

# Public financial administration of microstates: South Pacific Forum

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## SUMMARY

The broad pattern of public financial administration in the eleven microstates of the South Pacific Forum consists of three contrasted but related strands: the government accounting and budgeting system, public sector audit function and parliamentary financial surveillance. The three have their origins in an imported model which has evolved and crystallized in the context of big business, industrial society and metropolitan government. Effective public financial administration of the microstates is impeded by over-reliance on this expatriate model which implicitly assumes that administrative prescriptions can be effectively applied in states irrespective of their size. The attainment of the developmental and related objectives of the South Pacific microstates would be facilitated by revision of the present model of financial administration to broaden the scope for improvisation, experimentation and innovation in deference to the particular problems of very small scale.

## INTRODUCTION

The past two decades have witnessed the formation of autonomous and self-governing states among the island entities of the South Pacific. Contrasted but interwoven strands of national independence have changed the status and character of these former colonies and dependencies. Regionally they now form the South Pacific Forum. A 'new South Pacific' has emerged with its own style, aspirations and problems. These changing patterns have posed significant challenges to public financial administration in island entities much smaller in size than bordering metropolitan states.

Despite the contemporary importance of the region, there are no published regional studies of public *financial* administration in these microstates. There are, however, some peripheral references to the role of government accounting in their development (Juchau, 1978, 1981; Hardman, 1980, 1982a, b, 1983). The broader generic literature encompasses public financial administration in Third World states, which also is not well documented. Much of what is available focuses on government accounting (notably United Nations Department of Economic and Social Affairs, 1977), but significant contributions have been made in more general surveys which recognize accounting as a major infrastructural element in the economic development of Third World states (Enthoven, 1973, 1977, 1980, 1981).

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0271-2075/84/020141-14\$01.40

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The present article addresses public financial administration of the microstates in the South Pacific Forum in the context of the very small scale of the island entities involved. It challenges the assumption that administrative prescriptions can be effectively applied in states irrespective of their size. In support of this viewpoint three important aspects—the government accounting and budgeting system, public sector audit function and parliamentary financial surveillance—of public financial administration in each of these microstates are discussed. The role of professional accounting expertise in the conduct of public financial administration in the microstates is examined and an analysis made of present facilities for accounting education and training. Financial and accounting problems arising from, or exacerbated by, the very small size of the states under review are identified and assessed in the context of financial accountability.

## SOUTH PACIFIC FORUM

The South Pacific Forum consists of thirteen member states. Two of these—Australia and New Zealand—are metropolitan powers and the other eleven are developing microstates which have attained national independence or an autonomous status as internally self-governing states in recent years. The first to become independent was Western Samoa (formerly a United Nations trust territory administered by New Zealand) in 1962, followed by the Cook Islands (formerly a New Zealand territory) in 1965, Nauru (formerly a United Nations trust territory administered by Australia) became independent in 1968, Fiji (formerly a British crown colony) in 1970, Tonga (formerly a British protectorate) in 1970, Niue (formerly a New Zealand territory) which became internally self-governing in 1974, Papua New Guinea (formerly a New Zealand territory—Papua—and a United Nations trust territory—New Guinea—administered in unison by Australia) became independent in 1975, Solomon Islands (formerly a British protectorate) in 1978, Tuvalu (formerly the Ellice Islands—a British crown colony) in 1978, Kiribati (formerly the Gilbert Islands—a British crown colony<sup>1</sup>) in 1979, and Vanuatu (formerly the New Hebrides—a condominium administered jointly by Britain and France) in 1980.

In the composition of the South Pacific Forum outlined above, the term 'microstate' has been expanded to include two states (Papua New Guinea and Fiji) with populations in excess of the 300,000 in recent usage as the upper limit for such states (Plischke, 1977; Murray, 1981). Apart from regional considerations, this inclusion is justified on the grounds that many of the problems of public financial administration in the two larger states of the Forum tend to be similar to those in the nine smaller states. Thus all eleven national entities designated 'microstates' in the present study experience characteristic problems because of their small size. Five selected indicators of this smallness (population, land area, imports, exports and national budget) are shown in Table 1. To facilitate comparison, values have been converted where necessary to Australian dollars (\$A).

