribes and backroom deals do not just steal resources from the most vulnerable: they undermine justice and economic development, and destroy public trust in government and leaders.

Fraud and corruption increase the cost of doing business and betray the trust of the public. The financial cost of fraud does not fully reflect the personal impact it can have on victims. In public services around the world, any money lost through fraud directly affects the public by increasing national and local taxation levels or threatening essential services such as healthcare, housing and education.

As countries face the many and varied pressures caused by the poor state of economies around the world, few commentators expect that the risk of fraud will diminish. Most anticipate that internal and external pressures on organisations will increase the risk of fraud and threaten counter-fraud defences. In addition, changes in the way that public sector organisations provide services can affect the incentives to tackle fraud. The people

who are financially disadvantaged are the most penalised by corruption, wherever they are located. They are also more pessimistic about the prospects for less corruption in the future.

Nonetheless, ACCA argues, that these problems should be tackled by governments and public services more generally, with the development of initiatives to combat fraud and corruption. ACCA supports the work of organisations such as Transparency International in leading the fight against corruption by bringing people together in a worldwide coalition to counter the harmful impact of corruption on the public around the world.

Organisations such as the OECD provide valuable guidance to governments and policymakers to promote integrity and high standards of conduct across the public and private sectors. The OECD's guidelines on 'conflict of interest' and 'lobbying' are particularly pertinent to the public sector. For example, the OECD's guidelines (OECD 2003) for managing conflict of interest provide a comprehensive international benchmark to help governments review and modernise their policies in this area. Conflict of interest has become increasingly topical in recent years, particularly because of the breaking down of barriers between the public and private sectors through the privatisation of services, public-private sector partnerships and exchange of personnel. This has created grey zones and opportunities for corruption. The guidelines will be helpful for officials striving to promote a culture in which conflicts of interest are properly identified, resolved and managed.

The OECD principles for improving transparency and integrity in lobbying (OECD 2010) are also an important instrument for providing guidance to decision makers on how to promote good governance. The principles are based on evidence and lessons learnt from government regulations and from self-regulation of the lobbying industry. Given the perception that lobbying by financial institutions has had an impact on regulatory frameworks, weakening them over time, the relevance of these principles is particularly high. The principles support decision makers in identifying the key elements that make a sound framework for transparency and integrity in lobbying.

A single action that finance professionals can take is to promote the importance and adoption of whistle-blowing legislation and policies with governments around the world.

Finance professionals are in a pivotal position to make a difference in this area and ACCA is determined to ensure that its members across the world have the skills, ethics, training and professional encouragement to do so. All ACCA members are now required to update their knowledge and awareness of ethical issues on a regular basis.

Finance professionals have a critical role to play in building public trust and confidence by championing the cause of developing anti-corruption procedures and cultures, as well as promoting best practice. Sound financial management is inextricably linked with anti-fraud and corruption cultures. Finance professionals should work hand in hand with other stakeholders to help eradicate fraud and participate in initiatives such as education, fraud-awareness programmes and training in forensic accounting. An important tool in tackling fraud and corruption that would benefit from more investment is data analytics, and more collaboration on data sharing between public services and counter fraud initiatives has proven effective, using big data, data matching and other such tools. Finance professionals must work with IT professionals in developing such initiatives.

A single action that finance professionals can take is to promote the importance and adoption of whistle-blowing legislation and policies with governments around the world. To promote responsible whistle-blowing and adequate protection for whistle-blowers, Transparency International has developed international principles for whistle-blower legislation, which many countries and international organisations have used to develop their own legislation and standards. ACCA also provides assistance to its members and their clients on this key issue through its *Guide to... Whistleblowing Procedures* (ACCA 2011a). ACCA argues that while the critical importance of having effective whistle-blowing mechanisms in place is well known, in-depth knowledge about how many arrangements work in practice is lacking. ACCA is backing recently commissioned global research into the practice of whistle-blowing and 'speak-up' arrangements in various international settings. This research will lead to a series of practical recommendations for employers and employees, policymakers and regulators, and academics working in the field, and to the creation of a best-practice guide.



## 2. Criteria for achieving strong public financial management

There is an ever-closer focus on improving the quality of public financial management around the world, with many countries making important and impressive achievements in strengthening public financial management.

### 2.1 KEY CHALLENGES

There is an ever-closer focus on improving the quality of public financial management around the world, with many countries making important and impressive achievements in strengthening public financial management.

Nonetheless, much still remains to be done. The scale of the sovereign debt crisis that needs tackling reflects this. The role and size of the public sector are under increasing scrutiny, with greater emphasis on fiscal management and discipline, as well as financial reporting and value for money. As a result, it is now even more important that governments, national and local institutions, auditors, regulators and professional accountancy bodies work together in partnership to achieve long-lasting improvements, transparency and accountability in public financial management.

In addition, improving public financial management is seen by many as a priority, as governments grapple with achieving fiscal sustainability and managing fiscal risk. There is even greater emphasis than in the

past on achieving effective budgeting and resource allocation. Governments and those running public services will have to work more effectively to ensure that budgets are linked to policy objectives and that value for money is secured, as well as to improve the credibility of financial reporting.

Similarly, the revenue-raising capabilities of governments through taxation are a key part of modern public financial management system, not least because of the problems of an ever-increasing tax burden and poor tax collection rates by some governments. The efficient collection of resources and effective budget allocation are both essential components of good financial management. ACCA (2015a) has identified simplicity, certainty and stability as the three fundamental considerations for which every system should strive, and by which citizens can measure the success of governments and tax administrations in developing laws and processes, and the resources to administer them, for the greatest benefit of society.

Strong leadership and the support and political will of national governments are





Also, it is more than likely that the general public will have greater trust in public services and the finance professions if there is strong financial stewardship, accountability and transparency in the use of public funds.

vital to the success of any financial management change programme aimed at strengthening fiscal management across a country. There is no 'quick fix', as many of the improvements may require legislative, structural and cultural changes, which take a significant amount of time to implement and embed. In emerging economies and developing countries these challenges extend to accessing resources to develop the necessary skills, capacity and cultural change.

## **2.2 OBJECTIVES OF FINANCIAL MANAGEMENT**

ACCA, like the IMF, the World Bank, the International Organization of Supreme Audit Institutions (INTOSAI), OECD, IFAC and the International Public Sector Accounting Standards Board (IPSASB), believes that public financial management is absolutely critical to improving the quality of outcomes, decision making and long-term sustainability of public services. It affects how funding is used to address national and local priorities, the availability of resources for investment and the cost-effectiveness of public services. Also, it is more than likely that the general public will have greater trust in public services and the finance professions if there is strong financial stewardship, accountability and transparency in the use of public funds. ACCA strongly supports the recent IFAC campaign 'Accountability. Now.' launched in 2014, through which IFAC is campaigning, on behalf of accountants globally, for more informed decision making, the better to serve the interests of citizens. The campaign states that transparency and accountability require robust financial information and that effective use of public resources must be based upon accurate, reliable and timely financial information. It notes that numbers that 'don't stack up' lead to bad decisions and unaffordable commitments, and that, worryingly, good financial management is surprisingly rare. Governments often lack the information they need, which can lead to difficulties in managing their finances effectively.

There are four key objectives that effective public financial management should cover:

- financial management – fiscal sustainability, resource mobilisation and allocation;
- operational management – performance, value for money and strategic financial planning and management;
- governance – transparency and accountability; and
- fiduciary risk management – controls, compliance and oversight (Parry 2010).

Finance professionals will need to address these objectives for improving financial management and budgeting by responding to changes in financial reporting, securing better regulation, strengthening institutions, improving risk management and governance, and tackling fraud and corruption.

## **2.3 THE EFFECTIVE FINANCE FUNCTION**

A financial management function should be as efficient and effective as possible, so that the public receive the best possible service outcomes at the lowest possible cost. The best financial management functions help to build a strong financial culture across an organisation and promote a wide understanding of financial management among non-finance professionals. Research conducted by the UK's National Audit Office (NAO) across central government departments has shown that the biggest barrier to continuous improvement in financial management is the lack of awareness and financial acumen of non-finance staff (NAO 2008). Follow-up research to that report noted that, 'despite making good progress in improving the professional capability and capacity of government finance departments since the National Audit Office reported in 2008, good financial management is still not embedded in the civil service culture, and financial matters do not have sufficient influence over departments' strategic decision making' (NAO 2014).

For many countries, the current financial environment means that severe spending cuts are posing new challenges and requiring new skills.

For many countries, the current financial environment means that severe spending cuts are posing new challenges and requiring new skills. As a result, there is an increased emphasis on budget setting, planning and monitoring and on finance professionals' understanding of the cost basis and their ability to provide accurate financial management information. The most effective finance functions will: avoid hampering improvements; enable staff to facilitate comparisons with best practice to gain a sense of what is possible; build infrastructure, systems, processes and partnerships; integrate financial management and performance management; and place a strong emphasis on governance and financial management. Meeting the following criteria would set an effective finance function apart from an ineffective one.

