CENTRAL GOVERNMENT ACCOUNTING REFORM IN MALTA: IS IT JUST AN ILLUSION?

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Abstract. The central government of Malta is in the process of changing its traditional budget-oriented cash-based accounting system. The process started in 1999 and is still ongoing. An empirical study, supported by documentary research, Lüder's "Financial Management Reform Process Model" (2002) is applied in this context in an attempt to assess the conduciveness of the environment surrounding accounting reform towards such change. The findings indicate that the long-winded reform at the central government level of Malta may only be illusory because once the statistical reporting requirements for Eurostat were achieved, the accounting reform died, and the original raison d'être was lost. Contrary to expectations, the evidence indicates that the small size of the country may have acted as a negative factor on the government accounting reform process. It also appears that the availability of the International Public Sector Accounting Standards (IPSAS,) and their consideration by the EU Commission for EU member states, acted as another deterrent.

Introduction

Public sector accounting is firmly embedded in the political, economic, legal and social contexts in which it is practised (Jorge et al., 2011). This results in the underlying literature, namely comparative international governmental accounting research (CIGAR), to consist mainly of a set of country studies (Jorge et al., 2011). As a research field, CIGAR developed on the idea that governmental accounting systems of different countries are worth knowing about for their own sake, and that sharing this knowledge enhances understanding (Jones, 1991).

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Over a 25-year period, CIGAR has constantly revealed the uniqueness of national governments. National governments are institutions that are very different from private sector bodies, and they are also very different between themselves due to the various relations that may exist between their legislatures, executives and judiciaries (Jones et al., 2013).

Unique characteristics lead each national government to have its own rules and conventions, and thus its own consequent accounting and budgeting system (Jones et al., 2013). CIGAR has also confirmed the centrality of the budget in national governments accounting systems, albeit using different methods (Jones et al., 2013).

CIGAR has tried to understand what leads a national government to consider changing its accounting system in an attempt to be more modern; how such accounting reforms are planned and implemented; and the factors affecting such a change process.

The purpose of this paper is to apply this approach for a better understanding of the accounting reform being carried out at central government level in Malta. The study of this particular context is important for its own sake; it is particularly interesting given that Malta is the smallest EU member state; and the timing of the study is also crucial, since, following the economic crisis, the EU is considering the implementation of a standardised public sector accounting system across all member states.

The next section of this paper describes the Maltese context with regard to government finances. The underlying literature and the theoretical framework are described in the section that ensues, and this is followed by a description of the research methodology. In the findings, the variables affecting the governmental accounting reform at the Central Government of Malta are identified; classified into contextual, behavioural and instrumental variables as described in Lüder's Financial Management Reform (FMR) Process Model (2002); and their overall effect on the reform process is assessed. Institutional theory is then referred to when discussing the criticism of Lüder's FMR Process Model. The conclusion summarises the main findings of this paper.
The Maltese Context

The governmental accounting system in Malta is heavily rooted in tradition (Pirotta, 1996). The centralised government structure and the financial legislation have been inherited from when it formed part of the British Colony (Pirotta and Warrington, 2001). The procedures, controls and reporting contents are detailed in the legislation. The government and parliamentary majority are closely identified with one party, resulting in a low degree of political competition. Public sector accounting staff are often not experienced in the concepts and practices of private sector accounting. Professional organisations have little influence on the governmental accounting system and do not demonstrate a particular interest. The capital market offers no incentives, while there is no problematic financial situation.

These characteristics have been identified by Lüder (1992:124) as creating an unfavourable environment for the development of a governmental accounting system. In fact, accounting reform at central government level in Malta has been long-winded and is still an unfinished business\(^1\). The restructuring of the governmental accounting system does not appear to be the top priority for Maltese government authorities. Citizen-orientation of politics appears to be high due to the paternalistic system of government that the country is used to (Pirotta, 1996), but openness is a more recent concept that needs to be developed.

Research Objectives and the Underlying Literature

The objective of this paper is to study the 'how and why' of the accounting reform at central government level in Malta and to contribute towards CIGAR by adding to the already existing wide repertoire of studies dealing with government accounting reforms in various countries. Like previous CIGAR studies, this study uses Lüder's FMR Process Model (2002) to identify the factors that explain the how and why of government accounting reforms, and to assess the conduciveness of the environment

\(^1\) The research methodology section explains that the empirical research underlying this study was carried between October 2011 and September 2012.
created by these variables towards governmental accounting innovations. For the purposes of the model, innovations are defined as:

“... conceptual[ly] not merely procedural changes of the accounting system to ensure the supply of comprehensive, reliable and meaningful financial information needed for accountability and sound financial management.” (Lüder, 1994:1)

The model has been extensively researched by CIGAR scholars, and these studies have contributed towards the development of the original contingency model, which was revised twice, in 1994 and 2001. The final published version is being used in this study.