<sup>1</sup> Previously two separate British protectorates, the Gilbert Islands and the Ellice Islands combined to become a single British colony (the Gilbert and Ellice Islands Colony) administered under the jurisdiction of the Western Pacific High Commission.

Table I. South Pacific Forum Microstates: Selected indicators of size

Microstate	Population	Land area	External trade		National budget
			Imports	Exports	
	capita	sq. km.	\$A	\$A	\$A
Papua New Guinea	3,066,799	462,840	833,133,600	1,017,532,600	871,736,000
Fiji	618,979	18,376	457,636,460	250,520,430	239,044,020
Solomon Islands	196,823	28,446	50,514,000	60,184,000	21,800,000
Western Samoa	151,983	2,835	54,745,680	14,802,726	35,418,444
Vanuatu	112,596	14,763	42,840,000	19,450,000	26,820,000
Tonga	97,808	748	34,627,678	7,297,888	13,751,252
Kiribati	56,213	711	15,545,434	21,208,859	13,282,788
Cook Islands	18,128	234	15,103,410	2,059,595	12,977,348
Tuvalu	7349	26	n/a	237,412	2,298,939
Nauru	7254	21	14,190,000	n/a	33,600,000
Niue	3578	259	1,801,498	321,974	3,463,774

Source: *The Far East and Australasia 1981-82*, Europa Publications Limited, London, 1981.

The Forum was established to provide a venue for regular meetings in which significant international and regional issues could be discussed. Mutual problems and strategies involving development, trade, defence and other matters are ventilated in open assembly. The annual meetings of the Forum endeavour to reach a consensus, but voting does not take place on particular issues. Since its inception in 1971 the Forum has emerged as the collegial voice of developing microstates in a region with a population of less than five million, but with a geographical range spanning the largest ocean in the world.

The only regional organization in existence previously was the South Pacific Commission, which was established in 1947 with its headquarters at Noumea, New Caledonia. From its inception the South Pacific Commission smacked somewhat of former colonial times, being founded by a plethora of metropolitan powers—France, the United States, the United Kingdom, Australia, New Zealand and the Netherlands (the last withdrew in 1962 when it relinquished responsibility for Netherlands New Guinea, which became Irian Jaya). Further, the South Pacific Commission had a marked bias towards economic and social aid programmes. There was a tacit understanding that political and related issues should not be discussed at the South Pacific Commission's annual meeting, the South Pacific Conference. The South Pacific Forum was needed to fill this gap.

In the period since 1971, it could be argued that the Forum has emerged as the more important of the two bodies. Mutual problems and strategies of regional development, trade and defence are now highlighted in open assembly. Although such issues originated in former colonies and dependencies, the attainment of national independence has sharpened the focus. The membership of the Forum has grown progressively as more South Pacific entities have become independent. The annual meeting (the first being held at Wellington, New Zealand in 1971 and the most recent at Canberra, Australia in 1983) is attended by most South Pacific Heads of Government, including those of Australia and New Zealand—both founding

members. The Federated States of Micronesia have been admitted as an observer at these meetings.<sup>2</sup>

The executive arm of the Forum is the South Pacific Bureau for Economic Co-operation (SPEC), established in 1973 to facilitate co-ordination between members on trade, economic development and other related matters. Located in Suva, Fiji, this provides a secretariat for the promotion of the economic interests of the South Pacific island members and sponsors other regional groupings in the areas of labour, civil aviation, shipping, health and trade. It has an annual budget of about \$A500,000 funded one-third each by Australia and New Zealand, and the remaining one-third by island members. The membership of the South Pacific Bureau comprises all members of the Forum plus the Federated States of Micronesia.

## GOVERNMENT ACCOUNTING AND BUDGETING

The government accounting and budgeting systems of the eleven microstates of the Forum originate in their respective Constitutions.<sup>3</sup> The various legislatures are empowered to authorize and control the raising of public revenues and expenditure of public moneys, while enabling legislation provides the framework of the respective government accounting and budgeting systems. In the smaller microstates the enabling Act is complete in itself, as in the Solomon Islands with its *Public Finance and Audit Act*, 1978. In the larger ones the main financial legislation is supplemented by detailed regulations made under the enabling Act, instructions or directives issued by a central Treasury or Department of Finance, and any other legislation which may be necessary. For example, in Papua New Guinea the Constitution provides for a national budget based on estimates of revenues and expenditures, with expenditure proposals and programmes being initiated by the executive but authorized by the legislature (Papua New Guinea, 1975, ss. 209-212). The enabling legislation for the government accounting and budgeting system is the *Public Finances (Control and Audit) Act*, 1973, supplemented by the *Public Finances (Control and Audit) Regulation, Financial Instructions and Tenders (Procedure) Rules*. In addition, the finances and accounts of the various statutory authorities are controlled by the *Public Bodies (Financial Administration) Act*,