- The finance function is a key enabler helping to facilitate a culture of strong financial management.
- There are clear success measures in place, for example, financial statements prepared on time with minimum audit amendments.
- There is corporate ownership and recognition of the wider role of finance.
- Appropriate financial management skills are in place.
- Financial planning, monitoring and control are integrated in performance management.
- There is a strong emphasis on budgetary control, reporting and decision making.

For emerging economies and developing countries the criteria underpinning the effective finance function are aspirational goals. It is often assumed that governments have access to resources and capacity, and that the necessary cultural and institutional behaviours are already in place. These are some of the inherent challenges such countries face. ACCA recognises that improving public financial management and the finance functions are not without their difficulties (ACCA 2010b). Drawing upon five country case studies it outlines how challenges, such as

developing finance skills for the public sector, have been overcome. It also provides an assessment of tools and frameworks applicable to the developed as well as developing countries.

A number of other helpful codes and standards have been published that provide good benchmarks and standards for proper financial and fiscal management, which ACCA supports. First published in 2005 and updated in 2011, the World Bank's *Public Expenditure and Financial Accountability Framework (PEFA)* is widely accepted for promoting better financial management. The IMF's code of good practices of fiscal transparency (the Code) gives guidance supporting effective public financial management (IMF 2014). The Code identifies a set of principles and practices to help ensure that governments provide a clear picture of the structure and finances of government. Implementation of the Code can help countries provide assurance that the robustness of fiscal policy can be reliably assessed. Also, the Governance and Social Development Resource Centre (GSDRC) has a website dedicated to improving public financial management, and this provides a gateway to the most up-to-date resources on public financial management and accountability, including material from OECD, World Bank and Asian Development Bank, etc (GSDRC 2009).

## 2.4 OUTCOME-BASED BUDGETING

Outcome-based budgeting may not be a subject to set the pulse racing, but nevertheless, it is an important one, enabling governments to link resource allocation to outcomes. It can also provide a long-term approach to public sector financial management, whereby the impact of government policies on resources can be recognised beyond the political cycle. Irrespective of whether governments are experiencing periods of austerity or growth, it is critical for them to improve the link between policy outcomes and budgets. This is an area in which finance professionals should be seeking to engage more closely with governments.

Outcome-based budgeting to date has primarily been the domain of developed countries. An OECD review of developments in its member countries showed that:

Going forward, finance professionals have a key role to play in promoting to governments the benefits of longer-term budgeting and of linking resources to outcomes.

- most governments include performance information in budget documentation and half of them subject this information to audit;
- reporting of performance against outputs and outcomes is variable, with several formats being used and up to half the countries surveyed failing to cover the whole range of government activities; and
- half the surveyed countries used performance information to inform budgetary allocations.

In many countries, budgeting is still input-based and involves allocating monies to different types of spending on an annual basis. This process can lead to a rush to spend remaining unspent monies at the end of the fiscal year, with little thought as to how the current year's activities relate to programmes stretching over several years and beyond. This process does little to encourage sustainability and financial planning for public services, or effective planning or evaluation.

Despite these difficulties, initiatives have proliferated to reform budgetary processes to develop closer links between budgets, programmes and performance. In recent years, several OECD countries, including the UK, the US and New Zealand, as well as the wider international aid community, have made moves towards so-called results-based management, where the focus is on the results that are achieved, that is, the outputs and outcomes in return for inputs. Those who run public services and, in particular, governments should refresh their thinking on outcome-based budgeting, learning the lessons from the past. Going forward, finance professionals have a key role to play in promoting to governments the benefits of longer-term budgeting and of linking resources to outcomes. In order to create the maximum benefit of outcome-based budgeting, governments should strive to migrate to accrual accounting so that the costs of services can be understood better and be more readily linked to service outcomes.





It is essential to ensure that the information provided to governing bodies and stakeholders by public service finance professionals is appropriate, timely and accurate. This is to ensure trust in public finances.

### 3.1 INTEGRATED REPORTING

All organisations need quality, reliable and timely information to be able to make effective decisions. There is an increasing realisation that this information is not just limited to the financial information that has traditionally been the focus of information systems. There is a global trend towards integrated reporting, ie reporting that integrates traditional financial reporting with all other information, such as narrative reporting and sustainability reporting. An Integrated Reporting Framework has been developed for businesses by the International Integrated Reporting Council (IIRC). This seeks to create an evolution in the system for businesses reporting information, facilitating and communicating mega-trends without the complexity and inadequacy of current reporting requirements. Integrated reporting seeks to enhance accountability, stewardship and trust as well as to harness the information flow and transparency that technology has brought to the modern world.

At the heart of the integrated reporting framework is the integrated model, which demonstrates how six capitals – financial, manufactured, human, social and

relationship, intellectual, and natural – represent all the resources and relationships organisations use to create value. An integrated report looks at how the activities and capabilities of an organisation transform these six capitals into outcomes.

The concepts and thinking behind integrated reporting for businesses can equally well be applied to reporting on and by public services. ACCA is keen for public services to be taken into account when reporting frameworks are developed and has said, in its response to an IIRC consultation in 2011, that while the integrated reporting frameworks being developed are targeted at big business, it will be important that public services are not forgotten in the development phases. It should not be assumed that an integrated reporting framework developed for the private sector will necessarily meet all the needs of public services now or in the future and there are fundamental differences that need to be understood before an integrated reporting framework can be developed for public services. ACCA welcomes the recent establishment of a Public Sector Pioneer Network by the IIRC, which brings together public sector



Public interest issues associated with transparent financial reporting are arguably more prominent in public services because of the public accountability imperative.

organisations that use integrated reporting to help them to understand and clarify the connectivity of the information they already publish. The network focuses on how they can adapt the International Integrated Reporting Framework to present a more complete and coherent picture. Organisations already part of the network include the World Bank Group, United Nations Development Programme (UNDP), the City of London Corporation, the Welsh government and UK government departments.

Openness and transparency can, however, sometimes come at a cost – financial or otherwise – especially where they can be exploited for personal gain by investors and suppliers. Because of this, and owing also to higher public accountability, standards of transparency in the public sector are already generally higher than in the private sector. The following sections consider different aspects of reporting on public services – financial, narrative and sustainability reporting. In the future the trend towards integrating all such reporting into one simpler, more coherent whole seems likely to become as prevalent in the public arena as in the private sector.

### 3.2 FINANCIAL REPORTING

In recent years expectations of the quality of financial reporting in the private sector have increased dramatically. As a result, it is of crucial importance that private sector financial reporting is used as a benchmark when considering financial reporting in public services. Transparency in financial reporting is arguably more imperative in public services because of the relevance of accountability to public interest.

ACCA fully endorses IFAC's policy position as set out in its letter to the G20 (IFAC 2012a) that public sector financial reporting is important for the following reasons:

- the participation of governments in the capital markets;
- the economic significance of governments; and
- the implications for efficiency and effectiveness in the use of resources.

This IFAC policy position was re-emphasised by the 'Accountability. Now.' campaign referenced in section 2.2 above, which ACCA actively supports. IFAC is campaigning on behalf of accountants globally for more informed decision-making, the better to serve the interests of the public.

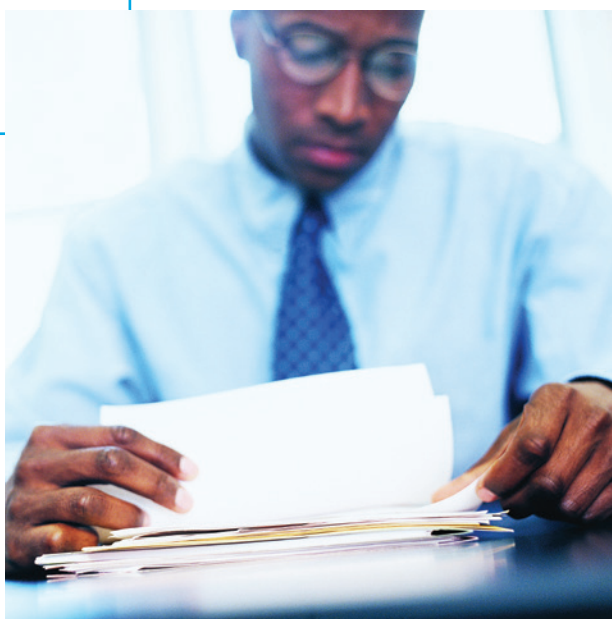
Arguably, the types of financial information required from public services can only be provided through high-quality, robust and effective financial reporting. Governments around the world should be aiming to provide financial information based on international accounting standards to improve both transparency and accountability and to get a tighter grip on fiscal management. It is important for governments to explain the purpose of levying different taxes, and where the taxes received are going to. Accountability is one of ACCA's 12 tenets of taxation. Undoubtedly, this is a challenge for many countries, with some still struggling to produce cash-based accounts. There are no quick fixes and transition is often complex, but there are many examples of how governments have improved financial reporting and lessons can be learnt from their experiences. Australia, Canada, France, New Zealand, Sweden, UK and US are now publishing consolidated government accounts, but challenges remain even in such countries. A recent study by ACCA (ACCA 2015b) provides a systematic comparison across the UK, Australia, New Zealand, Canada and Sweden, of the uses and users of consolidated government accounts and finds that a combination of overly complex financial reporting and a lack of financial literacy among parliamentarians is making it more difficult for policymakers to benefit from consolidated government accounts.

