

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS AND PUBLIC ACCOUNTING REFORM IN EUROPE

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Abstract: Different political, economic and cultural traditions give rise to great diversity between public sector accounting systems in different countries. The paper presents a literature review of the accounting principles and financial reporting in Europe, the financial statements and the relationship between financial and budgetary accounting.

The IPSAS perhaps provide an opportunity for European accounting, and in future, national governments should attempt their accounting systems to the IPSAS.

The paper contributes to the development of some points of view regarding the adoption of the IPSAS by the European countries accounting systems and the harmonization of the European public accounting systems.

Key words: International Public Sector Accounting Standards, European Union institutions, public accounting.

1. Introduction

During the last decade the public sector has been affected by the introduction of significant reforms in the public accounting system in the international context. The aim of the public sector reforms is to overcome bureaucratic obstacles so that managers can use their limited resources more efficiently (Pina, Torres, 2003). Accounting played a crucial role in the public management development once the autonomy in public service organizations increased (Lapsley, 1999).

Under the new public sector reform, different public institutions have transformed their financial statements to incorporate accrual accounting principles. In several countries there is considerable debate regarding the scope and format of accrual accounting systems (Heald & Dowdall, 1999, Hodges & Mellet, 1999).

2. An international comparative view of public sector accounting

The use of the cash or accrual basis of budgeting and accounting was seen as a great divide between the public and private sector with the public sector practicing cash accounting and budgeting, and the private sector using accrual methods. The better the financial information, the increase in the cost transparency and the valuation of public sector assets (Graham A., 2005) have persuaded many countries to adopt the accountancy system to their own needs. During the reform process they have put into practice numerous intermediate variants between the extremes of cash and accrual budgeting and accounting. The reasons for the different national systems may be due to the culture, the historical background or the structural elements of these countries. Also the specific objectives and the principal users of the financial reporting, the financial resource suppliers and the influence of public accounting regulatory bodies imply different national accounting systems.

In the Western democracies there are two main broad styles of public management: Anglo-American and European Continental types. Anglo-American countries (Australia, Canada, New Zealand, United Kingdom and the United States) have undertaken territorial decentralization and have adapted the private

sector experience to the public sector. They are more likely to introduce market mechanisms and notions of competitiveness and envisage the citizen primarily as a consumer of services or as a client (Pina, Torres, 2003). The European Continental countries (Belgium, France, Germany, Greece, Portugal, Romania and Spain) are influenced by structures inherited from a bureaucratic and hierarchical public administration, grounded in administrative law (Pina, Torres, 2003).

With regard to the connection between accounting and budgeting in the international context three alternative models (Brusca, Condor, 2002) stand out:

1. The accounting system is limited to the registration of budgetary operations

In this case the financial accounting is limited to the budgetary information and only the transactions that affect the budget are registered. This is the general case in Germany.

2. The budgetary system and the accounting system are connected

The connection between accounting and budgetary information is established in such a way that the accounting system allows the monitoring of the budget. In this group are generally the Continental European countries (Italy, Portugal, France, Romania and Spain) where the influence of budgeting concepts and law of the accounting and reporting system is very important. Therefore, given that the resources are allocated through the budgetary process, the budget is converted to the primary instrument for accountability.

3. The budgetary and the financial accounting systems are two independent systems

In this alternative there is no connection between the budgetary and the accounting information, so that on the one hand accounting statements are produced and contained in the Financial Report, and on the other hand budgetary statements are produced to fulfill legal requirements. The public institutions produce the financial information presenting the same statements as the business entities, without taking into account budgetary obligations. This is the case in the Anglo-Saxon countries: Australia, Canada, New Zealand, United Kingdom.

Table 1 shows the status of accrual accounting and budgeting in some countries, revealing that most countries have introduced aspects of accrual accounting and more are intent to do so in the future.