<sup>2</sup> The three Compact states of Micronesia—Marshall Islands, Palau Islands (Carolines) and Federated States of Micronesia (Yap, Ponape, Kosrae and Truk), which until recently formed the United States Strategic Trust Territory of the Pacific, have shown an increasing interest in future membership of the South Pacific Forum. Their admission would bring under one regional umbrella the overwhelming majority of the Pacific's small island states, giving them a common sense of identity despite a diversity of cultures and colonial experiences.

<sup>3</sup> On national independence all eleven microstates adopted written constitutions. They also adopted unicameral legislatures (variously styled the House of Assembly, Assembly or Parliament) except in Fiji with its bicameral Senate and House of Representatives. However there were several differences in the forms of government established in the new national entities of the South Pacific. Four (Papua New Guinea, Fiji, Solomon Islands and Tuvalu) are independent states with an indigenous governor-general representing the Queen as the country's head of state, a prime minister and cabinet. Western Samoa has a presidential style head of state with separate prime minister and cabinet. Three (Kiribati, Nauru and Vanuatu) are republics with a presidential head of state, a presidential cabinet (Kiribati and Nauru) or council headed by a prime minister (Vanuatu). Two (Cook Islands and Niue) are self-governing territories in free association with New Zealand, and executive government operating through a premier and cabinet with a Queen's representative representing the Queen. Tonga is an independent kingdom with an hereditary head of state with considerable authority and also a prime minister and cabinet.

1976, whereas financial supervision of the nineteen Provincial Governments is exercised through the financial provisions of the *Organic Law on Provincial Government, 1976*.

In all eleven microstates of the Forum the government accounting and budgeting system is the ministerial responsibility of the Minister for (or 'of', in some) Finance who is a member of Cabinet.<sup>4</sup> The Minister of Finance manages his portfolio through a Treasury<sup>5</sup> headed by a Secretary for Finance or similarly-designated permanent head who is an officer of the administration, i.e. public (or civil) service. The permanent head and his staff co-ordinate the preparation of the annual budget, monitor financial performance and control expenditure. Generally Treasury advises the Minister for Finance on financial matters relating to the various statutory bodies for which he is responsible, and contributes significantly to the formation of economic policy.

In accordance with various provisions of the relevant government accounting and budgeting system, the expenditure of public moneys is usually governed by warrant authority for the release of funds and similar administrative procedures for their issue to spending departments. Warrant authority originates in the Minister for Finance who may authorize the issue and expenditure of appropriated moneys of the Consolidated Revenue Fund (or similar general or working fund), and also appoint officers to approve requisitions for the expenditure of moneys. In practice the Minister's warrant authority tends to be channelled through the Secretary for Finance to the chief accounting officer of individual departments who may issue cash funds certificates to their financial delegates for authorised expenditures.

There is nothing new in these familiar accounting and budgeting mechanisms in these microstates since national independence. Basically and substantially they have followed the precepts and policies of their colonial mentors to the extent that there is little, if anything, to differentiate the pre-independence and post-independence models of government accounting and budgeting. The principles followed and the practices employed reflect those of much larger public sectors of the metropolitan societies of the former occupying powers. In the process there has been no official attempt to identify and solve the accounting and budgeting problems of the much smaller public sectors in these microstates. It has been implicitly assumed that such microstates are nothing more than scaled-down versions of macrostates with the same public sector accounting and budgeting needs and requirements. The peculiar requirements of very small scale, however, indicate the need for infrastructural revision of the model adopted in the Forum's microstates.