Therefore, it is important for professional accountancy bodies, standards-setters, donors, auditors and governments to promote improvements in financial reporting and provide guidance and support to those countries seeking to transition to accruals-based financial reporting. With this in mind, ACCA's policy positions on accounting standards are set out below.

Conflicts between IFRS and IPSAS should be reduced to a minimum.

### 3.3 ACCOUNTING STANDARDS

ACCA supports the development of global accounting standards and recognises that the main responsibility for this rests with the International Accounting Standards Board (IASB), which issues International Financial Reporting Standards (IFRS). ACCA also supports the role of the International Public Sector Accounting Standards Board (the IPSASB), which works



closely with the IASB to interpret IFRS accounting standards for the public sector and to develop International Public Sector Accounting Standards (IPSAS).

Conflicts between IFRS and IPSAS should be reduced to a minimum. IPSAS have an important role to play in dealing with specific public sector issues for which there are no IFRS, such as: service concessions, grantors, revenue and non-exchange transactions, presentation of budget information in financial statements and disclosure of financial information about the general government sector. There are currently 33 IPSAS and five of these, including the cash standard, are not based on IFRS. Whichever accounting standards are used by public services (IFRS or IPSAS) they should contribute to:

- helping with the operation of public services across the world by improving the flow of financial information and reducing the burden of regulation and compliance;

- enabling a wide range of users to understand financial information; this will help all users, but is of particular importance to stakeholders' understanding of financial performance;
- reducing the costs of preparation of financial statements and reports by decreasing the amount of restatement of information and reports in comparing across different countries;
- helping to simplify the education and training of accountants by instituting common principles, which will also help remove a barrier to the transferability of their skills and qualifications; and
- raising the credibility of the accountancy profession by removing unjustifiable differences in the treatment of similar items between different countries.

ACCA very much supports the IPSASB's *Conceptual Framework*, published in November 2014, which underpins the accounting standards it develops.

The implementation of financial accounting and reporting standards in public services varies by country. In a significant number of countries public bodies follow the IPSAS for cash accounting or IPSAS for accruals accounting. Some countries do not use IPSAS: notably, Australia, Canada, New Zealand, the UK and the US, which have all adopted International Financial Reporting Standards (IFRS) or National Accounting Standards.

In response to the IPSASB's recent consultation on governance arrangements, ACCA confirmed its belief that international consistency and comparability of accounting standards for the public sector should continue to be at the heart of the objectives of the IPSASB. The introduction of oversight arrangements for the board or other governing body will serve to increase public confidence in both the standards-setting process and the quality of financial reporting standards. It may also provide an impetus for more widespread adoption by public bodies of generally accepted public sector accounting standards.

The proposed changes should not interfere with the IPSASB's planned work programme. It is also critical that the



Another important consideration in developing narrative reporting is to consider the stakeholders of the organisation at which the narrative is targeted.

IPSASB continues to develop a close working relationship with the European Commission to avoid overlap and duplication of effort. Governance of the IPSASB is particularly important as the current debate on introducing and implementing European Public Sector Accounting Standards (EPSAS) has given rise to an intense public debate in Europe.

Overall, there is a mixed picture across the world and continuing debates in many countries about whether to account for public funds on a cash or accruals basis. Both methods are used by both developed and developing countries. It is important to recognise the context and political choices made by governments and the base from which some countries are starting. Some developing countries are starting from a low base and therefore a decision to adopt the IPSAS for cash accounting will be a significant first step forward, whereas others are either in transition to accruals or have been operating on an accruals basis for some considerable time. Nonetheless, in the long term, ACCA believes the accruals basis of accounting is the right way forward for accounting for public funds as it increases transparency and accountability. ACCA continues to encourage countries to move to accruals-based accounting.

### 3.4 NARRATIVE AND NON-FINANCIAL REPORTING

Narrative reporting provides critical contextual non-financial information, shown alongside financial information so as to give a broader and more meaningful understanding of an organisation's activities. Public entities around the world have been required to publish financial statements for many years, and have increasingly been required to provide explanations to enhance accountability. A variety of approaches have developed over time with different types of practice being employed by different public entities. These range from single comprehensive annual reports to separate publication of financial statements and other specific reports. The types of information reported also vary, from issues of current relevance to links between the overall financial performance and the strategic plan of the public entity. Arguably, there is considerable variation in the quality and standards of reporting practice and the diversity of reporting can hinder organisations and stakeholders in making direct comparisons of the information reported.

There continues to be a lot of activity in this area at an international level, particularly by IPSASB. Narrative and non-financial reporting together with sustainability reporting, which is addressed in the next section, are increasingly being linked in discourses across the public services. The terms are often used interchangeably, for example, reporting an organisation's performance on environmental issues can be described as either narrative or sustainability reporting. ACCA would therefore welcome a common understanding and language.

ACCA continues to support fully the work of the IPSASB in developing a set of reporting standards that will promote consistency in contextual and non-financial information. The IPSASB published *Recommended Practice Guideline 2 (RPG 2) on Financial Statement Discussion and Analysis* in July 2013 (IPSASB 2013b). In addition, in March 2015 the IPSASB published *Recommended Practice Guideline (RPG) 3, Reporting Service Performance Information*, which provides good practice guidelines on reporting service performance information (IPSASB 2015a). The development of the guidelines reflects the IPSASB's commitment to addressing public sector-specific reporting issues, including those that relate to information additional to the financial statements.

Another important consideration in developing narrative reporting is to consider the stakeholders of the organisation at which the narrative is targeted. While the 'public' will generally be the leading stakeholder of public service organisations, some further analysis of stakeholders is necessary. Most organisations face a continuing evolution of both their external and internal stakeholders. The internet has changed the dynamic and will continue to do so. The need to raise the profile of narrative reporting will put more emphasis on identifying and acknowledging legitimate stakeholder interests both now and in the future.

### 3.5 SUSTAINABILITY REPORTING

Sustainability reporting and corporate social responsibility (CSR) activity have grown rapidly in recent years, and since 1990 ACCA has been active in promoting this in the private sector. As outlined in *Sustainability Reporting Matters: How is Sustainability Reporting Understood and Managed by National Governments?* (ACCA 2010c), there is a need to be aware

Public services will also be encouraged to report where there is political pressure for sustainability from the electorate, other nations and NGOs.

of the differences between the private and public sectors for sustainability reporting. The purpose of, and motivation and responsibility for, such reporting varies between these sectors.

As with narrative/non-financial reporting above, there has been considerable international activity in this area. The IPSASB published *Recommended Practice*



*Guideline 1 - Reporting on the Long-Term Sustainability of an Entity's Finances (RPG 1)* in July 2013 (IPSASB 2013a). RPG 1 provides guidance on reporting on the long-term sustainability of a public sector entity's finances. It also provides information on the expected impact of current policies and decisions made at the reporting date on future inflows and outflows, and supplements information in the general-purpose financial statements.

In addition, in July 2015 the IPSASB issued a consultation paper on the *Recognition and Measurement of Social Benefits* (IPSASB 2015b). The paper notes that the provision of social benefits to the public is the primary objective of most governments and that social benefits often account for a large proportion of a government's budget. The IPSASB aims to improve its suite of standards by developing an International Public Sector Accounting Standard on social benefits. The IPSASB has asked constituents for their views on the different approaches identified.

### 3.5.1 What is specific about the public sector in relation to sustainability?

The adoption of private sector models of sustainability reporting has not been widespread in public services globally. Even so, many public services do take account of sustainability issues in different forms. Frameworks developed for sustainability (such as the Global Reporting Initiative (GRI) which is a standard-setter in the field of sustainability reporting (GRI 2005)) have not taken full account of the number of differences between the context of sustainability in the public and private sectors, namely organisational purpose, organisational responsibilities and motivations for reporting.

**Organisational purpose:** the purpose of public services is generally grounded in improving well-being in some way, rather than increasing shareholder value. As a result, elements of sustainability are likely to be core to the organisation's goals in a way that may not be commonplace in the private sector.

**Organisational responsibilities:** most private sector sustainability reporting frameworks focus on the organisation's direct impact on the environment, society or the wider economy. Public services also have responsibilities for the effects of their policies or regulations, and for taking a holistic overview of the economy, society and the environment.

**Motivations for reporting:** the GRI framework and others suggest that a key incentive for public services to embrace sustainability reporting is pressure to act as an example for the private sector. Public services will also be encouraged to report where there is political pressure for sustainability from the electorate, other nations and NGOs.

