**DEFINITION OF TERMS**

Public Sector Accounting (ACC 310), introduced the simplest definition of ‘Public Sector’ is “all organisations which are not privately owned and operated, but which are established, run and financed by Government on behalf of the public.”

**Government** refers to the collection of public institutions established and given the authority to run the affairs of a country. It is a system of governance and includes the body of individuals who are authorised to administer the laws of a Nation.

**Government Accounting** refers to all the financial documents and records of public institutions that relate to the collection of tax payers‟ money, and the analysis, control of expenditure, administration of trust funds, management of government stores and all the financial responsibilities and duties of the relevant organs.

**Government accounting** includes the process of recording, analysing, classifying, summarising, communicating and interpreting financial information about Government in aggregate and in details, recording all transactions involving the receipt, transfer and disposition of public funds and property.

* **NATURE AND OBJECTIVES OF GOVERNMENT ACCOUNTING**

The objectives of Government accounting include the following:

(a) **To fulfil legal requirement**: The law requires that government accounts are prepared and audited annually.

(b) **To perform the stewardship function**: The ruling government is the steward of the resources and finances of the Nation. Government has to give account of how these finances are used.

(c) To enable Government to plan well the future activities and programmes of the Nation.

(d) To provide a process of controlling the use of the financial and other resources.

(e) To provide the means by which actual performance may be compared with the target set.

(f) To evaluate the economy, efficiency and effectiveness with which governance is carried out.

**PURPOSE OF PUBLIC SECTOR ACCOUNTING**

The purposes of Public Sector Accounting include:

1. Demonstrating the proprietary of transactions and their conformity with the law, established rules and regulations.
2. Measuring current performance.
3. Providing useful information for the efficient control and effective management of government operations.
4. Facilitating audit exercise to be carried out.
5. Planning future operations.
6. Appraising those in the authority, in efficiency and effectiveness

**OBJECTIVES OF PUBLIC SECTOR ACCOUNTING**

The main purposes of Public Sector Accounting are:

(a) Ascertaining the legitimacy of transactions and their compliance with the established norms, regulations and statutes.

(b) Providing evidence of stewardship.

(c) Assisting planning and control.

(d) Assisting objective and timely reporting.

(e) Providing the basis for decision-making.

(f) Enhancing the appraisal of the efficiency of management.

(g) Highlighting the various sources of revenue receivable and the expenditure to be incurred.

(h) Identifying the sources of funding capital projects.

(i) Evaluating the economy, efficiency and effectiveness with which Public Sector Organisations pursue their goals and objectives.

(j) Ensuring that costs are matched by at least equivalent benefits accruing therefrom.

(k) Providing the details of outstanding long-term commitments and financial obligations.

(I) Providing the means by which actual performance may be compared with the target set.

(m) Proffering solutions to the various bottlenecks and/or problems identified.

**Types of Public Sector Organizations**

Public sector organizations may exist at any of four levels:

* International (multistate entities or partnerships)
* National (an independent state)
* Regional (a province/state within a national state)
* Local (a municipal-level body such as a metropolis, municipality or district)

At any of these levels, the public sector generally consists of at least three types of organizations:

**Central government**consists of a governing body with a defined territorial authority.

Central government includes all departments, ministries, and agencies of the government that are integral parts of the structure, and are accountable to and report directly to the central authority — the legislature, council, cabinet, or executive head.

**Boards, Authorities, & Commissions**consist of public organizations that are clearly part of the government and deliver public programs, goods, or services, but that exist as separate organizations in their own right — possibly as legal entities — and operate with a partial degree of operational independence. They often, but not necessarily, are headed by a board of directors, commission, or other appointed body. Examples are Electoral commission, Mineral commission, Ghana Atomic Agency Commission, etc.

**Local government:**This is made up of the local authorities such as Metropolitan assemblies, Municipal Assemblies and District Assemblies.

**Public Sector Organisations exist for the following reasons:**

(i) To provide public goods and services to individuals and institutional consumers regardless of their ability to pay

(ii) To provide good and services whose investment capital is quite high and hence cannot be provided by the private sector or whose returns are low and therefore unattractive to the private sector, though necessary

(iii) To achieve a net social benefit rather than net profit so as to enhance equity of access to meeting needs of water, electricity, food, shelter, transport, health and communication, etc.

(iv) To correct inequalities which exist among various social classes and communities

(v) To influence future social, political, economic or financial environment for optimal growth of the economy.

* **WAYS BY WHICH GOVERNMENT CONTROL PUBLIC COMPANIES**

1. Government powers can be exercised through the appointment of Chief Executives and members of Boards of management
2. Government can exercise control by giving specific directions concerning prices production costs and social goals.
* Government uses the submission of annual reports as an opportunity to evaluate the performance of enterprises
1. Public companies need to obtain government approvals and guarantees for long term loans
2. Public companies need to obtain government approval for their annual budgets.
3. Government may specify the economic roles of state enterprises and the target rates of their return.

**TYPES OF INFORMATION PRODUCED BY PUBLIC SECTOR ORGANIZATIONS**

The information produced by public sector organizations is by no means static. The information has been limited only to the needs of the user. In general, we may categorize the different types of information generated by public sector organizations as:

**Statutory information:**These are mandatory information that public sector organizations are required to produce by virtue of laws the established them.

The Financial Administration Regulations (FAR) compels Ministries, Departments, and

Agencies (MDAs) to produce monthly, quarterly and annual report of their finances and operations.

**Financing information:**These are information demanded by donors and other funding agencies to be produced by public sector organization according to a stipulated format.

This information focuses accountability, performance evaluation, and objectivity on public interest of the programmes.