The failure of the South Pacific Forum microstates to acquire more appropriate constitutional and legal provisions for financial management of the public sector is reflected in the limitation of following conventional provisions for financial control where the major source of government revenue is overseas aid. For several of the microstates such aid is ostensibly capital aid but in Papua New Guinea, Vanuatu, Tuvalu, Niue and the Cook Islands there is also substantial aid in support of the recurrent budget. Yet in these national entities financial arrangements in domestic

<sup>4</sup> The Council of Ministers, in the case of Vanuatu.

<sup>5</sup> The Department of Finance, in the case of Papua New Guinea, which replaced the antecedent Department of the Treasury on self-government (1973) when the Treasury Ordinance and related financial and accounting legislation of the colonial era were repealed.

law presuppose locally generated revenue as the primary source of government finance, and the management of foreign aid is treated as coming within the authority of the executive as a part of the conduct of foreign affairs and thus encompassed by prerogative powers. In most of the microstates—but not Fiji—the major source of funds is not taxes, duties etc. as assumed by the relevant constitutions, but foreign aid which is not covered, or subject to control, by constitutional provisions (or if so, then only tangentially).

## PUBLIC SECTOR AUDIT FUNCTION

In all eleven of these microstates the government accounting and budgeting system is subject to audit by the Auditor-General or similarly-designated external auditor<sup>6</sup> who, in each case, is independent of the executive and responsible to the legislature. The Auditor-General is required under the relevant Constitution to inspect, audit and report at least once in every fiscal year to the legislature on the public accounts and on transactions with or concerning public moneys and property. The statutory provisions relating to the principal functions, duties, powers, discretions and reports of the Auditor-General are specified in the enabling legislation for financial management and control.

Public sector auditing in the microstates is largely confined to annual compliance audits. The objectives of such audits are to determine whether all receipts, expenditures and transactions relating to public property and stores have been properly accounted for, are duly authorized, have been correctly recorded, are in accordance with the provisions of the applicable legislation, and fall within the limits and purposes specified by the legislature in the relevant Appropriation Acts. However operations audits (similar to 'efficiency audits' in the Australian public sector and elsewhere) are not employed to ascertain whether due economy has been exercised over expenditure, funds have been controlled, waste has been avoided and revenue collections have been maximized according to operation of the law. The only exceptions are in the two larger states of Papua New Guinea (Sentheyval, 1981, pp. 14-15) and Fiji (Bhim, 1978, pp. 7-8, 12) where the external audit of the executive has progressed beyond compliance to considerations of efficiency and economy in resource utilization.

There is a growing trend in the Forum's microstates for the adoption of the systems-based approach to public sector auditing. Previously the emphasis was on the transactions-based approach where individual transactions were vouched to substantiate the correctness of ending account balances. Because these balances are dependent upon the systems which generate them, the evaluation of the cognate systems is now the preferred approach where transactions are voluminous. Each system is tested by a statistical sample which is audited in depth. When a system is considered strong, the audit effort in the verification of balances is reduced accordingly. On the other hand, if the system is inadequate, more audit time is devoted to the verification of balances (Sentheyval, 1982, p. 5).

<sup>6</sup> The designation 'Auditor-General' is used in Papua New Guinea, Fiji, Solomon Islands and Vanuatu; 'Director of Audit' in Kiribati and Nauru; 'Government Auditor' in Tonga; 'Controller and Chief Auditor' in Western Samoa; and 'Principal Auditor' in Tuvalu. The public sector audit function in the Cook Islands and Niue is vested extraterritorially in the New Zealand Auditor-General.

The annual reports of the various Auditors-General are neither nominal nor automatic endorsements of their respective Governments' financial administration. An examination of these reports over the last decade reveals recurring references to inadequacies in standards of accounting, in the effectiveness of accounting controls, and in the proper discharge of accountability within departments of the respective administrations (see, for example, Solomon Islands, 1981a).

As outlined above, the public sector audit function in the Forum's microstates is much the same as in bordering macrostates. In both cases auditing is confined to the accounting records of the public sectors involved. However it is problematical whether this restriction can be justified in very small states where revenue options are strictly limited. Accordingly it may be argued that the public sector audit function should be extended to embrace any activity within a particular microstate which generates public revenue either directly or indirectly. Thus in joint equity undertakings between the government and private enterprise, the former's revenue share is determined largely by metropolitan accounting systems both administered and audited by expatriate accounting firms. For participatory foreign investment to be of benefit to the host country, accounting for the subject ventures must be both accurate and equitable. In the absence of indigenous audit emanating from the public sector, there is the possibility of manipulation of foreign investment in local undertakings to the financial detriment of the host country. In particular, joint venture profits are exposed to siphoning off to metropolitan parent companies through 'creative' expense distribution, transfer pricing, false documentation and other ruses. The accountants for such ventures, in common with accountants elsewhere, have the capacity to make the bottom-of-the-line figures anything they like, depending on the instructions of management and the nature of the assumptions adopted (Hardman, 1983, p. 6).

