Accrual accounting in the public sector: An ongoing journey towards good evaluation of public finances - Case of Morocco

Moussa AIT EL HADJ, (PhD Student)
Faculty of Economics and Management- Kénitra
Ibn Tofail University, Kenitra

Correspondence address:
Ibn Tofail University Morocco
Campus universitaire, Kénitra.
Zip code : 14000
Tel : 05 37 32 92 18

Disclosure Statement:
Author is not aware of any findings that might be perceived as affecting the objectivity of this study

Conflict of Interest:
The author report’s no conflicts of interest.

Cite this article:

License
This is an open access article under the CC BY-NC-ND license

Received: August 31, 2022
Published online: October 06, 2022
Accrual accounting in the public sector: An ongoing journey towards good evaluation of public finances - Case of Morocco

Abstract

The emergence of a culture of performance evaluation in the public sector requires states to adopt new management techniques that allow reasonable assurance on different financial transactions and lead a number of developed countries to achieve the ultimate goal of general accounting, which is the true, fair and faithful image of all accounting and financial transactions of the State. In doing so, Morocco has started preparing to switch to accrual accounting since 2008; the Kingdom's General Treasury has of course carried out this project with the support of the Ministry of Economy and Finance. The objective of this transition from cash to accrual accounting is to develop a culture of evaluation of public finances. In addition, accrual accounting plays an important role as a key element to provide stakeholders with reliable information and in real-time on the financial and accounting situation of public accounts as well as on the fair value of the State's assets. Thus, the goal of this paper is to put forward the state of play and to analyze the process of accrual accounting implementation as well as providing indicators for public finance management strategies.

After carrying out a literature review on the different concepts studied (new public management and accrual accounting in the public sector). We conducted an empirical study of the data collected from semi-directive questionnaire as well as our experience as professional in the General Treasury of the kingdom. After an analysis of the results, we concluded that accrual accounting plays an important role insofar as it allows us to build a reliable and sincere bank of numerical data on the financial transactions of the State; apart from the difficulties encountered during the implementation phase, the effective involvement of all stakeholders and the discrepancy between the different parts of the public sector in Morocco.

Keywords: Cash accounting, Accrual accounting, Public finances, Public sector.
JEL Classification: E01, H83, M41
Paper type: Empirical research

Résumé

L'émergence d'une culture de l'évaluation de la performance dans le secteur public oblige les États à adopter de nouvelles techniques de gestion qui permettent une assurance raisonnable sur les différentes transactions financières et conduisent un certain nombre de pays développés à atteindre l'objectif ultime de la comptabilité générale, qui est l'image vraie, juste et fidèle de toutes les transactions comptables et financières de l'État. Ce faisant, le Maroc a commencé à se préparer à passer à la comptabilité d'exercice depuis 2008; la Trésorerie Générale du Royaume a bien sûr réalisé ce projet avec le soutien du Ministère de l'Économie et des Finances. L'objectif de ce passage de la comptabilité de caisse à la comptabilité d'exercice est de développer une culture d'évaluation des finances publiques. En outre, la comptabilité d'exercice joue un rôle important en tant qu'élément clé pour fournir aux parties prenantes des informations fiables et en temps réel sur la situation financière et comptable des comptes publics ainsi que sur la juste valeur des actifs de l'État. Donc, l'objectif de cet article est de présenter l'état des lieux et d'analyser le processus de mise en œuvre de la comptabilité d'exercice ainsi que de fournir des indicateurs pour les stratégies de gestion des finances publiques. Après avoir effectué une revue de la littérature sur les différents concepts étudiés (nouvelle gestion publique et comptabilité d'exercice dans le secteur public). Nous avons mené une étude empirique des données recueillies à partir de questionnaire semi-directif ainsi que de notre expérience en tant que professionnel de la Trésorerie Générale du royaume. Après une analyse des résultats, nous avons conclu que la comptabilité d'exercice joue un rôle important dans la mesure où elle nous permet de constituer une banque fiable et sincère de données numériques sur les transactions financières de l'État; outre les difficultés rencontrées lors de la phase de mise en œuvre, l'implication effective de toutes les parties prenantes et le décalage entre les différentes parties du secteur public au Maroc.