Lüder's is fundamentally an economic model, embodying a supply and demand framework for government financial information (Chan et al., 1996:3). The attitudes and behaviours of users and producers of governmental financial information are shaped by their respective environments (Chan et al., 1996:3). Given the right environment, the interactions between demand and supply could stimulate governmental accounting innovations. The original theoretical orientation of the model related to behavioural theory and political science (political economy and public choice) (Lüder, 1992). Eventually, Lüder extended the organisational contingency theoretical approach to include variables of collective behaviour besides the contextual variables, and thus adapted the original contingency model to CIGAR (Lüder, 1994). The revised model is illustrated in Appendix 2, which displays the FMR Model as summarised by Lüder (2002:18):

“The financial management reform process model (...) consists of two clusters of contextual variables (‘stimuli’ and ‘institutional arrangements’), three clusters of behavioural variables (‘reform drivers’, ‘political reform promoters’ and ‘stakeholders’) and two clusters of instrumental variables (‘reform concept’ and ‘implementation strategy’).”

In the illustration of the FMR model in Appendix 2, ‘feedback loops’ are distinguished from ‘lines of influence’ and ‘lines of impact’. The feedback loops represent the ‘consequences of the real world’, thus allowing tying

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2 See, for example: Chan, 1994; Chan et al., 1996; Godfrey et al., 1996; Jaruga and Nowak, 1996; Monsen and Näsi, 1998.
behaviour and attitudes of key actors in the innovation process to its results, taking into consideration the possibility of a multi-stage reform process. The addition of these loops are a very important contribution to the model by Jaruga and Nowak (1996), which changed the static model into a 'cybernetic learning system' (Chan et al., 1996:9).

Various models have been developed in an attempt to describe and understand government reforms. Lüder's model is preferred because it addresses financial management reform in particular. Ouda (2011) criticises Lüder's model as being merely an explanatory model of the context of the reform, and proposes a prescriptive model for the accounting reforms in central government. Ouda's (2011) proposal aims to create a clear transition framework identifying the requirements of a reform that not only initiates but also successfully completes an accounting reform process: “how to enter the tunnel and reach the end of it” (Ouda, 2011:67). However, an explanatory model may be more applicable in a study that attempts to identify the how and why of governmental accounting reforms. Accounting reforms are initiated but it may not be the intention of the actors themselves to actually reach the end of the tunnel.

Lüder's FMR Process Model (2002) has also been criticised in that it does not explain the reason why the contents of government accounting are what they are and why accrual accounting is considered as an innovation (Jorge et al., 2011). Another criticism of the model is that it has 'black boxes' in not considering the extent of certain variables and how the variables interact with each other (Christensen and Yoshimi, 2001; Jorge et al., 2011). In spite of these criticisms, Lüder's Model (2002) is considered as a paradigm for CIGAR (Chan et al., 1996), and this paper applies the model in the context of the central government of Malta. The criticism of the model is then discussed through the lens of institutional theory.

**Research Methodology**

The purpose of this study is to describe, analyse and compare accounting practices, focusing on a particular context. A qualitative approach is taken,

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3 See for example: Hood (1995); Greenwood and Hinings (1996); and Pollitt and Bouckaert (2004).

4 See Ryan et al. (2002) for a description of this approach.
using mixed methods of documentary research and interviewing. Triangulating documentary evidence with oral sources enhances the reliability of an account in recent history (Gidley, 2004) because it increases the validity of the findings due to corroborative evidence (Scapens, 2004).

**Documentary research**

The government website was gleaned to extract information regarding the structure, functions and operations of the Ministry of Finance. The Treasury Department's site, in particular, describes the accounting system of the central government, including references to circulars and directives issued by the Treasury to the government departments, concerning the accounting reform. The minutes of two sessions of the Public Accounts Committee (PAC) were located after a search on the Government of Malta portal. In these sessions, held during 2009 and 2010, the accounting reform process was described and discussed (PAC 2009, 2010). The Public Accounts Committee is the scrutinising arm of Parliament, and both the proceedings of meetings and minutes are available to the public.

**Interviews**

The research also involved 28 interviews\(^5\) with persons who have been carefully identified and selected from the actors involved in the accounting reform process, in order to comprehensively cover the behavioural variable as identified by Lüder's FMR model (2002). The research participants chosen are described as political reform promoters, stakeholders and reform drivers. Lüder and Jones' (2003) Euro CIGAR study was used as the basis for the format and content of the questionnaire used during the interviews. The Euro CIGAR study has been cited in various literature as providing a framework for research because it clarifies what constitutes governmental accounting and how it is to be described.

The interviews were carried out during the period October 2011 to September 2012. They varied in length from one to two hours, and more than one interview session was necessary with some of the officials. All

\(^5\) Appendix 1 provides a list of the interviews. The interview process is part of a PhD research study about government accounting reform in Malta.
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interviews were digitally recorded, and then transcribed and analysed in the light of the theoretical model used.

Findings

The improvement in the financial management of the government was one of the pillars of the Maltese public service reforms that started in 1990. The Ministry of Finance set up the Accrual Accounting Task Force in 1999 with the remit to take all necessary measures to implement an accrual accounting system for the central government.