## PARLIAMENTARY FINANCIAL SURVEILLANCE

Six of the microstates (Papua New Guinea, Fiji, Kiribati, Solomon Island, Tuvalu and Vanuatu) of the South Pacific Forum have established Public Accounts Committees to examine and consider public expenditure in certain financial areas and/or from specified reporting sources, and report accordingly to their respective legislatures. Thus the work of these committees is commonly focused on:

- (a) expenditures in excess of appropriations
- (b) matters reported by the Auditor-General.<sup>7</sup>

Although the Public Accounts Committees do not have a universal mandate for financial examination and reporting, the presence and activities of such watchdog bodies tends to deter—in varying degrees depending on their constitution and composition—financial mismanagement and misappropriation in the public sector.

<sup>7</sup> The *post hoc* nature of the work of the various Public Accounts Committees results in inevitable timelags which usually militate against the effectiveness of remedial action. For example, the Public Accounts Committee of the Solomon Islands National Parliament reported concurrently on (i) overexpenditures, and (ii) the Auditor General's Reports, for 1978 and 1979 in May 1981 (Solomon Islands, 1981b).

In Papua New Guinea, Kiribati and Tuvalu there is specific constitutional provision for a Public Accounts Committee (Papua New Guinea, 1975, ss. 215-216; Kiribati, 1979, s. 115; Tuvalu, 1978, s. 102). The manner of operation of the Papua New Guinea Committee is then prescribed further in enabling financial legislation (Papua New Guinea, 1973, ss. 43-73). The model adopted in Papua New Guinea confers considerable powers on the Public Accounts Committee. Under its specific constitutional powers and the general powers of permanent committees of the National Parliament, the Public Accounts Committee interrogates where necessary both departmental and other witnesses, and records evidence given under oath, in the course of its hearings which are public except in special circumstances (Sentheval, 1981, p. 15; Warena, 1981, p. 55).

In Fiji, Vanuatu and Solomon Islands there is no specific constitutional provision for Public Accounts Committees as such. However, the respective legislatures, acting in accordance with their general constitutional powers to establish parliamentary committees and appoint members to them, have formed Public Accounts Committees.<sup>8</sup> In practice the authority of these committees tends to be rather limited, being confined to prescribed examinations and reporting. Thus, in Fiji: 'The Public Accounts Committee shall examine the accounts of the Government of Fiji in respect of each year together with any report of the Auditor-General thereon and such other accounts laid before the Parliament as the Committee may think fit and shall report thereon to the House' (Lodhia, 1981, p. 56).

Such procrustean prescription markedly restricts the operative area of function and authority. It would appear that the Public Accounts Committee in Fiji—and in Vanuatu and Solomon Islands where there are similar limitations—does not have the powers, *inter alia*, to:

- (i) examine the accounts of those statutory bodies not subject to audit by the Auditor-General
- (ii) initiate financial investigations of its own in the public interest
- (iii) interrogate departmental and other witnesses on oath
- (iv) conduct public hearings.

In order to widen and increase the scope and authority of such Public Accounts Committees there would appear to be a need for specific legislative enactment or revised standing orders in which wider terms of reference are conferred on the Committees.

It could also prove advantageous for the various Public Accounts Committees of these microstates to have authority to draw on the expertise of professional accounting staff specially appointed to supplement the public sector audit function, particularly where the existing staff has only limited expertise and experience. Such supplementary assistance could possibly be provided by qualified accountants seconded from the private sector or elsewhere as short-term consultants. In this way each of the Public Accounts Committees would have the benefit of high-grade

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<sup>8</sup> In Fiji the authority of the Public Accounts Committee is derived from Standing Order 62 of the House of Representatives; in Vanuatu, from Standing Order 49 of the Parliament; and in Solomon Islands, from Standing Order 68 of the National Parliament.