Although lessons from private sector sustainability and CSR reporting are valuable, an understanding of the importance of sustainability action and reporting in public services should take account of the nature of the purpose, motivations and responsibilities of public services, rather than attempting to adopt wholesale an approach to reporting that may be more appropriate to the private sector.

The roles of external and internal audit make a valuable contribution to providing reassurance to the public and management that public money is being spent wisely and that the organisation represents value for money.

### 3.5.2 The role of the finance professional in sustainability reporting

There are a range of areas of accountancy practice within public services where sustainability considerations could be taken into account. These include:

- budget and strategy setting;
- assurance;
- procurement;
- performance measurement;
- risk management; and
- accountability and governance.

Sustainability reporting creates a number of challenges for finance professionals, such as difficulties of estimation and projections, understanding links between actions and impact, establishing robust indicators, and verifiability and assurance. In addition, it is also imperative for finance professionals to work with leading standard setters such as GRI, governments and the International Integrated Reporting Committee (IIRC) to ensure that reporting does not become overly burdensome and outweigh the benefits that can be derived from it.

### 3.6 STANDARDS AND SCRUTINY

The stewardship of public funds is critical for public accountability and transparency. The roles of external and internal audit make a valuable contribution to providing reassurance to the public and management that public money is being spent wisely and that the organisation represents value for money. Audit and the wider scrutiny functions of the legislatures also have a valuable role in promoting public trust and confidence.

As reported in *Restating the Value of Audit* (ACCA 2010d), strong ethical standards and technical audit skills are intrinsic to the training of a professional accountant, providing insight and experience and engendering the values of healthy professional scepticism and independence. ACCA supports the work of the International Auditing and Assurance Standards Board (IAASB), the International Organization of Supreme Audit Institutions (INTOSAI), and the Institute of Internal Auditors (IIA) in setting auditing standards around the world that provide high-level

assurance to the users of financial statements; these bodies also issue guidance and develop the auditing profession as a whole. Supreme Audit Institutions (SAIs) have a valuable role to play in strengthening the accountability and integrity of governments' and public entities' financial reporting, as set out in INTOSAI's International Standard for SAIs 12 *The Value and Benefits of SAIs – Making a Difference to the Lives of Citizens* (INTOSAI 2013). ACCA's views on the specific auditing standards are outlined below.

### 3.6.1 International standards of auditing (ISAs)

The audit of financial statements is essentially the same in the private and public sectors, therefore ACCA supports the adoption and implementation of ISAs for public bodies. ACCA understands that 125 jurisdictions around the world have adopted ISAs or have used them as a basis of their national auditing standards. There is no conflict with the standards developed by INTOSAI, as its Financial Auditing Guidelines include ISAs.

### 3.6.2 International standards of supreme audit institutions (ISSAIs)

ACCA supports the development and adoption of international standards of supreme audit institutions (ISSAIs) by governments. As set out above, the financial auditing guidelines are drawn from ISAs but they go one step further by recognising that the objectives of auditing public services may themselves go further, eg compliance and value for money. These auditing standards underpin high-quality audit and assurance of government organisations.

### 3.6.3 Institute of Internal Auditors (IIA) standards

It is crucial that public services are subject to the practice of professional internal auditing and are evaluated for their performance. It is equally important that internal audit's organisational independence and internal auditors' objectivity are protected, and to this end ACCA supports the adoption of IIA standards as authoritative guidance for the internal audit of public services.



ACCA maintains that there are many similarities between external auditors in the public and private sectors.

### 3.7 AUDIT

#### 3.7.1 Internal audit

The Institute of Internal Auditors defines internal audit as:

**‘An independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.’**

As noted above, ACCA believes in the importance of professional internal audit in the evaluation of performance of public services and that it is vital to ensure the protection of internal audit’s organisational independence and internal auditors’ objectivity to enable effective internal audit. It is key to finding the optimum balance between independence from the operations and processes being audited and adding value as an internal function of the entity appointed by the senior management or the board. The application of the IIA standards can help bring consistency to internal audit in both public and private sectors. In addition, the IIA issues information tailored specifically to public sector internal auditors and their stakeholders, and has published an Internal Audit Capability Model (IIA 2012).

#### 3.7.2 External audit

As well as internal audit, some government departments commission external audit engagements, which can be supplied either by private sector firms or by a public sector audit function. ACCA maintains that there are many similarities between external auditors in the public and private sectors. Auditors in both sectors adhere to the same high ethical principles, use the same basic methods and apply the same independent auditing standards to financial auditing. In both sectors, auditors are not responsible for the preparation of the financial statements of the entities they audit, but provide a level of assurance about whether such statements meet the standards expected of them, as laid down by the law and technical rules or official standards.

Nonetheless, there are some key differences in that company auditors are appointed by the shareholders, whereas in public services it is normal practice for Parliament to appoint the auditor general of a Supreme Audit Institution (SAI) as the auditor of all national government entities and, depending on the country, some local public sector entities too. In some countries there is no separation between the accountant general’s office and auditor general’s office. Arguably, this type of arrangement impairs accountability and transparency. Where this is the case, governments should seek a separation of functions to ensure both auditor independence and accountability.

The structure and scope of external audit of the public sector differ from country to country. For example, a number of developing countries and emerging economies are only beginning to grapple with performance / value for money audit. It is appropriate for the public sector to have a wider audit remit than commercial concerns; a remit that covers not only a true and fair opinion on the financial statements but also aspects of corporate governance and arrangements to secure value for money (ie the economic, efficient and effective use of resources). This is because most public entities provide services rather than make profits and as a result their financial statements give only limited information about their performance, so external audit in the public sector is an essential part of the process of accountability for public money and the governance of public services. In the UK, for example, the National Audit Office (NAO), Audit Scotland, the Wales Audit Office, and the Northern Ireland Audit Office have a wide remit for assessing governance arrangements and value for money. This scope of audit is predominant around the world. When commissioning private sector audit firms to provide assurance, it can help to refer to international standards on assurance, such as ISAE 3000.

#### 3.7.3 Audit reporting

There is a greater diversity of reporting in public services than in the private sector, possibly driven by its multiple stakeholders and the need to report on performance rather than profit. The audiences for the reports differ from those for private sector reports. In the case of limited companies, shareholders are the primary audience for

Overall, ACCA's work has highlighted that effective financial scrutiny by parliaments requires the provision of high-quality financial reports and accounting information, and effective independent audit.



the financial statements and the audit report. (Note also the legal position, which, at least in the UK and in other sovereign states that follow its principles, is that the main purpose of a company's accounts is to allow shareholders to judge the directors' stewardship of their company.) In the public sector, there are multiple stakeholders for an organisation's accounts, including Parliament, institutional investors and citizens, etc. As a result, innovative

methods of reporting have been explored, including the use of 'score cards' giving a range of indicators relevant to different stakeholders. Audit reporting in the public sector continues to be controversial as it attempts to satisfy such diverse audiences. The public's information needs are very different from those of politicians and managers, yet audit reporting attempts to satisfy them all. In the private sector there is increasing pressure to recognise the reporting needs of a broader range of stakeholders and the experiences of the public sector may provide valuable learning as to appropriate reporting models.

#### 3.7.4 Wider financial scrutiny

Financial scrutiny, by the legislature, of public spending is an equally important component of modern democratic systems. Effective financial scrutiny ensures that governments are held to account for their actions and fiscal policy decisions, as well as allowing the legislature to monitor both public service provision and value for money. The paper *Parliamentary Financial Scrutiny in Hard Times* (ACCA 2011b) highlighted that parliaments will need to improve their performance in this area if they are to keep pace with budget and accounting reforms, as well as financial developments. The evidence from the study suggests that financial scrutiny may not have been taken seriously enough nor seen as strategically important. This finding is particularly worrying because of the significance of public spending.

With the above in mind, ACCA supports the work undertaken by organisations such as the Commonwealth Parliamentary Association in training and capacity development programmes. ACCA worked with the Association on a Westminster Workshop on public accounts committees in early 2012. ACCA has also supported the work and sharing of best practice of regional associations such as the Asian Regional Association of Public Accounts Committee (ARAPAC) and Southern Africa Development Community Organisation of Public Accounts Committees (SADCOPAC). Most recently, ACCA worked with ARAPAC and the World Bank on a programme to build the capacity of public accounts committees and supreme audit institutions across the region. Overall, ACCA's work has highlighted that effective financial scrutiny by parliaments requires the provision of high-quality financial reports and accounting information, and effective independent audit.

Performance management in public services varies widely in its nature and extent across the world and between types of organisation.

Performance management in public services varies widely in its nature and extent across the world and between types of organisation. As with other forms of management and regulation, ACCA's view has been to support the emphasis on value for money (economy, efficiency and effectiveness) in public services. Central performance management systems and targets can be valuable, but they should be intelligent, streamlined and sensitive to local needs. This view engages with a number of perennial key debates.