Since 2002, in the absence of a new accounting system that can handle accrual accounting, the Treasury has been compiling trial accrual-based financial statements by integrating accrual data collected from the departments with the cash-based data generated from the accounting system. These financial statements are not published because the data is incomplete. In the meantime, a decision was taken in 2011 to adopt IPSAS.

Malta became an EU member state in 2004 and joined the Eurozone in 2008. Since the country's reporting requirements to Eurostat are somehow being satisfied with a system of patched-up cash-based accounting data, the implementation of the accrual accounting system appeared to have been put on the back burner as the attempted reform seemed to be overcome by a series of events.

The governmental accounting reform process in Malta can be divided into two phases, namely: from 1999 to 2004; and from 2004 to date. Two things happened in 2004: EU membership and a new Finance Minister. EU membership is now part of the institutional arrangement (a contextual variable).

The new Finance Minister represented a change in a behavioural variable—a change in the political reform promoter. It appears that a change in the combination of these two variables reduced the conduciveness of the environment towards accounting reform. It also appears to have affected and changed the reform concept itself.
Contextual variables

1. Stimuli

Government accounting reform in Malta appears to have been instigated as part of the overall reform of public services undertaken in 1990. The actual decision of 1999 to implement accrual accounting in the central government appears to have been taken with the intention of improving economy, efficiency and effectiveness of government operations, with the adoption of the business accounting model. The dominating doctrine of superiority of business accounting was acting as a stimulus. The proposed reforms were managerial-driven, and the ultimate aim was that accounting will be used as a management tool across the board.

The implementation was ready to proceed, but the Minister of Finance changed in 2004, and the new Minister was faced with financial pressures that accompany EU membership in order to satisfy the Maastricht criteria. Since EU regulations do not require a member state to have an accrual accounting system, the Maltese authorities concentrated their limited resources on meeting the accrual reporting required by the European System of National Accounts (ESA) 95. Once these requirements were being met, with a patched-up system of cash and accrual data, the drive for implementing a full accrual accounting system stopped:

“And we started; we had a certain drive … When we arrived to the state that the Commission was accepting our data and confirmed that our methodology was correct—at that stage, we sort of reached a plateau, and the impetus stopped. So the drive appeared to be more in order to satisfy EU reporting requirements. I cannot say that this is so 100%, but the fact remains that once we reached this stage, we died.” (Interview 13)

Therefore, financial pressure acted as a deterrent in the case of Malta, rather than a stimulus. The accrual accounting reform has not been abandoned because the apparent motions are still there: the committees and the preparatory work by the Treasury are ongoing. But the process appeared to
have stalled, while the administration waited for the EU to prescribe what needs to be done.6

Perhaps the most 'tangible' stimulus is the fact that the current computerised accounting system used by the government is outdated, and if steps are not taken to replace it, the system could suffer due to lack of technological support. The government could thus see it as opportune to change to an accrual accounting system, given that the expense of acquiring a new accounting system still needs to be incurred. The requirement to replace the IT system is another stimulus identified by Lüder and Jones (2003).

2. Institutional Arrangements

Although the financial legislation is prescriptive as to accounting procedure and report content, it cannot be considered as unfavourable to changes in the accounting system because new rules in the form of circulars from the Ministry/Treasury were regularly issued. The legislation empowers the Minister of Finance to issue accounting standards with a legal notice that does not require Parliamentary approval, and there is no government external body that issues guidelines on government accounting in Malta. After 2004, however, the number of circulars concerning accrual accounting trickled to nothing, and EU directives had to be transposed into national legislation. As the Maltese authorities were awaiting instructions from the EU in order to proceed, especially with regards to government accounting standards, the legal system could have effectively acted as a negative factor.

Malta is a unitary state with a one-chamber parliament. An unbalanced division of power favouring the Executive makes the state structure conducive to government-induced reforms; but on the other hand, Parliament has no power to induce reforms. Since both sides of Parliament appear to support accrual accounting reform, perhaps the state structure is irrelevant in the case of Malta.

It is normally expected that the implementation of a new accounting system is easier and less expensive in a smaller jurisdiction (Lüder, 1992:118).

6 The Administration changed in March 2013, and perhaps this acted as a stimulus for the process to take another direction.
Regardless of the size of the country, its administration requires a staple quantity of human resources in order to deal with all the functions. Even if human resources are kept to a minimum, the fixed staff element would still reflect a high percentage in a relatively small population. Expertise is limited to a small cluster of officials involved in all aspects of the reform, and specialisation is barely possible. The small size of the jurisdiction then acts as a constraint, given that limited human resources can only be absorbed on prioritised issues, while not-so-important issues, like the back-end accounting system, are placed on a 'waiting list'.

The size of the jurisdiction is important when considering the administrative structure as a contextual variable. Administration is highly centralised, which is desirable to ensure consistency and uniformity of accounting reform across the central government. But this means that responsibilities and pressures are concentrated on a small group of people. On the other hand, when some of the responsibilities of the Accrual Accounting Task Force were delegated to other directors within the Ministry of Finance, it appears that the process stalled further. This happened when the political reform promoter changed, so it could have been the intention of this behavioural variable to have this negative effect. It also appears that lack of communication within the administrative structure, leading to undefined roles and conflict, may have acted as a negative factor.

