



PUBLIC SECTOR ACCOUNTING

A. Institutional Framework for Public Sector Accounting

5. The institutional framework should include adherence to IFAC-issued International Accounting Standards. And it should support the groundwork for qualified accounting staff to provide the timely, relevant, and reliable financial information needed to support all fiscal and budget management, decision-making, and reporting processes. The diagnostic questionnaires that were used in this assessment collected information on the current arrangements and the apparent gaps in Maldives for accounting laws and regulations; education and training of public sector accountants; application of a code of conduct; and numbers and characteristics of public sector accountants.

(1) Accounting Laws and Regulations

6. **The Public Finance Act and the Financial Regulations are prescriptive about the maintenance and compilation of accounts but make no mention of International Accounting Standards.** The Public Finance Act (see Annex C) should require conformance with International Public Sector Accounting Standards (IPSAS). However, under the Public Finance Act, there are proposed rules that would promulgate the allowance of IPSAS to be followed. The future accounts should be based on Cash Basis IPSAS with notes providing other information on assets, liabilities, and contingent liabilities as required by the Public Finance Act. Progression to accrual-based statements would occur as adequate computerized accounting systems are rolled out.

7. **A modern financial reporting framework is required for better accountability.** The accounting function has been located in the Treasury. However, this has not provided a good separation of duties among departments. As new computerized public accounting systems are implemented, more suitable accounting units must be established, preferably in the ministries. Producing annual audited accounts within each government department will hold senior departmental managers accountable for their operations and use of budget funds. Development of the computerized accounting system has a tight timeline requiring intensive efforts for meeting the targets. The World Bank will provide the Ministry of Finance and Treasury with technical advice on the progressive design and implementation of the computerized public accounting system.

(2) Education and Training

8. **Better opportunities for educating and training government accountants should be developed.** Government accountants are recruited with limited accounting knowledge due to the lack



of proper curricula in universities. Government accountants need exposure and training in international accounting standards from professional institutions. Many training institutions provide a foundation for public sector accountancy qualifications of international standards, on an outreach basis. There is no comprehensive local training institution in Maldives, but the professional certification offered by the UK Association of Chartered Certified Accountants is available locally up to Stage 2. These professional accounting outreach programs will provide the core competencies needed for public sector accounting and reporting.

9. A training program that meets the IFAC-issued International Education Standards (IES) for Professional Accountants is needed for the public sector accountants and auditors.

Consideration should be given in due course to adopting the public sector program of institutes like the Chartered Institute of Public Finance and Accountancy (CIPFA) in United Kingdom. This course can be adapted for local conditions and would provide a path for sustained, improved training. The advantage of this is that the CIPFA learning materials take into account international audit and accounting standards as required for adoption by public sector organizations. Among the CIPFA learning materials are modules covering financial reporting, accounting for decision-making, financial management, law and taxation, and information systems management.

10. The Ministry of Finance and Treasury needs to develop training plans. There is a need for constant upgrading of training for government accountants in the requirements of the Public Finance Act and the Public Financial Regulations and in the standards for preparing financial statements.

(3) Code of Ethics

11. A code of ethics is needed to improve financial compliance and build the professionalism of the government accounting staff. The current code in practice is part of the government employment contract and relates to public service behaviour. It has little relevance to the IFAC Code of Ethics for Professional Accountants. A strongly directed code of ethics could help build public support that would aid in improving the state of public financial management in the country. The IFAC Code of Ethics should be the model used in preparing the national code.

12. The training programs should include ethics training and how the code ensures proper behaviour. With certification under the professional qualifications outreach programs, accounting staff will be required to follow a code of ethics and conduct. For example government accountants who are accepted into membership of professional institutes — whether as affiliates (for the Diploma holders) or as qualified accountants (for those who complete the full professional qualification) — would be required to abide by the code of ethical standards of the respective institute, which is based on the IFAC Code.