Mots clés : Comptabilité de caisse, Comptabilité d'exercice, Finances publiques, Secteur public
Classification JEL : E01, H83, M41
Type de l'article : Recherche appliquée

www.ijafame.org
1. Introduction

Over the last 11 years, numerous changes have taken place in Morocco such as the new constitution in 2011, advanced regionalization and modernization of public administration which is collectively categorized as New Public Management, these changes often include a move from a Cash-based on an Accrual-based accounting system in the belief that this will provide more appropriate information for decision-makers; to achieve a more businesslike and performance-focused public sector. According to (Hyndman and Connolly, 2011), the movement from cash to accrual accounting by many governments is viewed as an idea of an ongoing New Public Management agenda designed to reach a more businesslike and performance-focused public sector. Accrual accounting normally provides more appropriate data for decision-makers and eventually helps in having a more effective public sector.

The Cash-based is a method of accounting for small businesses where income is not counted until cash or a check is received, actually and expenses are not counted until they are paid, practically. Under the accrual method, all financial transactions are counted when the order is made, the goods or services are delivered, regardless of when the receivables are received or payments are getting paid. In other words, income is considered when the sale happens, and expenses are counted when we receive the goods or services and we do not need to wait until we see the money, or make the necessary payments record a transaction.

Accrual accounting is an essential element in the management of public funds. From this comes the need to focus on its implementation at the state level. Before implementing any major project, Moroccan authorities have tried to learn from the experience of similar countries; so how did the Moroccan State proceed to the implementation of this new management mode inspired by the IPSAS standards, the specificities of the State and the General Code of Accounting Standardization of Moroccan companies? And how did it react to the obstacles during the implementation of this new accounting system? Then what will be the usefulness after having implemented this large-scale project?

The bottom line of this article is to shed light on the transition from a cash account to accrual account, and how this transition has taken place in public administration of Morocco.

2. General framework of State accounting

2.1. Theoretical basis for accrual accounting in the public sector

Public sector has been the subject of many topics and research in order to make its management better, because, recently it is the subject of several criticisms in particular the tools and the technique of management which are very obsolete and unable to fulfill the ambitious of New Public Management (NPM). The prevalent reform movement well-known as New Public Management has pushed many countries to assess their accounting system and structures, frequently by adopting and getting inspired by managerial innovations from the business sector. Accrual accounting is one of these innovations and considers as a key fundamental to achieve NPM principles: efficiency, effectiveness, transparency and accountability (Parker and Guthrie.1990; Pallot, 1992; 1994; Mellett, 1997; Lapsley, 1998; Likierman. 2000; Lapsley and Oldfield, 2001; Lye et al; 2005).

Many studies seem to contend to discover an appropriate theoretical basis. Jacobs (2016), in his article on the Theoretical basis of public sector accounting, he tried to identify four Theoretical basis used by public sector accounting studies: accountability theory, New Public Management theory, critical theory, and neo-institutional theory. All of these theories, although very famous and widely recognized, have some substantial drawbacks in terms of applying them to researches and studies on IPSAS. Due to the lack of Theoretical basis of public sector accounting, many researchers consider that the concept of theorization in public
sector accrual accounting had long been ignored by academics and practitioners Jacobs (2012,2016), Goddard (2010), broadbent and Guthrie (1992) and Lapsley (1988). In addition, Andreas Bergmann, Sandro Fuchs & Christoph Schuler (2019), suggest and argue to use the IPSAS conceptual framework as the starting point to a new theoretical approach so as to better implement the profound implication of public sector accrual accounting.

Accrual accounting of the public sector is an area that is substantially changing to a new culture of accounting in public administration. Based on studies published by the International Monetary Fund (IMF), 41 national governments had finished the shifting towards accrual accounting, while 46 countries were on the ongoing implementation from cash to accrual basis. Hardly, 114 countries still operate under pure cash accounting standards (IMF,2016). By 2018, according to the International Federation of Accountants (IFAC) and the Chartered Institute of Public Finance and Accountancy (CIPFA) revealed that on a global scale, 30 countries had adopted IPSAS directly and another 32 were using IPSAS as the key reference for their public sector accrual accounting standards (IFAC/ CIPFA, 2018).