Due to competitive remuneration offered by the private sector, the government fails to attract accounting professionals. The public service does not promote exciting job positions, and even the education system tends to concentrate on private sector opportunities. A deficit also exists in the legal framework which does not provide for particular professional training for accountants to practice in the public sector. Lack of accounting knowledge and skills are, therefore, pervasive in the civil service. However, the restructuring of the Treasury, together with increased specific training opportunities that are becoming available, may be changing this trend to a more favourable situation.

The culture variable incorporates social, political and administrative tendencies. The traditional paternal system of government plays a large role in the culture variable. There appears to be a high level of responsiveness to the demands of the general public, but the democratic structure is still in
the process of modernisation especially with regards to transparency in political and administrative processes. The following factors demonstrate a certain degree of risk aversion: the same political party tends to govern for more than one electoral period; the reluctance to change the financial legislation; and the cautiousness shown towards accounting reform because of the uncertain impact on financial reporting especially to the EU. The small size of the country does promote individualistic competition, but it all depends on the personal characteristics of the official. When the accounting reform started, the two main actors were rather individualist, and the reforms were managerial driven. Then the actors changed, collectivism became more pronounced, with actions depending a lot more on committee decisions, and the accounting reforms became more accountability-driven. This tendency appears to have slowed down the reform process.

_Behavioural variables_

1. Reform drivers

The Accrual Accounting Task Force appeared very effective in the beginning, but when the political reform promoter changed, the responsibilities of the committee were scattered across the Ministry of Finance, and it now exists only on paper. The first Chairman of the Task Force 'owned' the project; he enjoyed the full support of the Minister of Finance, and thus was an effective reform driver. In 2004, the Minister changed, and eventually the Chairman retired. The project was taken over by the Permanent Secretary, who had to delegate some of the responsibilities, but this was done by involving directors who already had enough on their plate. The new reform drivers did not and are still not exercising any influence on the political reform promoter, but await instructions from him in order to act. They do not demonstrate the individualistic characteristics like their predecessor.

At the beginning of the reform process, the Malta Institute of Accountants did show some enthusiasm by setting up a public sector committee. But this interest waned over time, and now this professional body does not attempt to make governmental accounting reform a political issue or to somehow try to influence political decision makers. As is typical of countries in Continental Europe (Lüder, 1992:114), professional interest in public sector accounting appears weak in Malta.
There are no accounting standard-setting bodies in Malta. The attempt to formulate accounting standards for the Maltese Government was abandoned in favour of IPSAS since the latter provide more credibility. Having said this, however, no particular interest is shown towards pronouncements issued by the International Federation of Accountants (IFAC) and the International Public Sector Accounting Standards Board (IPSASB). These accounting standard-setting bodies have only managed to influence the reform process, through the auspices of the EU. In fact, once the EU Commission decided to undertake the study on the feasibility of IPSAS for member states, the work of the IPSAS Committee (within the Accrual Accounting Task Force) stopped, awaiting further instructions from the EU. The IFAC and the IPSASB can, therefore, be considered as reform drivers at EU level, but it is then EU membership that acts as a reform driver for government accounting reform in Malta. The actual existence and availability of IPSAS had no effect on the reform process at the beginning. Their adoption could have boosted the accounting reform, but now the involvement of the EU may be leading to justified procrastination.

EU membership brought to the fore the importance of adhering to ESA95 requirements due to the important objectives that are tied with statistical reports, which are a product of national accounting. It is not surprising that Malta's limited human resources concentrate on this issue, albeit to the detriment of the accrual accounting reform, resulting in the ESA95 being a very effective reform driver in its own way. Heald and Georgiou (2011) describe national accounting as an epistemic community since it is external to government accounting but still exercises influence on the political reform promoters. In the Maltese context, the influence of the ESA95 appears to be very high and coercive in nature: the ESA95 is in fact a legal requirement, part of the institutional arrangement, and is fundamental to meeting the Maastricht criteria. According to the Budget Office (Interview 18): “ESA95 is the framework that is discussed and is the framework that we have to work with.”

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7 The Private Sector is required to comply with the IFRS framework. This has been a compulsory requirement since 1995, according to the Companies Act.
8 As from February 2000 onwards, the ESA95 has been the conceptual reference framework for national accounting which is legally binding in the European Union.
This makes the National Statistics Office (NSO) a major reform driver since its expertise in the ESA95 requirements is sought and relied upon by the political reform promoter. This is contrary to the situation of the National Audit Office and the Public Accounts Committee – two bodies that could be considered as reform drivers but are not influential.

Epistemic communities, like scholarly networks or professional associations who share common views on the main features of the reform and try to influence the accounting reform process, do not appear to exist in Malta. If they exist, they are silent.