- The tension between top-down measurement for accountability and equality of provision, and flexibility of local organisations to meet local needs.
- The risk that performance measurement can create perverse incentives where the measurement of an indicator becomes the focus of work, rather than improvement in outcomes for the public.
- The increasing public services focus on qualitative outcomes and preventative measures (see also above, sections 3.4 and 3.5, on narrative and sustainability

reporting) where measuring performance using traditional quantitative or financial metrics may be very challenging.

- The opportunities and challenges of increased partnership working between public services and organisations in other sectors, particularly in assessing collective performance improvements and establishing accountability for performance.

## 4.1 THE GOALS OF PERFORMANCE MANAGEMENT

Performance management should provide transparent information about how well public services are working, whether they are giving value for money, and how and where they can improve. Systems of performance management should not create an excessive burden of monitoring and reporting, but they should be relevant, easily understandable and usable in performance improvement. There are many ways of capturing the criteria for good performance targets, such as SMART analysis – assessing the degree to which targets are Specific, Measurable, Attainable, Results-focused and realistic, and Timely.





The pressure for increased performance management to ensure that providers of public services justify their use of public funds tends to increase when public services are provided on behalf of government by the private or voluntary sector.

This is a reasonable guideline for setting targets, although it should also be noted that target setting is not the only available form of performance management and it has been shown that targets can be manipulated, as when doctors achieved the target of not having waiting lists of more than 3 days by refusing to make appointments more than 3 days ahead.

Among developed countries there seems to be a convergence on greater performance management of public services by central government, in order to ensure efficiency and equality of service. In developing countries and emerging economies, pressure for performance management and improvement may come equally from international bodies and donor institutions, keen to see efficient and effective use of funds. ACCA supports those goals, but emphasises that bodies that monitor, regulate and audit performance should bear in mind the additional burdens of cost and resources that excessive or ill-designed performance management frameworks can require.

#### **4.2 CENTRALISED PERFORMANCE MANAGEMENT AND LOCAL FLEXIBILITY**

As concern is increasing among governments globally about the need for financial management and efficient use of resources, the pressure for effective performance management and hitting targets in local, regional and central government is also increasing. Nonetheless, in the UK the government is moving rapidly away from centrally driven performance targets. Currently this is uneven, but of growing importance, perhaps given impetus by international treaties on climate change through which there has been widespread consensus about the need for targets and the measurement and reporting of performance (Rose 2003; Bloomfield 2006). The UK public services have a reputation for very strong and detailed performance management from the centre, particularly between central and local government, with a national indicator set of

188 targets (HM Treasury 2010). Canada and Australia have also developed fairly comprehensive sets of formal indicators and reporting requirements, though not to the same extent as the UK. By contrast, local government in France operates relatively autonomously while in Denmark and the Netherlands central government has become increasingly interested in managing and monitoring the performance of local government, particularly where greater powers and functions are given to municipalities. Similarly, New Zealand's local government performance management system focuses on accountability to the local community rather than on centralised league tables (Gough 2009).

The pressure for increased performance management to ensure that providers of public services justify their use of public funds tends to increase when public services are provided on behalf of government by the private or voluntary sector. This is often countered by an argument that emphasis on centrally defined targets can limit the freedom available to innovate and respond to local needs. ACCA argues that the best way to manage this potential tension is through a balanced approach that streamlines reporting to ensure accountability while limiting information requirements to a manageable level, within a framework that allows for negotiation between the bodies being held to account and those monitoring them.

#### **4.3 PERVERSE INCENTIVES AND TARGETS**

A common criticism of performance management regimes is their potential to become ends in themselves. When organisations become more focused on meeting targets than on achieving outcomes the performance management framework should be revised. Poorly designed targets, indicators or benchmarks can add to this problem, as staff may come to focus on an organisational output (such as the number of appointments held at an

Increasingly, public services are working in partnership, whether with the private or voluntary sectors or with other public service bodies.

employment office) rather than an improved outcome for citizens (such as the number of people found appropriate employment). As with systems for managing the balance between regulation and innovation, performance management frameworks should be lean and well designed. Efforts to ensure that a limited number of effective measures are used are a better investment than a hastily designed and cumbersome framework that does not give information on the real outcomes with which public services should be concerned.

#### 4.4 MEASURING QUALITY AS WELL AS QUANTITY

Traditional performance measures are based on numerical data, tending to measure the quality of service in terms of some dimension of quantity. Increasing international attention is now being given to how less tangible aspects of public goods such as 'well-being' and 'progress' may be measured (eg Stiglitz et al. 2009; Theodoropoulou and Zuleeg 2009). These are most often translated into traditional numerical metrics, either by using existing proxies or by gathering survey data on the perceptions of citizens, which are then analysed using quantitative methods. In these cases, the relationships between inputs, outputs, outcomes and measurement indicators may be increasingly hard to assess reliably. The design of performance management systems that are 'lean' and well thought-through again becomes a priority, and the addition of a narrative to provide context for numerical data may be essential for a proper understanding of performance. In some cases, it may be that numerical data is not the best resource, and that performance is best understood through purely narrative reporting. Well-designed performance management frameworks will make use of narrative reporting where this is the best method.

#### 4.5 MEASURING PERFORMANCE OF PARTNERSHIPS AND ATTRIBUTING SUCCESS

Increasingly, public services are working in partnership, whether with the private or voluntary sectors or with other public service bodies. Broadly, there are two types of partnership and these present different performance management challenges. The first is the traditional contract relationship where services are provided by one organisation on behalf of another. The relationship between, and separate responsibilities and accountabilities of, partners in such cases should be spelt out clearly in the contract and revisited periodically. Alternatively, more collaborative partnerships in which responsibility for provision or, in particular, outcomes, is shared (such as through Local Area Agreements in England, community partnerships in New Zealand, and SMART partnerships in Zimbabwe and elsewhere) create different challenges for performance management. Equally, the Virginia Planning Model used in the US and Scotland is a useful template for setting a national framework on which service performance measures can be applied (Virginia Performs 2015).

The goal of working collaboratively across organisations and/or sectors is to recognise that many organisational goals are shared, and could be more efficiently met through joint efforts. The challenge for performance management of partnerships where funding, goals and outcomes are shared is that it may seem more difficult to hold specific organisations to account for their performance if this is managed jointly. Nonetheless, it is already the case that investment by one part of the public services may see improvements in outcomes that are success criteria for another organisation – for example, better hygiene education provided in schools could reduce admissions to hospital. Joint performance management and targets could therefore be seen as simply making this relationship explicit. Internal organisational performance management will still need to be carried out, but this should be proportional and should not duplicate joint management frameworks.

# 5. Key skills for finance professionals in the public sector

Developing effective strategic financial management skills is a prerequisite for strong financial management.

## 5.1 KEY FINANCIAL MANAGEMENT SKILLS

Developing effective strategic financial management skills is a prerequisite for strong financial management. Strategic financial leadership is a key ingredient for making public services more efficient and effective, together with effective public financial management systems to support service outputs and outcomes. A modern-day finance professional should be capable of having a perspective on the bigger picture, as well as having the capability to affect what is happening and judging the right time to make an intervention. Equally, skills for creating public value, underpinned by a strong code of ethics and public service ethos, are critical for effective public financial management.

Requirements include:

- strategic leadership skills, such as developing and influencing the policy imperatives of public services expenditure and taxation;
- organisational and change-management skills, which include the ability to select and assign priorities within restricted resources, to organise work to meet tight deadlines, and to anticipate and adapt to change;
- creative thinking and effective decision-making skills, which include the ability to form reasoned judgements and make decisions effectively while also considering the implications of professional values, ethics and attitudes in decision making;
- technical skills, which consist of general skills as well as skills specific to accountancy; they would typically include: (a) numeracy (mathematical and statistical applications) and IT proficiency; (b) decision modelling and risk analysis; (c) measurement; (d) reporting; and (e) compliance with legislative and regulatory requirements;
- communication, negotiation and influencing skills, which enable a finance professional to (a) work with others in a consultative process, to withstand and resolve conflict; (b) work in teams; (c) interact with culturally and intellectually diverse people; (d) negotiate acceptable solutions and agreements in





ACCA does not advocate a 'one-size fits all' model or approach, as public sector organisations will have different governance structures.

professional situations; (e) work effectively in a cross-cultural setting; (f) present, discuss, report and defend views effectively through formal, informal, written and spoken communication; and (g) listen and read effectively, including a sensitivity to cultural and language differences;

- team-working skills, which enable a finance professional to work with others for the common good of the organisation; and
- ICT skills, including relevant skills relating to (a) general knowledge of IT; (b) IT control knowledge; (c) IT control competences; and (d) IT user competences.

The most effective financial managers are those who encourage openness, share knowledge, learn from their mistakes and challenge the norm. Technical skills are sometimes seen as a given and there is an emphasis on importance of 'getting the basics right'. An important part of a finance manager's role is to communicate and present financial information in ways that are helpful to the wider business so that it can be acted upon. Overall, accountancy skills coupled with knowledge of systems and processes and how the business operates provide a good platform on which to develop a wider set of skills.