Technically speaking, Morocco has inspired from three basic sources to adopt and implement accrual accounting in the public sector: Firstly, they have triggered from the business sector through the general code of accounting standards in Morocco. What is more, they have taken into consideration even the principles of private accounting except historical cost and business continuity principal. Secondly, they have kept some principles and techniques related to the public sector in order to preserve the specificities of the Moroccan State. Thirdly, they based on IPSAS as the majority part of the theoretical basis of accrual accounting in Morocco, namely in terms of norms and principles as well.

2.2 Definition of State accounting

State accounting belongs as a legal discipline to public law, and as a technical discipline to financial management. On the legal side, public accounting is seen as a set of legal rules governing the financial operations of public bodies; from a technical point of view, it is seen as a set of accounting rules for recording and classifying the aforementioned financial operations. These are approaches adopted by the Royal Decree n° 330-66 of April 21, 1967, on the general regulation of public accounting, which constitutes the basic text governing public accounting in Morocco.

State accounting is defined as the set of rules that govern the financial operations of the State, local authorities as well as their establishments, and the groupings that determine the obligations and responsibilities of the agents in charge of them.

2.3 Organization of the State's accounting system

State accounting is organized around general and budgetary accounting. However, the budgetary accounting system includes, for its part, an administrative accounting system, kept by the State's authorizing officers and sub-ordinators, and a treasury accounting system, kept by the State's public accountants, as well as a treasury accounting system that includes the accounting of money, materials, securities, and titles. On the other hand, the general accounting is kept by the public accountants, which makes it possible to monitor both budgetary and treasury operations. It is organized in a public accounting manner, control of the regularity of operations of laws and regulations revenue intended to finance missions of general interest revenue collected by public authority procedures; to enable the results of the implementation of the budget act and the resulting cash transactions to be generated.

2.4 Cash Accounting Limits

Cash accounting has been considered a traditional financial reporting and accounting system in the public sector for many years. Even if it does not meet the requirements of transparency because it suffers from several shortcomings, it does not give a true picture of the
management of the State's assets. It must cease to be only a cash-based accounting system, because it ignores the recording and consideration of the State's obligation to take into account all its commitments, future and contingent liabilities, such as the pensions of civil servants although they are not to be paid Until later. The mishandling of liabilities through the non-registration of the trade payables, borrowings, purchases, expenses and personnel expenses from the time they are incurred; fixed assets do not exist and are treated as capital expenditures, they are not subject to depreciation as they are deemed to be consumed in the same fiscal year, which allows for all excesses, all frauds.

2.5 Objectives of the State's accounting system

The general objective of the State's accounting system is to give priority to a true and fair view of the patrimony and the financial situation. While the old cash-based accounting system is maintained for the day-to-day recording of income and expenditure ("traditional budgetary approach"), it is the general accounting system, accrual accounting on an accrual basis, which becomes the pivot of the new system. It is kept in an integrated manner with the budgetary accounts. Here in lies the great innovation from the accounting point of view. The introduction of general accounting has enabled the government to control and regulate financial information, and to be useful, a few principles had to be respected.

Figure n°1: Principles of accrual accounting in public sector

3. Empirical study

3.1 Data and Methodology:

The sample is made up of 8 practitioners (Table1), which present different positions of public administration and its components as well. As this research is part of an exploratory approach, the approach based on my experience in the General Kingdom of Treasury. This research orientation, which is not free of methodological bias, nevertheless allows for the generation of
initial results that can be validated later through a semi-directive interview guide with the various actors involved in the transition to the new State accounting system. The scientific protocol consisted of qualitative studies carried out with the managers of accounting, revenue and expenditure departments in different organizations. The variety encountered, both in terms of the function of the actors (head of the accounting quality department, management controllers, administrative and financial managers, public procurement approval officer, expenditure and revenue manager) and in terms of the legal status and activity of the organization, makes it possible to enrich the analysis despite the limits of such an approach, particularly in terms of generalization, since a few interviews are obviously not enough to build solid proposals. However, the subject deserves much more in-depth reflection in order to be able to apply a content analysis.