2. Political reform promoters

The members of Parliament in Malta are not political reform promoters because Parliament is not strong enough to enforce reforms against the resistance of the Executive. The Minister of Finance is a member of the Executive and has the power to begin and complete the reform. The Minister who had started the reform in 1999 upheld the importance of the accounting system as a management tool. Together with the support of the main reform driver, being the Chairman of the Accrual Accounting Task Force, the Minister championed the reform and infected the actors with enthusiasm. In 2004, the groundwork was ready to begin implementation, but then the Minister was changed. The new Minister was an accountant like his predecessor, but came from a different professional background, and he was also faced with a different contextual environment due to increased financial pressures emanating from EU membership. A combination of these factors resulted in the accounting reform to slowly wane.

The new Minister appointed a new Permanent Secretary at the Ministry of Finance. The Permanent Secretary is the Chief Financial Advisor of the government, and even though not a political appointee, he can be considered as a political reform promoter since all the other actors in the reform follow his instructions. On the retirement of the Chairman of the Accrual Accounting Task Force, the Permanent Secretary took over the accounting reform; but it was not his main item on the agenda and he cannot be described as a 'champion' of this reform. His background in statistics and economics did not help either because he tended to
emphasise the importance of national accounting, and he effectively influenced the reform concept to change in that direction:

“The original raison d’être was to stop the manipulation that is possible with a cash based system, and thus have a complete reporting system. With the change in our statistics, that raison d’être died.” (Interview 09)

3. Stakeholders

Due to its involvement in the decision-making process, the NSO has been included with the reform drivers, but it is also a stakeholder since it does have an interest in a more informative accounting system that is more in line with the accrual system used for the National Accounts. The government uses a cash-based system for its accounting and the NSO is responsible for converting this data in accordance with the requirements of the ESA95. At present, the NSO relies considerably on the work of the Treasury in collecting accrual data from government departments. The overall influence of the NSO may not be in line with the original reform concept and may have contributed to the redefining of the reform objectives, with more emphasis on the requirements of the ESA95.

On the other hand, the National Audit Office and the Public Accounts Committee are stakeholders who are not so influential on the political reform promoters. Their views appear to be more in line with accounting reform that is managerial-driven rather than accountability-driven. The same applies for the Internal Audit Directorate, even though the latter appears to be more informed about how the reform concept has changed and appears willing to be flexible and open to any kind of change that results in an improvement in the accounting system.

The Maltese members of Parliament are the representatives of the general public. Parliamentary members are stakeholders who may give the impression of upholding an accounting system that would improve transparency and accountability but may not be so well-informed about the changes that are required in order to achieve this. The majority of parliamentary members do not have a financial background and includes mostly lawyers and medical doctors. Subsequently, they are easily persuaded by the opinions of the political reform promoters. One result of this is that the majority of parliamentary members may have been led to
believe that an accrual accounting system is in use because reporting to the EU uses a form of accrual methodology.

The general public does not appear to care about the accounting system used by the government. The main concern is the impact of the budget measures on the standard of living. Increased awareness and education on public sector accounting could trigger interest by this stakeholder group. The Treasury is a very important stakeholder that has persisted in its work in the accounting reform. Due to its reluctance to initiate reforms itself, however, it cannot be described as a reform driver. Even its potential influence as a stakeholder is dampened due to the position that it takes with regard to decision-making, and due to its persistence to consider itself as 'the executive arm' of the Ministry of Finance rather than the decision taker.

The line departments appear to be supporting the accrual basis because they are expecting more autonomy as a result since they assume that accrual accounting would mean the end of the annuity principle. It is possible that the line departments would be satisfied with a new user-friendly IT system, together with some freehand as to the carrying forward of unused funds. This appears to be their actual expectation as to how an accrual accounting system would affect them positively.

The stakeholders do not appear to be offering any kind of resistance because the political reform promoter has led the key stakeholders to a neutral position. According to Lüder (2002), this is a successful indicator for the reform process, but it may also mean that the outcome from the reform process has changed.

**Behavioural Variables**

1. Reform concept

When the accounting reform started, the idea was to implement a full accrual accounting system that will be used as a financial management tool across the board, in addition to the cash-based system. Accrual-based budgeting was part of the plan, and a dual reporting system was envisaged. The work carried out by the first Chairman of the Accrual Accounting Task Force was in line with this reform concept, which was managerial-driven.
The new actors in the reform process appear uncertain about the actual utility of an accrual-based budget, even at departmental level. And the Permanent Secretary, who is a political reform promoter, was rather sceptic about the innovativeness of the accounting reform overall:

“When eventually we will have a more sophisticated system, I believe that it will not produce results that are very different from what we have today.” (Interview 09)

On the other hand, the Director for Government Accounting confirmed that the actual output from the accounting reform process was a concept that was still work in progress:

“The fact that the present Minister has declared the same things as the previous Minister, confirms that the idea is still on—the end result may be different but the reform is still ongoing.” (Interview 02)

The reform concept is under the direct influence of the political reform promoter, that is the Permanent Secretary, acting on the advice and opinions of reform drivers. The main reform drivers in the case of Malta appear to be the EU and the national accounting exercise of the NSO. The reform concept appears to have been reframed in response to this feedback, and is now tantamount to providing more reliable data for national accounts and statistical reports. If this is true, then one could argue that the reform concept has not only changed but is even being achieved, and, therefore, the government accounting reform would have been successfully completed and no further changes would be required.