Independent expertise on call whenever there was suspicion of financial irregularity or mismanagement irrespective of its magnitude, complexity and ramification.

## ACCOUNTING ORGANIZATION AND RELEVANCE

The effectiveness of public financial administration in the Forum's microstates depends to a large degree on the supply of suitably qualified accountants entering their respective public sectors. This supply is influenced by the policies, practices and standards of indigenous accounting bodies. There are now four such bodies among the microstates of the Forum: Western Samoa Society of Accountants (established 1959), Fiji Institute of Accountants (1971), Papua New Guinea Association of Accountants Inc. (1974) and Institute of Solomon Islands Accountants (1982). Products of 'the new South Pacific' either shortly before or after national independence, these indigenous bodies were not founded exclusively by—or for—national accountants of the microstates.

Although formally incorporating the ideals of national independence and identity, the new accounting bodies were established largely on the initiative of non-national accountants employed by expatriate accounting firms and business houses or in government. The constitutions, organizational forms, membership requirements and examination syllabuses of the indigenous accounting bodies were determined substantially by, or on the advice of, non-national accountants drawing from their knowledge, experience and preferences of metropolitan models of professional accounting bodies. The continuing presence of non-national accountants in the various Forum microstates since independence has strongly influenced the activities and pronouncements of the indigenous accounting bodies. As at 31 December 1982, 136 members of The Institute of Chartered Accountants in Australia, 162 members of the Australian Society of Accountants and 151 members of the New Zealand Society of Accountants were employed (mainly private sector) in the Forum microstates. In Papua New Guinea, the largest of the microstates, over half (208 members or 56.2 per cent) of the total membership (370) of the Papua New Guinea Association of Accountants Inc. was non-national at the above date.<sup>9</sup>

In view of this membership imbalance in favour of non-nationals, it is not surprising that the indigenous accounting bodies have not developed a common philosophy of employment localization at the *professional* level. Although there may be an official recognition by these bodies of the need to develop indigenous manpower resources as a necessary condition for effective accounting infrastructures in both private and public sectors, this development has been largely confined to the *subprofessional* level.<sup>10</sup> The current examination standards of the local accounting bodies may be suitable for candidates seeking to qualify in accountancy at the support or technician level, but are subprofessional in the sense that successful candidates would not be exempted from the educational requirements

<sup>9</sup> These membership statistics have been provided in personal correspondence from the accounting bodies concerned.

<sup>10</sup> Some national students in these microstates attempt the examinations of the (British) Business Education Council (BEC) National Certificate Course. At the Honiara Technical Institute in the Solomon Islands, for example, this course is organized on a full-time basis of eight terms (80 weeks) extending over two years (Hardman, 1983, p. 5).

of generally accepted and officially recognized professional accounting bodies in metropolitan countries neighbouring the microstates. Thus The Institute of Chartered Accountants in Australia, the Australian Society of Accountants and the New Zealand Society of Accountants do not accept the examinations of these bodies for membership purposes. However members of the Western Samoa Society of Accountants who come to New Zealand to further their accountancy studies are granted exemptions from certain subjects in the qualifying examinations of the New Zealand Society of Accountants. Some examination exemptions may also be given by the professional bodies in New Zealand and Australia to members of the accounting bodies in the microstates provided they have successfully completed an accounting major in a relevant degree course of one of the three universities in Forum microstates, i.e. the University of Papua New Guinea (Port Moresby), The Papua New Guinea University of Technology (Lae) and The University of the South Pacific (headquarters in Fiji).

The focus on accounting education primarily at the support or technical level and, at best, limited recognition in special circumstances of their membership examinations by the accounting profession in Australia and New Zealand, have tended to create subprofessional accounting bodies subordinate to the professional interests of the multinational accounting firms. These are well represented with local branches and resident staff in the larger microstates (Papua New Guinea, Fiji, Vanuatu, Solomon Islands and Western Samoa), where they provide a wide range of accounting and associated services (mainly company administration, auditing and taxation) for overseas and local business houses.<sup>11</sup>

In the absence of any statutory or other directive to the contrary in the Forum microstates, the accounting standards<sup>12</sup> in public financial administration are those of the professional bodies in the United Kingdom, Australia and New Zealand. These standards, which exhibit a marked degree of uniformity, have been promulgated by the above metropolitan bodies for the observance of their respective members including those employed on permanent transfer, long-term posting or fixed-term contract in the microstates. In common with accounting standards generally, there is no recognition of the special needs and priorities of the public sector. Similarly no provision is made in such standards for the peculiar requirements of very small scale.