_Table 1: describes the characteristics of this sample._

<table>
<thead>
<tr>
<th>Interview number</th>
<th>Location of the entity</th>
<th>Line of business</th>
<th>Number of interviewee</th>
<th>Interviewee's position</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Headquarters of the General Treasury of the Kingdom. Rabat</td>
<td>Public accountant of the State. Execution of the finance law through the collection of public debts and the payment of expenses</td>
<td>1</td>
<td>Head of the accounting quality department</td>
</tr>
<tr>
<td>2</td>
<td>University Hospital of Marrakech</td>
<td>The Hospital provides tertiary level care. In this respect, it offers current and specialized medical and surgical services in emergency and or in programmed activities</td>
<td>2</td>
<td>management controller and accounting department manager</td>
</tr>
<tr>
<td>3</td>
<td>University Hospital of Fes</td>
<td>The Hospital provides tertiary level care. In this respect, it offers current and specialized medical and surgical services in emergency and or in programmed activities</td>
<td>1</td>
<td>accounting technician</td>
</tr>
<tr>
<td>4</td>
<td>Territorial community of Chefchaouen</td>
<td>The municipality is responsible, within its territorial jurisdiction, for providing local services to citizens, within the framework of the competencies assigned to it. There are its own competences, competences shared with the State and competences transferred to it by the latter.</td>
<td>2</td>
<td>Steward of the municipality</td>
</tr>
<tr>
<td>5</td>
<td>Provincial Treasury of Chefchaouen</td>
<td>public accountant of financial district of the province of Chefchaouen, management of local finances of more than 26 territorial communities as well as the execution of public expenses and the recovery of public debts</td>
<td>2</td>
<td>Administrator</td>
</tr>
</tbody>
</table>

_Source: Own compilation, based on interviews._
Interviews of varying length from one to two hours were conducted using a semi-structured interview guide that had different purposes:
- To respect the sequence of interviews from the general to the specific (hourglass technique);
- Modulate the themes and questions according to the specificities of each entity while preserving the objective of the interview;
- Identify the new orientation of public management systems;
- Identify the actions taken by the public authority before and during the implementation of accrual accounting;
- Define the determinants of these actions and the usefulness of implementing this new accounting in the public sector, which is generally characterized by non-market services.

These interviews are conducted remotely except for the General Treasury of the Kingdom which was organized in person. In addition, we opted for a manual transcription and it is a semi-directive interview that is characterized by an interactive and free conversation whose questions are related to an interview guide to pursue during the interviews.

4. Analysis of Results

As can be seen in the table above, we have chosen to analyze our result according to the themes and the entity that was the subject of the questionnaire. In addition, we have opted for the hourglass technique in order to clarify useful questions.

4.1 General Treasure of the kingdom

Interviewee number: 1 & 5

Theme 1: New Public Management:
New mode of management within the public sector was typically inspired by the private sector model. This leads us to begin our interview with the usefulness of new management in the public sector. Thus, interviewees have explained that there are two purposes behind the philosophy of NPM in Morocco. On the one hand, adopting the private sector management mode to the public sector in order to achieve efficiency, effectiveness and performance in the management of public funds. On the other hand, to follow the logic of international public finance governance while taking inspiration from the IPSASB standards in order to modernize public management; because management techniques within the public sector do not reflect the real state of the State's finances. For example, the old accounting system does not allow for transparency or completeness of the State's financial and accounting operations.

Theme 2: Organic law of the finance law 2015:
Purpose of this question relating to the Organic law of the finance law (OLFL) is to find out whether this law is able to meet the objectives of the new accounting given that it considers the legal framework of state accounting. Moreover, OLFL considered as a financial institution of public finances; this leads us to emphasize the importance of this law towards the new management in the public sector, and through this question, we have mentioned several sub-questions for instance: usefulness of the implementation of this law, difficulties encountered during the application phase and does it have a solid and transparent basis for the benefit of switching to accrual accounting. That’s to say, does it set the stage before and during the implementation of accrual-based accounting?