Recognising the importance of strategic financial leadership, ACCA commissioned research to understand more about how finance professionals are displaying financial strategic leadership in public services. The resulting report, *The Importance of Strategic Financial Leadership in the UK Public Sector in a Time of Financial Austerity*, was published in October 2013 and considered how finance managers in public services are coping with the demands placed on them and how they can demonstrate improved value by providing more effective strategic financial leadership (ACCA 2013). It considered how they are applying managerial approaches and solutions to the challenges of austerity and the role that the public sector finance function can play in this process.

ACCA (2013) shows that the challenges for public services today are unprecedented and finance professionals are being scrutinised as never before. Since that time, the pace of change has not slowed,

and budgeting pressures mean it is still critical that finance professionals working within the public sector are equipped with the rights skills to deal with the challenges ahead. Dealing with on-going financial austerity poses different challenges for financial leadership to those encountered at a time of growth.

The finance function is at the forefront of strategic planning and in many cases the strategy is largely finance led. In these situations, the finance function is trying to get the organisation more strategically focused at several levels in the organisation, but this is sometimes hampered by the lack of strategic management skills among managers at all levels. The relationship between the strategic finance manager and the non-financial service manager is important. Strategic finance managers are developing more effective working relationships with service managers following what has been termed a 'business partnering model' rather than a traditional accounting and financial control model.

As noted in the introduction to this report, the ever-increasingly complex interface between public and private sectors necessitates combinations of public and private finance (and other) professional skills in ways that have not been previously required. There is much interest in Public Private Partnership working in the international arena. The UK's Treasury is providing training and support to governments in South America, North Africa, the Middle and Far East as well as the establishment of a Public Private Partnership policy unit in Beijing. ACCA's international membership is well placed to address the challenges and complexities of the developing public/private partnership world.

## 5.2 HOW ACCA MEMBERS DEMONSTRATE KEY FINANCIAL MANAGEMENT SKILLS WORKING IN PUBLIC SERVICES

ACCA members in public services work across a diverse range of organisations, including government departments, regulators and auditors and health care providers, and in regional and local governments. ACCA finance professionals adhere to a strong ethical code and are equipped through the ACCA qualification with the skills needed to perform financial roles effectively in both the public and

The ACCA qualification, syllabus and training requirements are updated on a continuous basis to accommodate the changing skill requirements for finance professionals in both public and private sectors.

private sectors. The ACCA qualification, syllabus and training requirements are updated on a continuous basis to accommodate the changing skill requirements for finance professionals in both public and private sectors. These changes are driven by many factors, including the demands resulting from financial crisis, austerity measures, globalisation, technical advances and so on.

In addition, an increasing number of members, and some non-members, are furthering their skills and qualifications through the ACCA's recently developed Certificate in International Public Sector Accounting Standards (Cert IPSAS).

The Cert IPSAS has been specifically developed to help meet the challenges of implementing IPSAS which, as noted in section 3.3 above, are becoming the global accruals-based accounting standards used for the preparation of general purpose financial statements by governments and other public sector entities.

The material for the Cert IPSAS qualification includes both online testing and an online training course and it is designed to:

- examine the fundamental requirements of accruals-based International Public Sector Accounting Standards (IPSAS) on a standard-by-standard basis, for the benefit of preparers, auditors and users of financial statements;
- provide guidance on how to use IPSAS in practice, with the aid of questions, cases and interactive exercises;
- explain the difference between the cash-basis IPSAS and accruals-based IPSAS;
- provide an overview of how IPSAS are used around the world; and
- explain the workings of the International Public Sector Accounting Standards Board (IPSASB) and how these are developing.



The composition of the public sector varies by country and has many definitions, but in most countries it includes such services as the police, military, public roads, public transit, primary education and health care.

## A1. DEFINITIONS OF THE PUBLIC SECTOR

The composition of the public sector varies by country and has many definitions, but in most countries it includes such services as the police, military, public roads, public transit, primary education and health care. The many definitions reflect different conceptual bases. ACCA has therefore considered a number of definitions, as discussed below.

### Definition 1

The Organisation of Economic Co-operation and Development (OECD) defines the public sector as 'comprising the general government sector plus all public corporations including the central bank' (OECD 2014b).

The rationale behind the definition is that the scope of the public sector can be defined in a variety of ways. One option has been to base it on the status of employees. Although this criterion is satisfactory in some countries, in which the vast majority of government workers are civil servants, it is not in others. There are a number of exceptions, particularly where countries employ contract staff and where salaried workers in both the public and private sectors are subject to the same labour legislation. This has been the case in New Zealand. As a result, the OECD has concluded that to define the scope of the public sector on the basis of the employer's identity would seem more satisfactory. This is the criterion used by the OECD's public service in its work on public sector pay trends.

### Definition 2

The United Nations (UN) defines the public sector as including 'general government and public corporations' (UN 2008). Within the definition of 'general government' is the notion of 'government units', a term which refers to entities established under political processes that have legislative, judicial or executive authority. Some non-profit institutions (NPIs) are also included within the public sector definition, but specific conditions for control by government must be considered; for example, the degree of financing by government, and risk exposure, the responsibility for the appointment of officers, and legal and contractual agreements. Also, to be classified as a public corporation (for example, railways, airlines, public utilities and public financial corporations) the organisation must not

only be controlled by a government unit, but that government unit must also have the ability to determine the general policy or programme of the corporation.

The UN clearly sees the public sector as unique. It recognises that within a single economy there can be different levels of government, such as central, state or local. It also highlights that the powers, motivations and functions and the range of goods and services provided by government are based on political and social considerations rather than on profit maximisation. Most recently, the Federation of European Accountants (FEE) used the UN definition to underpin its policy statement on sustainability in the public sector (FEE 2010).

### Definition 3

The International Monetary Fund's Government Finance Statistics Manual (IMF 2014) defines the public sector as including general government (central government, state government and local government) and public corporations (financial public corporations controlled by general government units, non-financial public corporations, monetary public corporations such as the central bank, and non-monetary financial corporations). This definition is consistent with that applied by the International Public Sector Accounting Standards Board (IPSASB) for financial reporting (IFAC 2010).

### Definition 4

The definition of the public sector and its domain by Broadbent and Guthrie (2008) focuses on ownership and control. The assumption at the time of their original research was that the public sector comprised the publicly funded, owned and operated organisations providing services to the public. The public sector landscape has now changed; increasingly, public sector functions are contracted out to the private sector. Because of this, Broadbent and Guthrie now argue for the re-naming of the public sector as 'public services'. This would recognise a domain much wider than just local and central government. It would take into account public services that are available for all members of a particular society (Broadbent and Guthrie 2008).

Broadbent and Guthrie (2008) suggest that the notion of a public sector that requires public funding, ownership and operation of services is no longer appropriate. Instead, the provision of public services may be



While in many cases public service functions may not have changed, 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.

organised in a variety of ways, with control achieved through different organisational and regulative mechanisms. Public services may have some element of government funding, ownership, public direction or regulation, in different combinations, but there is no longer a need for direct government ownership for the involvement in provision of these public services. While in many cases public service functions may not have changed, 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. There have also been some structural changes and more private sector involvement, as well as the introduction of private sector approaches to service provision.

Broadbent and Guthrie (2008) state that 'to use a definition of the domain of public services that relies on the perceived nature of the services and the regulatory regime around it is nevertheless complex'. They identify two key issues, the first being that public services are determined largely by the context in which they are provided; the boundary for public services is not fixed, but varies from country to country. For example, the provision of health care in the US differs from that in the UK. Therefore, things that are seen as public services in one country may not be judged as such in others. Secondly, they argue that sectorial boundaries change over time; for example, through the privatisation of public activities. Broadbent and Guthrie (2008) conclude that if ownership is used as the basis for defining public services, then the definition will be different in different jurisdictions and may also differ over time, even within the same jurisdiction.

Each of the four definitions above has its own merits, but arguably the wider definition as 'public services' (Definition 4) reflects the public sector landscape today most accurately. It recognises that public services may have some element of government funding, ownership, public direction or regulation, in different combinations, but there is no longer a need for direct government ownership. Also, the definition is flexible enough to recognise that the structure and composition of the public sector vary by country and over time. In addition, this definition is arguably not at odds with those set out by IMF and IPSASB but, rather, it enhances them.

## A2. DEFINITION OF THE 'PUBLIC INTEREST'

Following public consultation, the International Federation of Accountants (IFAC) issued a policy position in 2012, which ACCA broadly supports, which defined 'public interest' in an accountancy context. The following is an extract of the policy paper.

IFAC defines the public interest as:

**The net benefits derived for, and procedural rigor [sic] employed on behalf of, all society in relation to any action, decision or policy** (IFAC 2012b).

This definition can be readily applied to the accountancy profession and its responsibilities to the public. One can reasonably assert that some groups of the public, eg investors, employees, or other stakeholders may, owing to their proximity to a particular institution, be more affected by the work of accountants than others. Nonetheless, the implications of the work of the accountancy profession – the level of public confidence – can affect the public on a much wider scale.