It is a logical expectation that, on national independence, the microstates would have moved in the direction of formulating appropriate accounting standards for both public and private sectors through indigenous accounting bodies. Three of these bodies—Western Samoa Society of Accountants, Fiji Institute of Accountants, and Papua New Guinea Association of Accountants Inc.—have in fact issued a number of accounting standards. Although acknowledging the aspirations of national members of the indigenous accounting bodies, the standards reflect the dominant influence of non-national members employed by expatriate accounting firms and business houses. The standards adopted so far either follow, or are not inconsistent with, those promulgated by the International Accounting

<sup>11</sup> In Vanuatu, with its status as a tax haven, these expatriate accounting firms also provide specialized services concerned with the registration and administration of exempt companies for overseas clients, and with the financial control of international cash transactions (Hardman, 1982a, p. 4).

<sup>12</sup> Accounting standards are quality controls or performance levels specified by an accounting body or other authority.

Standards Committee<sup>13</sup> which, as indicated above, recognize neither the special needs and priorities of the public sector nor the peculiar requirements of very small scale. Thus, for example, *FAS—Disclosure of Accounting Policies* of the Fiji Institute of Accountants follows the style of, draws heavily upon and includes practically all material from International Accounting Standard 1 (IAS-1) of the same name. Similarly, *PNGAS1—Profit and Loss Statements* of the Papua New Guinea Association of Accountants Inc. is basically a reprint of Australian Accounting Standard 1 (AASI), which is not inconsistent with any International Accounting Standard.

In the case of young, developing microstates, however, there would appear to be something incongruous in the adoption of imported accounting standards formulated in the context of big business, industrial society and metropolitan government. It is conjectural whether the Forum microstates can benefit in the same way, and to the same extent, from the accounting standards of a manifestly different type of very large-scale society. What may well be needed locally are indigenous accounting standards oriented towards growth and development, but there has been no attempt anywhere in these microstates to formulate and implement accounting standards which specifically recognize local conditions, influences and problems—particularly those emanating from considerations of very small scale. In a broader but related context, the irrelevance and inappropriateness of imported accounting standards to the needs of the Third World were highlighted at the Ninth Conference of the Confederation of Asian and Pacific Accountants (CAPA): ‘... two-thirds of the world today is comprised of developing countries whose circumstances should be considered in the formulation of international accounting and auditing statements. Certain standards or principles that may seem logical and appropriate from the viewpoint of a western developed country may be inappropriate or may work undue hardships ... in a developing country’ (SyCip, 1979, p. 19).

This inappropriateness of imported accounting principles and standards may be illustrated by reference to accounting for devaluation. Accounting standards in developed countries usually require exchange losses to be charged to operations as a diminution of net worth. However such a practice in the case of a developing country, which finances imported plant and equipment by a foreign currency loan or credit, could result in accounting anomalies. Should a developing country devalue its currency, the cost of such fixed assets is usually increased by the amount of additional local currency required to meet the foreign liability incurred for their purchase. If it were mandatory to charge exchange losses to operations, not only would subsequent financial statements be unrealistic but the companies concerned could be technically insolvent.

Similarly the inappropriateness of imported accounting principles and standards in developing countries is reflected in the accounting and reporting prescriptions for group accounts. Although the consolidation of accounts may be desirable and appropriate for transnational corporations in developed countries where a publicly-held parent company owns several or numerous subsidiaries, groups of companies in

<sup>13</sup> The International Accounting Standards Committee (IASC) was formed after the Tenth Congress (1972) of the International Congress of Accountants was held in Sydney. The objectives of the IASC are to establish international accounting standards and to ensure that published financial statements comply with these standards. There are more than forty members of the IASC, including the U.S.A., United Kingdom and Australia.

developing countries may have few key common shareholders but there may not be a parent or holding company in the transnational sense. For such developing countries the combined form of financial statements may be more pertinent to business groups—particularly trading companies operating in a number of regional microstates—where the affiliation or mutual bond may not be one of equity ownership.