Throughout the answers of the interviewees, we discover that the new state accounting system recommended by OLFL 2015, it will make it possible to implement the new logic of results-based management through a comparative analysis of financial situations from multiple years of accrual accounting, and it will help stakeholders and citizens with a clear insight of financial statement in order to achieve performance in the public accounts.

Theme 3: Old accounting system:
Moussa AIT EL HADJI. Comptabilité d'exercice dans le secteur public : Un chemin continu vers une bonne évaluation des finances publiques-Cas du Maroc

Drawbacks of cash accounting and disability to fulfill the expectation of modern society based on transparency, sustainability of public finances and public accountability. This is a simplified accounting system that neglects the recognition of rights and obligations of the State. In addition, it does not take into consideration the effect of transactions, which is very important for auditors and assets concept of accounting and financial situation.

Theme 4: Changeover to the new accounting system:
We have mentioned this theme in the interview, because it is necessary to know the problems encountered by the stakeholders during the implementation of this new accounting logic. So, some troubles encountered in the transition to the new accounting system are: adaptation to a new public management, the cultural effect based on average management, the effect of the refusal to change, the difficulty of adapting the applications that are being put back in place (operational), the conduct of change, the ineffectiveness of the participatory approach and the lack of awareness.

Theme 5: Actions undertaken to implement accrual accounting:
Reducing the number of applications to facilitate the adaptation to the new information system of the State Accounting Plan, rationalizing the number of applications to avoid redundancy of the operations entered.

Concerning the delay noted during the implementation of this new accrual accounting, it is mainly due to the appropriation of the new accounting approach, the census of public domains and the training of information system users, then, the reluctance of the authorizing officers.

Theme 6: Ultimate objective of accrual accounting:
Accrual accounting can provide reasonable assurance on the transactions recorded and a faithful and more exhaustive view of the financial and asset situation of the State, therefore if the accounting principles and accounting quality criteria are properly applied. In addition, it can help the Court of Accounts with reliable information in real time so that it can judge and certify the state's accounts based on the clear and correct application of the state's standards; these standards will form the basis for the Court of Accounts' control of operations.

4.2 Public institution & Territorial community

Interviewee number: 2,3&4

Theme 1: New public management:
The new public management is simply the changeover of methods and practices from the private sector to the public sector in order to improve effectiveness, efficiency, performance and governance in the public sector; these are possible provided that there is a change management and communication plan to be able to successfully implement and mature over time.

Theme 2: OLFL 2015:
We can capitalize on the data from the new public accounting system to promote and succeed in the transition from means-based management to results-based management recommended by OLFL 2015; in order to make forecasts close to reality and improve the relevance of projects.

Theme 3: The old accounting system:
It is essential and a legal obligation. However, cash accounting is not able to meet the requirements of transparency and accountability, especially in the revenue component because; it is necessary to make the information reliable through the strengthening of the CI and budgetary IS. In addition, it does not meet the needs of certain stakeholders, namely suppliers (the absence of outstanding payments) and customers; moreover, this old accounting system encourages fraud and manipulation of public funds, especially for the expression of needs for grant applications.

Theme 4: The changeover to the new accounting system:
First of all, it is a legal obligation. Among the difficulties encountered at the time of transition to the new accounting system is the establishment of the initial balance sheet that translates the data of previous years as well as the documentary inventory. Regarding the actions undertaken to carry out this project, we can cite the solicitation of firms with experience in the implementation of accounting at the level of public institutions, the involvement of cash accounting teams with the teams that will ensure the maintenance of the general accounting. The purpose of this accounting is to correct the shortcomings of cash accounting through cross-checking and to strengthen internal control. 

Theme 5: The ultimate objective of the accrual accounting:
It is an essential element vis-à-vis the Court of Accounts in terms of the production of reliable, clear and real time information so that it can judge and certify the accounts provided that the general accounting is based on principles and rules that take into account several aspects, among others we can cite the fiscal aspect.

5. Discussion

Several of the finding reported here are coherent with those made by the previous literature. Our research results consist in presenting and demonstrating that whatever kind of reform in the public sector cannot be successful without having transparent basic accounting system. Therefore, this system is well associated with the measurement of the effectiveness and efficiency of public action. Thus, there is a need to gather the efforts of all stakeholders.