### Who is the 'Public'?

On the broadest level, IFAC considers that the 'public' includes the widest possible scope of society: for example, individuals and groups sharing a marketplace for goods and services (including those provided by government), as well as those seeking sustainable living standards and environmental quality, for themselves and future generations. This includes the following groups.

- Investors and shareholders in, and business owners of, public and private institutions – these encompass all parties whose resources and well-being depend upon the performance of such institutions. These parties rely upon sound financial information for making decisions about the allocation of their resources. This not only includes investors, but also employees and those who have pensions and other vested interests tied to the performance of such institutions.
- Consumers and suppliers – these encompass all parties who are affected by the costs, quality and availability of goods and services. Consumers and suppliers ultimately bear the impact of financial decisions (and so are affected

The accountancy profession helps realise certain interests of society, many of which are economic in nature and related to the efficient management of resources.

by those who make and advise on them). The quality of financial information and decision making affects the efficiency of resource management, which in turn affects the goods and services produced.

- Taxpayers, electorates, and citizens – these encompass all parties affected by the work of public sector accounting professionals, who facilitate financial information, make financial decisions, and advise policymakers and elected officials. These include immediate short-term impacts, as well as medium and longer-term considerations and matters of sustainability. The efficient management of public resources (eg tax revenues, public properties, governmental organisations, infrastructure, and other resources) affects their costs, quality, and availability and, through these, society as a whole.

Although the impact of the work of the accountancy profession differs among these groups, there is a fundamental obligation for the profession to act in the public interest regardless of its proximity to these different groups.

#### What are the 'Interests' of the public?

In the broadest respect, 'interests' are all things valued by individuals and by society. These include rights and entitlements (including property rights), access to government, economic freedoms, and political power. Interests are things people seek to acquire and control; they may also be ideals people aspire to, and protections

from things that are harmful or disadvantageous to them. The accountancy profession helps realise certain interests of society, many of which are economic in nature and related to the efficient management of resources. These interests include:

- increased economic certainty in the marketplace and throughout the financial infrastructure (eg banking, insurance, investment firms);
- sound, decision-useful financial and non-financial reporting for stakeholders, investors, and all parties in the marketplace (directly or indirectly) affected by such reporting;
- a high degree of comparability of financial and non-financial reporting and auditing across different jurisdictions;
- sound and transparent financial and non-financial information and decision making on the part of governments and public sector organisations to their constituents;
- sound corporate governance and performance management in private and public sector organisations; and
- increased efficiency (ie less costly provision) and/or the minimisation of natural resource depletion in the production of goods and services, thereby enhancing the welfare of society by their greater availability and accessibility.

- ACCA (2007), Going Concern? A Sustainability Agenda for Action, <<http://www.accaglobal.com/content/dam/acca/global/PDF-technical/sustainability-reporting/tech-gc-001.pdf>>, accessed 9 November 2015.
- ACCA (2008), Corporate Governance and the Risk Management Agenda, <<http://www.accaglobal.com/content/dam/acca/global/PDF-technical/corporate-governance/tp-cga.pdf>>, accessed 9 November 2015.
- ACCA (2009), The Future of Financial Regulation, <[http://www.nctbpu.org.ua/pdf/analytics/The\\_Future\\_of\\_Financial\\_Regulation.pdf](http://www.nctbpu.org.ua/pdf/analytics/The_Future_of_Financial_Regulation.pdf)>, accessed 9 November 2015.
- ACCA (2010a), Risk and Reward: Tempering the Pursuit of Profit, <<http://www.accaglobal.com/content/dam/acca/global/PDF-technical/corporate-governance/tech-afb-rar.pdf>>, accessed 9 November 2015.
- ACCA (2010b), Improving Public Sector Financial Management in Developing Countries and Emerging Economies, <<http://www.accaglobal.com/content/dam/acca/global/PDF-technical/public-sector/tech-af-ipfsm.pdf>>, accessed 9 November 2015.
- ACCA (2010c), Sustainability Reporting Matters: What are National Governments Doing About It? <<http://www.accaglobal.com/content/dam/acca/global/PDF-technical/sustainability-reporting/tech-tp-srm.pdf>>, accessed 9 November 2015.
- ACCA (2010d), Restating the Value of Audit, <<http://www.accaglobal.com/content/dam/acca/global/PDF-technical/audit-publications/pol-pp-rva2.pdf>>, accessed 9 November 2015.
- ACCA (2011a), Guide to... Whistleblowing Procedures, <<http://www.accaglobal.com/uk/en/technical-activities/technical-resources-search/2011/january/guide-whistleblowing.html>>, accessed 9 November 2015.
- ACCA (2011b), Parliamentary Financial Scrutiny in Hard Times, <<http://www.accaglobal.com/content/dam/acca/global/PDF-technical/public-sector/tech-tp-pfs.pdf>>, accessed 22 December 2015
- ACCA (2011c), 12 tenets of tax, <<http://www.accaglobal.com/content/dam/acca/global/PDF-technical/tax-publications/ea-12-tenets-of-tax.pdf>>, accessed 03 February 2016.
- ACCA (2012a), Closing the Value Gap: Understanding the Accountancy Profession in the 21st Century, <<http://www.accaglobal.com/content/dam/acca/global/PDF-technical/other-PDFs/tech-tp-ctvg.pdf>>, accessed 22 December 2015.
- ACCA (2012b), The Rules for Risk Management: Culture, Behaviour and the Role of the Accountant, <[http://www.accaglobal.com/content/dam/acca/global/PDF-technical/corporate-governance/tech-afb-rrm\\_exec2.pdf](http://www.accaglobal.com/content/dam/acca/global/PDF-technical/corporate-governance/tech-afb-rrm_exec2.pdf)>, accessed 22 December 2015.
- ACCA (2013), The Importance of Strategic Financial Leadership in the UK Public Sector in a Time of Financial Austerity, <<http://www.accaglobal.com/content/dam/acca/global/PDF-technical/public-sector/tech-tp-tiosfl.pdf>>, accessed 9 November 2015.
- ACCA (2015a), Foundations for a sound tax system: simplicity, certainty and stability, <<http://www.accaglobal.com/content/dam/acca/global/PDF-technical/tax-publications/ea-tax-fundamentals.pdf>>, accessed 28 September 2015.
- ACCA (2015b), Consolidated Government Accounts – How are they Used?, <[http://www.accaglobal.com/content/dam/ACCA\\_Global/Technical/pubsect/ea-consolidated-government-accounts-v4.pdf](http://www.accaglobal.com/content/dam/ACCA_Global/Technical/pubsect/ea-consolidated-government-accounts-v4.pdf)>, accessed 9 November 2015.
- Audit Commission (2009), Promoting High Standards of Governance and Accountability, accessed 18 November 2010.
- Bloomfield, J. (2006), Controlling, Cajoling or Co-operating? Central Governments' Policy Approaches Towards Local Government on the Issues of Performance and Cost Effectiveness (Birmingham: Institute of Local Government Studies for the Council of European Municipalities and Regions) <[http://www.ccre.org/docs/broch\\_Bloomfield.pdf](http://www.ccre.org/docs/broch_Bloomfield.pdf)>, accessed 22 December 2015.
- Broadbent, J. and Guthrie, J. (2008), 'Public Sector to Public Services: 20 years of 'Contextual' Accounting Research', *Accounting Auditing and Accountability Journal*, 21 (2), 129–69, <[https://www.researchgate.net/publication/227428852\\_Public\\_Sector\\_to\\_Public\\_Services\\_20\\_Years\\_of\\_Contextual\\_Accounting\\_Research](https://www.researchgate.net/publication/227428852_Public_Sector_to_Public_Services_20_Years_of_Contextual_Accounting_Research)>, accessed 22 December 2015.
- Brundtland, G. (1987), Our Common Future: The World Commission on Environment and Development (United Nations), <<http://www.un-documents.net/our-common-future.pdf>>, accessed 22 December 2015.
- Centre for Public Scrutiny, About Us, <<http://www.cfps.org.uk/about>>, accessed 2 February 2016.
- European Audit Regulation (EU/537/2014) <[http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L\\_.2014.158.01.0077.01.ENG](http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2014.158.01.0077.01.ENG)> and Directive (2014/56/EU) <<http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32014L0056>>, accessed 5 February 2016.
- FEE (2010), Policy Statement, Sustainability in the Public Sector (Brussels), <[http://www.fee.be/images/PS\\_100107\\_-\\_Sustainability\\_-\\_Accountants\\_driving\\_sustainable\\_changes\\_in\\_the\\_public\\_sector.pdf](http://www.fee.be/images/PS_100107_-_Sustainability_-_Accountants_driving_sustainable_changes_in_the_public_sector.pdf)>, accessed 22 December 2015.
- Financial Reporting Council (2014), *Guidance on Risk Management, Internal Control and Related Financial and Business Reporting* <<https://www.frc.org.uk/Our-Work/Publications/Corporate-Governance/Guidance-on-Risk-Management,-Internal-Control-and.pdf>>, accessed 4 February 2016.
- Gough, R. (2009), *With a Little Help from Our Friends* (London: Localis) <[http://www.localis.org.uk/images/articles/jan%2009\\_with%20a%20little%20help%20from%20our%20friends.pdf](http://www.localis.org.uk/images/articles/jan%2009_with%20a%20little%20help%20from%20our%20friends.pdf)>, accessed 22 December 2015.
- GRI (2005), Sector Supplement for Public Agencies, Pilot Version 1.0, <<https://www.far.se/PageFiles/1990/PUBLICAGENCISSSECTORSUPPLEMENTPILOT.PDF>>, accessed 22 December 2015.
- GSDRC (Governance and Social Development Resource Centre) (2009), *Public Financial Management and Accountability*, <<http://www.gsdr.org/category/governance/public-sector-management/public-financial-management-and-accountability/>>, accessed 22 December 2015.
- HM Treasury (2010), *Total Place: A Whole Area Approach to Public Services* (London: The Stationary Office), <[http://webarchive.nationalarchives.gov.uk/20130129110402/http://www.hm-treasury.gov.uk/d/total\\_place\\_report.pdf](http://webarchive.nationalarchives.gov.uk/20130129110402/http://www.hm-treasury.gov.uk/d/total_place_report.pdf)>, accessed 22 December 2015.
- IFAC (2010), *Handbook of International Public Sector Accounting Pronouncements, Volume 1*, <<https://www.ifac.org/publications-resources/2010-handbook-international-public-sector-accounting-pronouncements>>, accessed 22 December 2015.
- IFAC (2012a), Letter to the G-20, April 18, New York, <<https://www.ifac.org/news-events/2012-04/ifac-urges-g-20-take-action-against-inconsistent-unreliable-public-sector-financ>>, accessed 22 December 2015.
- IFAC (2012b), Policy Position 5, A Definition of the Public Interest, <<http://www.iasplus.com/en/othernews/ifac/2012/ifac-issues-policy-position-paper-5-a-definition-of-the-public-interest>>, accessed 9 November 2015.
- IFAC and CIPFA (Chartered Institute of Public Finance and Accountancy) (2014), *International Framework: Good Governance in the Public Sector*, <<http://www.cipfa.org/policy-and-guidance/standards/international-framework-good-governance-in-the-public-sector>>, accessed 22 December 2015.
- IIA (2012), 'Value Proposition of Internal Auditing and the Internal Audit Capability Model' <<https://na.theiia.org/standards-guidance/Public%20Documents/SG%20-%20Value%20Proposition%20of%20IA%20and%20the%20IA%20Capability%20Model.pdf>>, accessed 9 December 2015.
- IMF (International Monetary Fund) (2014), *Government Finance Statistics Manual*, <<https://www.imf.org/external/Pubs/FT/GFS/Manual/2014/gfsfinal.pdf>>, accessed 22 December 2015.
- IMF (International Monetary Fund) (2014), *Code of Good Practices on Fiscal Transparency* (2007), <<http://www.imf.org/external/np/fad/trans>>, accessed 9 November 2015.