2. Implementation strategy

The process has always been authoritarian and centrally guided, which could be more conducive to a successful reform. However, central guidance appears to be lacking: the intention is there, but the change in the administrative structure and the behavioural variable reduced the quality of this guidance. The Accrual Accounting Task Force existed on paper, but did not do any work in practice. The same applies for the IPSAS Committee, which held ad hoc meetings, and waited expectantly for EU directions in order to proceed.
A multi-step approach has been chosen, with the preparation of the trial accrual-based financial statements considered as the required pilot testing. But a new accounting system is required in order to initiate the implementation of the accounting reform and this decision was still pending at the time of this study. So even though an adequate implementation strategy has been planned, the actual decision to proceed was withheld.

The reform concept has changed due to the extended length of the implementation period of over 13 years, and in the meantime, even the contextual and behavioural variables changed. The process could now be experiencing reform fatigue, or perhaps it was never intended for innovations to be rapidly implemented, after all,

“Accrual accounting is like Dr Jekyll and Mr Hyde. We want it and we don't want it.” (Interview 08)

“There was never a stimuli. The reform was just a good idea at the back of everyone's mind. If there was a stimulus, we would have long arrived to our destination. There was no stimulus because the perception of the politicians, at least the feel I get from the meetings of the Public Accounts Committee, with all the files and questions: that although they pay lip service to accrual accounting as providing more accountability and transparency, because these are the buzzwords, they do not really understand accrual accounting. And to a certain extent, they do understand the budget. So I don't think that there is some hot fervour to change things.” (Interview 21)

The set up for the accounting reform is all there, but it may be that this is all for appearances sake owing to insufficient, if not missing, political will to change. For Brunsson (1989), Christensen and Lægreid (1998) and Pollitt (2000), there are differences between ‘reform talk’, ‘reform decisions’, ‘actual implementation of reforms’, and ‘results’ (Torres and Pina, 2004:450).

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9 A tender for a new government accounting system was issued in January 2014, that is, under the new administration.
Application of Lüder's Model for Malta

As has been shown above, the accounting reform of the Maltese central government has been a long-winded process that is still unfinished business and has experienced two phases (1999-2004 and 2004-2012). This was not planned and did not happen intentionally, so the two periods cannot be described as particular phases of the accounting reform. Still, as Haldma (2006) concluded in the case of Estonian municipalities, the findings show that the materiality of various factors differ between the two periods resulting in different effects on the outcome of the accounting reform process.

As summarised in Appendix 3, a positive environment that was conducive to innovation at central government level in Malta was present during the period 1999 to 2004. The overall positive effects of the behavioural and instrumental variables, together with the stimuli, could have overcome the negative impact of the institutional arrangements. The environment appears to have changed to a negative one in the period 2004 to 2012. The only positive stimulus is the need to change the outdated IT system used for financial management, but even this could be replaced with a new version of an identical system. The institutional arrangements remain negative. The negative impact of the reform drivers and the political reform promoters have neutralised the position of the stakeholders and the reform concept itself. The length and quality of the implementation strategy are also having a negative effect on conduciveness to innovations. The prolonged process can be experiencing 'reform fatigue'.

Since it appeared that the political reform promoters and the reform drivers had taken the stance to await EU direction before proceeding with the accounting reform, it appeared essential for the EU to provide the appropriate stimulus. While nothing can be done about the downsides associated with the size of the jurisdiction, which have increased their negative impact due to increased administrative burden, the political reform promoters have the power to affect the administrative structure, the civil service and even the culture, in order to make them more conducive.

Staff training to enhance accounting skills should be continued; and such staff should be placed in key accounting positions. Care should be taken
with regard to the importance given to the NSO’s national accounting exercise and the related statistical reports in order not to confuse these with the ulterior objectives of government accounting innovations. At the same time more attention should be given to certain stakeholders to increase their involvement and awareness of the accounting reform, in particular the Treasury, in order to enhance its important participatory role in the project. The quality of the implementation strategy is very important, and this can be effective if the project has a legitimate owner, capable of co-ordination, and backed by suitable legislation.

Criticism of Lüder's model and institutional theory

Jorge et al., (2011) criticise Lüder's model because it does not address the 'why' of government accounting systems themselves. However, it is not the intention of the model to do this; the objective of the model is to assess the conduciveness of the environment created by internal and external variables in promoting government accounting reform. Lüder's initial hypothesis related to an explanation of the relationship between contextual variables and the contents of the government accounting systems (Lüder, 1989), but subsequently research revealed that the relationship is conducive and not causal. Having clarified this, the fact remains that the adoption of accrual accounting methodology by governments appears to be taken for granted as the reform concept in Lüder's model. Accounting research literature is rich with studies that have applied institutional theory to explain this phenomena.

The empirical findings of this study appear to uphold Lande's (2006) view that the application of the business accounting principles and practices in government accounting reforms have been distorted to accommodate the goals of the organisation as identified by the actors. While technical reasons are not clearly understood, the fact that the accounting system conforms to institutional norms and requirements, even if symbolically, presents a set of rewards.