Finally in the context of appropriateness for the needs of developing countries, the usual accounting convention or rules which requires all partners and professional staff of accounting firms in developed countries to be independent of their client's top management would, in the case of a developing country, limit employment on a selective basis and bar technically qualified relatives from being employed by resident accounting firms. Although this independence requirement may be workable in a developed country where a firm has branch offices in a number of regional centres, the much smaller size of a developing microstate, and the inevitable concentration of accounting services in the capital or main trading port, militates against the geographic deployment of staff to avoid potential conflict of interests through familial relationships and thus preserve this outward—but perhaps superficial—sign of professional independence.

## REVIEW AND ASSESSMENT

In the colonial era public financial administration in the island entities of the South Pacific was substantially an expatriate function controlled extra-territorially by the respective occupying powers. Self-determination and national independence have established new forms and institutions in this area, namely indigenous control of public revenue and expenditure through national legislatures, inauguration of an indigenous office of Auditor-General and formation of a parliamentary Public Accounts Committee in certain states. Regionally the South Pacific Forum has emerged as a forum for economic, political and other matters of common interest and concern.

Despite these formal and constitutional changes in public financial administration, the basic rules and procedures of the government accounting and budgeting systems in the Forum microstates remain unaltered. There has been no infrastructural change or variation in the model employed in recognition of the peculiar needs and special priorities of very small states, newly independent and still very much in the developing stage. The model continues to be an essentially imported one, reflecting for the most part traditional British attitudes and postures in this area.<sup>14</sup> It would appear to be both incongruous and inappropriate for the sedulous adoption of such a model—which has evolved and crystallized over some centuries in the context of big business, industrial society and metropolitan government—by a very much smaller and younger state at an entirely different stage of development. What may well be needed is an indigenous model based on

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<sup>14</sup> It has been observed in this connection that: 'The low status given to government accounting in the United Kingdom has been transmitted to other countries in the British sphere of influence and has further encouraged the dominance of private sector auditing, making it more difficult for the government sector to control the structure and duties of the accounting profession' (Briston, 1978, p. 115).

assumptions which take into account the financial conditions, problems and very small scale of the local environment.<sup>15</sup>

In the absence of an indigenous model of government accounting and budgeting, public financial administration in the microstates retains a peculiarly foreign flavour which inhibits the fulfilment of current information requirements and policy needs. The resultant deficiencies and inadequacies, which are characteristic of developing countries generally (Premchand, 1976, pp. 34–35), may be summarized:

- (a) The infrastructure has not contributed to the functional and economic assessment of public sector operations, because its historical focus has been confined to the provision and maintenance of appropriation accounts to meet the accountability function.
- (b) The focus on the static mould of funds warrants and disbursement regulations, coupled with mandatory uniformity and the legal propriety of transactions, has tended to stifle accounting initiative, creativity and innovation.
- (c) The present infrastructure permits the recording of cash disbursements and receipts, but not the measurement of costs and the acquisition of assets.
- (d) Inordinate delays in the compilation of accounts have substantially reduced the value of the information produced.
- (e) Excessive rigidity, archaic procedures and voluminous paperwork have resulted in accounting bottlenecks and wasted time.

The attainment of the developmental and other objectives of these microstates would probably be facilitated by the revision of the assumptions of the existing model of public financial administration to broaden the scope for improvisation, experimentation and innovation in deference to the peculiar requirements and constraints of very small scale. Such a departure from the conventional wisdom of the past could enhance the financial accountability of the respective executives to the legislatures and, ultimately, to the electorates of the microstates.

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<sup>15</sup> In the wider context of economic development, undue reliance on the imported 'Australian model' has been blamed recently by the Prime Minister, Mr. M. Somare, for Papua New Guinea's contemporary economic problems: 'Since Independence we have tried the path mapped out by the colonial administration. It is now time for us to admit that our policies were wrong. The Australian model—the large Public Service, restrictive bureaucracy and heavy regulation—is not appropriate for PNG. It has led us to the situation we are in now—critical unemployment, declining real incomes and stagnating industry' (*Sydney Morning Herald*, 1983a, p. 1; also 1983b, p. 6).

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