**Planning information:**Planning by spending agencies in Ghana is based on a medium term expenditure framework (MTEF) which operates on cash basis normally for a period of three years. All spending agencies are expected to prepare their budgets on this planning model and report on the progress of their planning, programming and budgeting schemes.

**Budgetary information:**Budgetary information relates to the utilization of budgets as instruments of national economic management, communicating the resource constraints to spending departments, reducing gaps between planned and actual expenditures and achieving better control of public expenditures.

**Control information:**Central control and monitoring of expenditure during a year is done by the treasury which provides regular reports on what has been spent and the estimated outturn of the year. Information for monitoring comes each month from the records of receipts and payments to the Consolidated Fund maintained by the treasury.

Control is exercised through cash limits that provide a system of government control of expenditure during the financial year.

**USERS OF PUBLIC SECTOR FINANCIAL INFORMATION**

|  |  |
| --- | --- |
| **Users**  | **Information Needs**  |
| Donor Community  | Whether organizational objects are pursued, and plans and targets are attainable  |
| Media  | How Government financial information impacts on all aspects of society  |
| Economic Planners  | Whether Government financial information are adequate and received timely for planning purposes  |
| Taxpayers  | The consequences of Government spending, whether they will result in improvements in their living standards and/or increase taxation or inflation  |
| Bankers and Lenders to Government  | The financial position of government especially its ability to pay loans and interest thereon and Governments ability to borrow money.  |
| Regulatory bodies  | Whether Government spending meets legal requirements and whether financial controls are adhered to by spending agencies  |
| Governments Economic Monitoring Authorities  | Whether there is deficit or surplus on current accounts the quantum, and whether to borrow or mop up liquidity in the economy  |
| Budget Analysts, Managerial Accountants and Investors  | The trends of current monthly accounts and historical costs to help predict the future financial and economic position of the economy.  |
| Revenue and other Finance related Agencies of Government  | Monitor financial position of government as a basis for structuring managerial and employees rewards system, such as bonuses for staff  |
| Controller and Accountant-General  | Uses financial reports to develop and maintain a management information system, capturing real time, the past, present and emerging development and behaviour patterns of various Government organizations.  |
| Auditor-General  | Whether Government accounts have been properly kept and records properly reported on  |
| The Government Trade Unions  | Require financial information to be used in salary negotiations.  |
| Contractors and suppliers of goods | Are there enough money to pay for Government contracts? |
| Non-Governmental Organisations | Want to know key areas of the state that require social or economic intervention |
| The World bank, IMF, Multilateral and Bilateral Agencies and Foreign Governments | Wants to know the financial and economic performance of the country, where to assist, where to advice. They want to assess the effectiveness of spending on HIPC and Poverty Alleviation, the sustainability of Fiscal Policies, net debt, net wealth, contingent claims against the Government and obligations for government pensions. |
| Private Sector Business | Whether Government borrowing from the commercial banks would affect their business, and whether they can do business with the Government? |

**THE CONCEPT OF PRIVATIZATION**

Privatization refers to the process through which government or public owned institution (s) is sold to private individuals or entity (ies) or the government allowing private investors to take greater percentage of ownership and control of public institution (s).

**Policy objectives of privatization**

(i) To raise foreign exchange

(ii) To develop a domestic capital market

(iii) To motivate the private sector

(iv) To reduce the fiscal deficit

(v) To improve the efficiency of the economy by encouraging private sector participation and investment

(vi) Government must not engage in commercial activities

**Advantages Of Privatisation**

1. Privatisation leads to lower prices and greater supply
2. It provides a one off cash boost for government to be used in other areas like schools, hospitals
3. The government cannot be a player and an empire
4. Private enterprises is more responsive to customer complaints and innovation
5. Competition in privatisation increase differentiation
6. Privatisation places the risk in the hands of business or private enterprises
7. Save Taxpayers money.

**Disadvantages**

1. It is expensive and generate a lot of income in fees for specialist advisers e.g. Banks
2. Public monopolies have been turned into private monopolies with too little competition so consumers suffer.
3. The nationalised industries were sold off too quickly and too cheaply.
4. After purchase the buyers have sold off or closed down unprofitable parts of the business. E.g. Transport.
5. It creates unemployment e.g. layoffs after purchase.
6. Share ownership did not really happen as many small investors took their profits and did not buy anything else.

**Comparison between Government Accounting and Private Sector Accounting**

(a) The main objective of a commercial enterprise is to maximize profit while that of Government is to provide adequate welfare to the people at the reasonable costs.

(b) Government revenue is derived from the public in the form of taxation, fines, fees etc. whereas business concerns obtain their income principally from the sales of goods and services.

(c) In Government, financial transactions are recorded on ‘cash basis’ while in commercial organizations, it is on accrual basis.

(d) In Public Sector Accounting, tangible fixed assets such as land and building, plant and machinery are not shown in the balance sheet, whereas in private sector accounting these are reflected, showing the historical cost, accumulated depreciation and the net book value of each.

(e) In Public Sector Accounting, current assets such as stocks and debtors are not shown in the balance sheet. Debtors and creditors are not reckoned with until money is received or paid. The current assets and current liabilities are shown in private sector accounting system.

(f) In Government there is no Annual General Meeting of stakeholders/ shareholders, unlike the situation with commercial enterprises. What Government does is to hold public briefing on specific issues.

(g) In Public Sector Accounting, what operates substantially is fund accounting. However, in private sector accounting, the proprietary approach is adopted.

(h) Public Sector Accounting thrives rigidly on the budgetary approach, whereas in private sector accounting budgeting is embraced as a very potent control instrument.