The expected isomorphism is not perfect, resulting in governments adopting different types of accrual accounting systems (Lande, 2006). The peculiarities of a governmental accounting system are linked with the political, social, legal and cultural features of a country, but are not bound by them. The effect of pressures at macro level on a given context and
behavioural variable cannot be generalised and thus cannot be captured in a comprehensive model. Institutional theory implies that there is no exclusive relationship between the contextual variables and the contents of the governmental accounting system. Even though all countries may be subject to similar levels of coercion, normative forces and mimetic tendencies, the effects of these pressures on the individual country would depend on national political and economic factors. Perhaps government accounting systems cannot then be conveniently classified due to the various factors that affect the content.

**Conclusion**

The central government of Malta is in the process of changing its accounting system from the traditional budget-oriented cash-based system to a more informative one. The process started in 1999 and is still ongoing. The decision to adopt IPSAS was taken in 2011, but the process appeared to have stalled, with the authorities waiting for directions from the EU.

In the present study, various actors (reform drivers, political reform promoters, and stakeholders) were interviewed to identify the contextual, institutional and behavioural variables underlying the government accounting reform in Malta, and to explain why and how these variables are affecting the environment as to its conduciveness for the reforms. Lüder's FMR Process Model (2002) was applied in the context of the central government of Malta.

The findings indicate that the long-winded reform process at the central government level of Malta may only be illusory because once the statistical reporting requirements for Eurostat were achieved, the accounting reform actually stalled, and the original raison d'être was lost. While the original stimulus was managerial-driven, the changes in the actors that occurred over time, together with the financial stress that naturally accompanies EU membership, appear to have blurred the reform concept. Contrary to expectations, the evidence indicates that the small size of the country may actually act as a negative factor on the reform process. It also appears that the availability of IPSAS, and their consideration by the EU Commission for EU member states, are acting as another deterrent.
Central Government Accounting Reform in Malta

The governmental accounting reform process in Malta, at central level, is described in two phases: pre- and post-2004. As suggested by Jaruga and Nowak (1996) and Chan et al. (1996), the feedback loops in Lüder's model proved particularly adequate for the analysis of a slow and multi-step reform process, as in the case of Malta. The environment of the first phase of the accounting reform is assessed as conducive to change, mainly due to the strong forces exerted by the behavioural variable together with the certainty surrounding the reform concept. These conditions changed in the second phase, and were replaced by stronger forces at macro level, which resulted in an environment that is not so conducive to change. While the organisational structure to continue the reform exists, it is not functioning.

The behaviour of the politicians and high level administrative officials involved in the Maltese governmental accounting reform suggests that public leaders may stand to gain from 'double-talk'; this is described in the literature as when they talk as if they intend to act, even if they have no intention of doing so and have no idea of what to do if they run into problems of implementation (Goffman, 1974). The accounting reform often features in the Budget Speech delivered by the Minister of Finance to Parliament, but little, if anything, transpires as a result. The appearance that accounting reform is an ongoing process is maintained; this may help the organisation to strengthen the legitimacy of its actions and ensure survival.

The study carried out by the European Commission (2013) confirms the importance of the ESA95 for all member states. The ESA95 appears to be the dominating doctrine for government reporting intra-EU member states. Heald and Georgiou (2011) consider the ESA95 as an epistemic community, but in the Maltese context, the ESA95 is more than a reform driver: it is a contextual variable because it forms part of the legal system. The ESA95 is engrained in the institutional variable that affects government accounting, exerting strong coercive pressure.

The findings indicate that the reform concept in the Maltese government accounting reform has changed from the implementation of a full accrual accounting system to a hybrid cash and accrual accounting system: an illusionary sort of financial reporting system because the output is not being used as a management tool across the board for better decision-making to improve efficiency and effectiveness of the public sector. The reform
concept in the second stage of the accounting reform in Malta is more aligned to satisfying reporting requirements at macro level.

It may be argued that the effects of pressures at macro level in a given context cannot be generalised and thus cannot be captured in a model as has been done in the present study. Even though countries may be subject to the same types and levels of pressures—coercive; normative; mimetic—the effects of these pressures on the individual country would depend also on national political and economic factors. Nevertheless, the findings presented in this study clearly indicate that the accounting reform at central government level has not been carried out in line with its original objectives, and that the reform exercise may be just an illusion.