We also show that there is a strong relationship between, on the one hand, the level of implication of public servants (culture of change) and, on the other hand, the application of accrual-based accounting.

The new Constitution of 2011, the advanced regionalization process and the modernization of public administration that our country has seen enhance a new organization of public affairs management and the enshrinement of the principles of transparency, responsibility, and accountability.

The Moroccan State is composed of three elements: the State itself through the ministers and its agencies; then the local authorities and public institutions. so, if we want to check the state of progress in implementing accrual accounting, we can see that there has been a transition to accrual accounting that is almost complete at the state level, as it is abandoning the old accounting system and fully adopting accrual accounting while, the new system at the local government level is being developed, including the implementation of the local government chart of accounts.

But, beforehand, it is essential to create the conditions necessary for the implementation of this new management model, which itself remains dependent on the nature of the reforms that need to be undertaken and the tools that need to be appropriated.

Local governments must be able to accelerate the transition from cash to accrual accounting by emphasizing the coherence between national and local accounting systems because, from a practical point of view, there is no justification today for differentiating between the principles governing State accounting and those governing local government accounting. Besides, for the State to have a general overview of the nation's accounts, there must be a consolidation of the accounts of the territorial communities (TCs) to have an idea about the share of TCs in the public sector.

There are several reasons for this delay in the implementation of accrual accounting in the local governments; firstly, the TCs never have an accounting system, not even a cash accounting system, because they do not have sophisticated computer systems, and through the Kingdom's General Treasury, which has recently developed the Integrated Management of Expenditure System for expenditures and the Integrated Management of Revenue System for revenues for the State and the TCs as well. Secondly, TCs have a lack of staff, competence,
and computer tools. Thirdly, it is a question of financing: the State's share in TCs must be increased and then its own resources must be mobilized; and the presidents of the municipalities must be aware that the public sector must be managed as a private enterprise and not as a public entity whose purpose is to provide non-market services.

The implementation of a true accrual accounting system that gives priority to the recognition of the State's rights and obligations offers an opportunity to all those who want to know the services rendered by the State's productive apparatus to get a precise idea of the State's financial reality, with the ultimate objective of producing reliable and relevant accounting information for decision-makers. This accounting system, inspired by international best practices, will improve the quality of accounting information and a major overhaul of the public finance landscape in Morocco through the elaboration of summary reports, e.g: Balance Sheet presented in the form of a table of net equity; Income Statement presented in the form of a table including income, expenses and the balance of operations for the year; Cash Flow Statement and Notes to the Financial Statements.

Moreover, accrual accounting is a key instrument of good governance. To prepare performance indicators; elaborate dashboards; facilitate the evaluation of public actions then provide citizens and control bodies with transparent information on the State's finances and its heritage (develop a culture of accountability).

6. Conclusion

This paper has sought to shed some light on the government accounting that has taken place in the public sector of Morocco, the move from cash to accrual accounting has a good transition effects when it comes to the State itself Therefore, territorial communities should accelerate this change as well as the public establishment.

Accrual accounting is a management tool that will facilitate the recording of accounting and financial transactions to identify the State's assets and to measure its evolution, then to evaluate future constraints on the State's finances as well as to provide the data necessary for cost analysis accounting. Furthermore, it is the basis of all accounting and financial information related to the public sector and it must be relevant, exhaustive and timely, on condition that all components of the State must be at the same level of advancement to have a complete picture of the nation's accounts.

Moreover, the reform should not regarded as end in itself and, before this reform launched, cash accounting should be sturdy, audit and accountability must be able to call the executive to account.

This reform of State accounting requires the federation of efforts and the consolidation of data related to the components of the public sector (State, public institutions, and local authorities) to substantially improve financial information for the benefit of government, parliament, auditors, and citizens in particular.
References

(10) INTERNATIONAL MONETARY FUND. Fiscal Affairs Department; Implementing Accrual Accounting in the Public Sector 2016. Prepared by Joe Cavanagh, Suzanne Flynn, and Delphine Moretti.

www.ijafame.org