- Independent Commission on Good Governance in Public Services (2005), *The Good Governance Standard for Public Services* (London: Hackney Press Ltd), < <http://www.opm.co.uk/wp-content/uploads/2014/01/Good-Governance-Standard-for-Public-Services.pdf>>, accessed 22 December 2015.
- INTOSAI (2013), *The Value and Benefits of Supreme Audit Institutions – Making a Difference to the Lives of Citizens*, <<http://www.intosai.org/issai-executive-summaries/view/article/issai-12-the-value-and-benefits-of-supreme-audit-institutions-making-a-difference-to-the-liv.html>>, accessed 28 September 2015.
- IPSASB (International Public Sector Accounting Standards Board) (2013a), *Recommended Practice Guideline 1 - Reporting on the Long-Term Sustainability of an Entity's Finances*, <<https://www.ifac.org/publications-resources/recommended-practice-guideline-reporting-long-term-sustainability-public-sect>>, accessed 9 November 2015.
- IPSASB (2013b), *Recommended Practice Guideline 2 (RPG 2) on Financial Statement Discussion and Analysis*, <<https://www.ifac.org/publications-resources/recommended-practice-guideline-2#node-21407>>, accessed 9 November 2015.
- IPSASB (2015a), *Recommended Practice Guideline (RPG) 3, Reporting Service Performance Information*, <<https://www.ifac.org/publications-resources/recommended-practice-guideline-3>>, accessed 9 November 2015.
- IPSASB (2015b), *Recognition and Measurement of Social Benefits*, consultation paper, July 2015, <<https://www.ifac.org/publications-resources/recognition-and-measurement-social-benefits>>, accessed 9 November 2015.
- NAO (National Audit Office) (2008), *Managing Financial Resources to Deliver Better Public Services* (London), <<https://www.nao.org.uk/report/managing-financial-resources-to-deliver-better-public-services/>>, accessed 22 December 2015.
- NAO (National Audit Office) (2014), *Progress in improving financial management in government* (London) < <https://www.nao.org.uk/report/progress-in-improving-financial-management-in-government/>>, accessed 22 December 2015.
- Nolan (1995), *Standards in Public Life*, First report of the committee on standards in public life, Vol. 1 (London: HMSO), <[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/336919/1stInquiryReport.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/336919/1stInquiryReport.pdf)>, accessed 22 December 2015.
- OECD (2003), *Managing Conflict of Interest in the Public Service*, <<http://www.oecd.org/gov/ethics/48994419.pdf>>, accessed 22 December 2015.
- OECD (2010), *Transparency and Integrity in Lobbying*, <<http://www.oecd.org/gov/ethics/Lobbying-Brochure.pdf>>, accessed 22 December 2015.
- OECD (2014a), *Boosting Resilience through Innovative Risk Governance*, [http://www.oecd-ilibrary.org/governance/boosting-resilience-through-innovative-risk-management\\_9789264209114-en](http://www.oecd-ilibrary.org/governance/boosting-resilience-through-innovative-risk-management_9789264209114-en), accessed 5 February 2016.
- OECD (2014b), *Glossary of Statistical Terms, Public Sector*, <<https://stats.oecd.org/glossary/detail.asp?ID=2199>>, accessed 9 November 2015.
- OECD (2015), *Principles of Corporate Governance*, <<http://www.oecd.org/daf/ca/Corporate-Governance-Principles-ENG.pdf>>, accessed 22 December 2015.
- Parry, M. (2010), 'The Four Dimensions of Public Financial Management', <[file:///C:/Users/ThompsB/Downloads/pfm\\_4\\_dimensions.pdf](file:///C:/Users/ThompsB/Downloads/pfm_4_dimensions.pdf)>, accessed 22 December 2015.
- Rose, A. (2003), *Results-orientated Budget Practice in OECD Countries*, (London: Overseas Development Institute) < <http://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/2035.pdf>>, accessed 22 December 2015.
- Stiglitz, J.E., Sen, J.E. and Fitoussi, J.P. (2009), *Report by the Commission on the Measurement of Economic Performance and Social Progress* (France: Commission on the Measurement of Economic Performance and Social Progress), < [http://www.insee.fr/fr/publications-et-services/dossiers\\_web/stiglitz/doc-commission/RAPPORT\\_anglais.pdf](http://www.insee.fr/fr/publications-et-services/dossiers_web/stiglitz/doc-commission/RAPPORT_anglais.pdf) >, accessed 22 December 2015.
- Theodoropoulou, S. and Zuleeg, F (2009), *What do Citizens Want: Well-being Measurement and its Importance for European Social Policy-making* (Brussels: European Policy Centre), <[http://www.epc.eu/documents/uploads/601674494\\_EPC%20Issue%20Paper%2059%20-%20What%20do%20citizens%20want.pdf](http://www.epc.eu/documents/uploads/601674494_EPC%20Issue%20Paper%2059%20-%20What%20do%20citizens%20want.pdf)>, accessed 22 December 2015.
- Trading Economics, *Government debt to GDP*, <<http://www.tradingeconomics.com/country-list/government-debt-to-gdp>>, accessed 25 January 2016.
- Transparency International (2011), *Corruption Perceptions Index 2011*, <<https://www.transparency.org/cpi2011/results>>, accessed 22 December 2015.
- World Bank (2005/2011), *PEFA (Public Expenditure and Financial Accountability) 2005, updated 2011 'Public Financial Management Performance Measurement Framework'*, <[http://www.pefa.org/sites/pefa.org/files/attachments/PMFEng-finalSZreprint04-12\\_1.pdf](http://www.pefa.org/sites/pefa.org/files/attachments/PMFEng-finalSZreprint04-12_1.pdf) >, 22 December 2015.
- World Bank (2012), *Annual Remuneration of Executive Management, Executive Directors and Staff*, <<http://siteresources.worldbank.org/EXTANNREP2013/Resources/9304887-1377201212378/9305896-1377544753431/Remuneration.pdf>>, accessed 9 November 2015.

**EA-PUBLIC-SECTOR-POLICY**