Although there is a wide acceptance of the application of the accrual systems for the production of accounting statements, there is no consensus with regard to the production of the budgetary statements. The tendency of most countries is to produce budgets according to the accrual criterion, producing a forecast statement of revenues and expenses, cash flows and the financial situation. European Union member countries are required to prepare government forecast and financial statements in accordance with the European System of Accounts (ESA 95) (Athukorala, Reid, 2003). It appears that all the European countries have adapted or are intending to adapt ESA 95. In the European Union the free circulation of information is essential. An important item is the converging and the harmonization between the public accounting system in different countries.

COUNTRY	ACCRUAL BUDGETING	ACCRUAL ACCOUNTING	CONSOLIDATED ACCRUAL REPORTING
DENMARK	ESA 95. Is introducing full accrual budgeting	Some	Some
FRANCE	ESA 95. Intends to move to modified accrual basis	Being introduced accrual accounting	Full accrual being introduced
GERMANY	ESA 95. In preparation	Cash statements supplemented with accrual information	No
GREECE	ESA 95. Modified accrual	Some	Consolidated accrual reporting
HUNGARY	No, but will be introducing modified	Cash statements supplemented with	No

	accrual budgeting in accordance with ESA 95	accrual information	
ITALY	ESA 95. Accrual budgeting	Accrual basis	Accrual basis
PORTUGAL	ESA 95. Is introducing additional accrual information	Yes	No
ROMANIA	In preparation ESA 95.	Being introduced accrual accounting	No
SPAIN	ESA95. Modified cash	Modified accrual	Modified accrual
SWEDEN	ESA 95. Is introducing full accrual budgeting	Accrual accounting since 1994	Consolidated accrual reporting since 1994
UNITED KINGDOM	ESA 95. Accrual budgeting since fiscal year 2002	Accrual accounting since fiscal year 2000	From fiscal year 2006

Table- 1: The Basis of Budgeting and Accounting Systems in the Public Sector in different countries (2003)

Note: ESA 95 = European System of Accounts 1995;

Source: Athukorala S.L. and Reid B (2003), *Accrual Budgeting and Accounting in Government and its Relevance for Developing Member Countries*, Asian Development Bank, Regional and Sustainable Development Department, pp. 22-24

The need for public accounting system harmonization in European Union countries is justified by the existence of a European common market, because of which it would be desirable to elaborate complete financial statements for the European Union which allow us to give a complete image of the financial situation of the whole, with the object of easing the decision-making processes at the European level. In particular, the reasons and benefits for demanding trans-national harmonization of governmental and financial reporting in the European Union are the following:

- The need to establish comparisons between different countries, so that the accounting systems are more comparable.
- The need for consolidating financial statements of the member countries to get an overall picture of the financial situation of the Community.
- The need for an equal treatment of European Union grants and European Union dues in the national accounting systems, so that for example, the use of funds awarded by the European Union is more transparent and national governments can better be held accountable for proper and efficient spending.
- The need of the citizens, as well as possible investors, to compare the situation of different member countries, who would need comparable information on the financial position and changes in the financial position of the member countries. The citizens should also be able to compare the performance of different countries.
- European Union Institutions could adopt the generally accepted accounting principles in the European Union and their financial statements could be understood by all European citizens. Thus, we would have comparable accounting systems between different countries and between them and the European Institutions.
- The harmonization of public accounting could contribute to guarantee the proper functioning of the common market.
- The harmonization of public accounting systems would bring about the comparability of the values that are used in analyzing whether different countries comply with the parameters established in the Treaty of Maastricht, which is, without doubt, an important question.

- The European professionals of public accounting and auditing would have a common benchmark of reference.

To the above reasons we could add accounting harmonization at international level referring to the Macroeconomic Accounting. In spite of the European System of Integrated Economic Accounts (ESA), which makes National Accounting comparable and useful for economic comparisons between countries, it can be said that this information is insufficient in a world of continuous and growing international political, economic and financial interdependencies. In the framework of public accounting transformations and the implementation of accrual accounting in the public sector, The International Federation of Accountants (IFAC) submitted the "Guideline for Governmental Financial Reporting" in 1998 to assist governments at all levels in the preparation of their financial reports on the accrual basis. This IFAC Guideline, together with the International Accounting Standards (IAS) submitted for the private sector, provide the basis for the International Public Sector Accounting Standards (IPSAS) developed by the Public Sector Committee (PSC) of IFAC.