References


Appendix 1
List of Interviewees and Dates of the Interviews

| I-01 | Technical Officer, The Malta Institute of Accountants | 8 October 2011 |
| I-02 | Director Government Accounting, The Treasury | 27 October 2011 and later |
| I-03 | Accountant, The Treasury | 30 November 2011 and later |
| I-04 | Assistant Auditor General, National Audit Office | 1 December 2011 and later |
| I-05 | Chairman, Public Accounts Committee | 2 December 2011 |
| I-06 | Member, Public Accounts Committee | 6 December 2011 |
| I-07 | Director General Finance, Office of the Prime Minister | 6 December 2011 |
| I-08 | Ex-Director General Special Projects, Ministry for Finance | 4 December 2011 |
| I-09 | Permanent Secretary, Ministry for Finance | 9 January 2012 and later |
| I-10 | Director Corporate Services, Ministry for Infrastructure, Transport and Communication | 10 January 2012 |
| I-11 | Manager, Malta Information Technology Authority | 13 January 2012 |
| I-12 | Director Financial Policy Development and Analysis, Ministry for Finance | 17 January 2012 |
| I-13 | Accountant General, The Treasury | 27 January 2012 and later |
| I-14 | Partner, Grant Thornton Audit Firm | 31 January 2012 |
| I-15 | Deputy Auditor General, National Audit Office | 5 March 2012 |
| I-16 | Director General Finance, Ministry for Health, the Elderly and Community Care | 12 April 2012 |
| I-17 | Director General Finance, Ministry for Justice and Home Affairs | 19 April 2012 |
| I-18 | The Budget Office, Ministry for Finance | 20 April 2012 and later |
| I-19 | Director General Strategy and Operations Support, Ministry for Finance | 3 May 2012 |
| I-20 | Ministry for Resources and Rural Affairs | 3 May 2012 |
| I-21 | Director General Internal Audit and Investigations Directorate | 1 June 2012 |
| I-22 | Manager Finance, Ministry for Education, Employment and Family | 6 June 2012 |
| I-23 | Manager for Schools Finances, Ministry for Education, Employment and Family | 6 June 2012 |
| I-24 | Manager, National Statistics Office | 19 June 2012 |
| I-25 | Ex-Director General Budget Office, Ministry for Finance | 6 August 2012 |
| I-26 | Ministry for Gozo | 9 August 2012 |
| I-27 | General Manager, Malta Information Technology Authority | 11 September 2012 |
| I-28 | Director Corporate Services, Ministry for Justice, Dialogue and Family | 28 September 2012 |
Appendix 2
Financial Management Reform Process Model (Lüder, 2002)

Source: Lüder, 2002:18
Appendix 3
FMR Model in Malta — Interference of Environmental Conditions to Governmental Accounting Innovations (adapted from Haldma, 2006)

<table>
<thead>
<tr>
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<tr>
<td><strong>CONTEXTUAL VARIABLES</strong></td>
<td>Conduciveness to Innovation</td>
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<tr>
<td><strong>STIMULI</strong></td>
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<tr>
<td>➢ Requirements of overall reform of whole Public Administration</td>
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<tr>
<td>➢ Dominating doctrine of superiority of business accounting</td>
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<td>+/-</td>
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<tr>
<td>➢ Financial Pressures (from EU membership)</td>
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<td>=</td>
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<tr>
<td>➢ New IT System requirement</td>
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<td>+</td>
</tr>
<tr>
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<td>+/-</td>
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<tr>
<td>➢ State structure</td>
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<tr>
<td>➢ Administrative structure</td>
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<tr>
<td>➢ Civil service</td>
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<td>+/-</td>
</tr>
<tr>
<td>➢ Culture</td>
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<td>+/-</td>
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<td><strong>BEHAVIOURAL VARIABLES</strong></td>
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<td><strong>REFORM DRIVERS</strong></td>
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<tr>
<td>➢ Government Commissions</td>
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<td>+/-</td>
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<tr>
<td>➢ Professional Associations</td>
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<tr>
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</tr>
<tr>
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<td>+/-</td>
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<tr>
<td>➢ National Accounting and statistical office</td>
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<td>+/-</td>
</tr>
<tr>
<td><strong>POLITICAL REFORM PROMOTERS</strong></td>
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<tr>
<td>➢ Members of Parliament</td>
<td>=</td>
<td>=</td>
</tr>
<tr>
<td>➢ Members of Government</td>
<td>+</td>
<td>+/-</td>
</tr>
<tr>
<td>➢ Stakeholders</td>
<td></td>
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<tr>
<td>➢ Statistical Office</td>
<td>=</td>
<td>+/-</td>
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<tr>
<td>➢ Audit Institutions</td>
<td>+/-</td>
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<td>➢ Parliament</td>
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<td>➢ Treasury</td>
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<tr>
<td>➢ Line departments</td>
<td>+/-</td>
<td>+/-</td>
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<tr>
<td><strong>INSTRUMENTAL VARIABLES</strong></td>
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<td><strong>IMPLEMENTATION STRATEGY</strong></td>
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<tr>
<td>➢ Training</td>
<td>+/-</td>
<td>+/-</td>
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<tr>
<td>➢ Central guidance</td>
<td>+</td>
<td>+/-</td>
</tr>
<tr>
<td>➢ Authoritarian</td>
<td>+</td>
<td>+/-</td>
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<tr>
<td>➢ Multi-step</td>
<td>+</td>
<td>+/-</td>
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<tr>
<td>➢ Implementation period</td>
<td>+/-</td>
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<tr>
<td><strong>OVERALL ASSESSMENT</strong></td>
<td>Favourable</td>
<td>Negative</td>
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</table>

KEY: + Favourable; - Unfavourable; +/- Sometimes unfavourable; /+ Moving towards favourable; += Moving towards not important; =/+ Moving towards important; = Not important/no effect.