(4) Public Sector Accountant Arrangements

13. The preparation of financial statements for each ministry requires a system of internal control. For each public sector body that prepares annual accounts, there should be a professionally qualified chief financial officer function.⁶ The person in this position would be responsible for maintaining

⁶ A financial controller for the Government was appointed in March 2006, as required under the recently enacted Public Finance Act 2005.

systems of internal financial controls that manage risks, and for preparing the accounts for signature by the chief accounting officer. The need to produce financial statements for each ministry would require well-working systems of internal financial controls. At the present time audit results are not being translated sufficiently into remedial action. The Public Finance Act provides for an accountable officer (with the functions of a chief financial officer) for each ministry. The duties of the accountable officer are yet to be defined in the Public Finance Instructions, but they should include the following functions:

- maintain systems of internal financial controls that manage risks,
- ensure that accounting and financial approval duties are properly carried out,
- ensure that the staff perform their duties in accordance with the Public Finance Instructions,
- prepare regular financial accounts,
- maintain the chart of accounts,
- ensure the most appropriate technological support for financial management practices,
- manage training and education needs for financial management,
- report on key performance indicators, and
- assist program managers in developing an effective financial approach to the delivery of expected outcomes.

B. Accounting Standards as Practiced

14. The diagnostic questionnaires have collected information on the current arrangements and the apparent gaps for setting public sector accounting standards and for presenting financial reports. Out of this exercise came recommended activities that will help bring local standards in line with international standards.

(1) Setting Public Sector Accounting Standards

15. **More formal administrative actions should be taken by the Auditor General to set public sector accounting standards.** Under the Constitution, the accounts of the State are kept and maintained in such form and manner as prescribed by the Auditor General in consultation with the President of Maldives. The Public Finance Act sets the form of the annual accounts but does not specify the accounting standards required in preparing financial statements. The Auditor General should advise the President that Cash Basis IPSAS should be used as the international accounting standard in preparing financial statements with a road map to move to full accrual-based reporting over a period of time.

(2) Presenting Financial Reports

16. **Annual financial statements should be prepared in accordance with Cash Basis IPSAS, with some early planning for effecting a transition to adopt accrual-based IPSAS.** The current annual reporting statements do not accord with the format of the Cash Basis IPSAS but steps should be taken that allow them to do so in the future. The Auditor General should hold discussions with the Ministry of Finance and Treasury to arrange for the setting of standards in a formal manner and to reach an agreement that future accounts be presented in the format of Cash Basis IPSAS. Also

consolidation of controlled entities into the cash basis statements as per I.6.5 of the Cash Basis IPSAS (e.g. public enterprises) should be considered.

17. State-owned enterprises should comply with new governance requirements established by the Public Enterprise Monitoring Board. State-owned enterprises follow International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB) which require that the financial accounts should be produced annually within three months of the year-end, in accordance with good accounting practice, and should include the following:

- Profit and loss accounts for the year.
- Cash flow statements for the year.
- Balance sheet showing the position at year end.
- Notes to support the financial accounts that set out the company's accounting policies and the main components of the accounts as required by good practice. The financial accounts should also be accompanied by a director's report that details financial activities of the company in the past and future.

18. **All government bodies should be required to make all audited accounts available to the public.** At present few accounts are available publicly, and governance requirements about the public availability and transparency requirements for these annual accounts should be made clearer.

19. **The Auditor General should arrange consultations with the accountancy professions in the neighboring countries to consider ways of establishing similar professional accountancy arrangements in the Maldives.** The Public Enterprise Monitoring, which receives the audited accounts of state-owned enterprises, notes that in a few cases there have been audit qualifications to the accounts that have mainly been related to assets issues. This is one example of accounting problems that exist in the Maldives. The country does not have a professional accountancy body to help regulate and support the profession. Other countries in the Region have larger numbers of professionals and operate professional bodies to regulate and support the accountants. The level of professionalism in the Maldives may be improved by regional consultations and cooperation to develop similar arrangements in the country.