The application of international accounting standards to the public sector could obviously contribute significantly to the provision of comparable, relevant and understandable financial information by European governments. There are a lot of reasons for the updating the accounting systems at central, regional and local government level. In the case of Anglo-Saxon countries, preconditions for adopting IPSASs are doubtless more positive, especially because of the world-wide influence of other countries with this cultural background which is working hard to promote the development of IFAC international standards.

The use of alternative criteria in public accounting systems leads to different results concerning the financial statements, the income and expenditure statements and the balance sheet. In spite of these, public accounting harmonization is taking its first steps through the efforts of INTOSAI (International Organization of Supreme Audit Institutions) and IFAC (International Federation of Accountants) at global level. The standards of INTOSAI have mainly focused on the elaboration of a conceptual framework for public accounting information. The IFAC standards entered into more detailed recommendations on accounting practices adapting the International Accounting Standards for public entities under the influence of the Anglo-Saxon Model and passing over the importance of the budget from the Continental European Model or of the features of public sector accounting (Brusca, Condor, 2002).

Although some international organizations (OCDE and European Union Institutions) have adapted the International Public Sector Accounting Standards (IPSAS), different countries, especially from the Continental European area, are not very interested in adopting them because of the difference to the continental accounting tradition.

3. Conclusions

In this paper we have tried to offer a complete view of the situation of public accounting information in the international context, showing that in recent years most of the countries studied have introduced important reforms in their public accounting systems. The most characteristic aspects of these reform processes are the implementation of accrual accounting, the approximation to business accounting and a general concern to introduce techniques that allow the improvement of public administration management.

Although the reforms have taken some similar directions and in this sense the degree of convergence is perhaps higher than ten years ago, the truth is that public accounting systems show very little homogeneity, accounting diversity being one of their characteristics.

The main differences appear between the accounting systems of the Anglo-Saxon area and Continental European countries, because the accounting traditions vary considerably between them. In the Continental European area more importance is given to the budget and legal control, and the information is mainly directed towards the legislative and executive power. On the other hand, in the Anglo-Saxon area more importance is given to the electorate and general public and operational accountability is preferred to legal accountability.

In any case, neither can it be said that within these groups there is homogeneity, because similar criteria are not adopted and furthermore the state of the reforms varies from one country to another.

Although it may appear that diversity in public accounting systems has no negative effects, it leads to a lack of comparability of information and the consequent difficulties of interpretation for the user who is not

aware of the accounting standards. Nevertheless, it is true that the effects of diversity, at least for the moment, do not have the same transcendence as in the business sector.

Among the reasons and benefits that can be put forward in favour of international accounting harmonisation in the public sector, we can highlight the following: externalisation of financial activity of public administrations, aiding the elaboration and comparability of macroeconomic accounting and easing the generalised modernisation of accounting systems in less developed countries. To these reasons, we should add, in the case of the countries of the European Union, the existence of a common European market, because of which the member countries and multinational organisations need comparable and true information about the financial situation of the countries in the Union, which will ease the analysis of the Maastricht Treaty requirements.

We must also be aware of the existence of diverse obstacles and difficulties which indicate the hard and costly road it is still necessary to walk, such as the importance of the legal framework, cultural and language differences and, above all, the attitude of public administrations themselves, inasmuch as they do not see the benefits of the comparability of the information at supranational level.

In spite of the difficulties, public accounting harmonisation is taking its first steps and some international bodies have begun a process that illustrates this, and which has the objective of lessening the differences between different countries. At global level we can highlight especially the harmonisation efforts carried out by INTOSAI and IFAC.

We can ask ourselves to what extent IPSAS can really be a useful tool in the harmonisation of public sector accounting, bearing in mind that different countries are not very interested in adopting them. This is especially true in the Continental European area, because IPSAS have a different philosophy to the continental accounting tradition.

At the moment, there is an open debate about the necessity of these standards and what success they will have. It is too early to know what will happen in the future, and it will also depend on the final situation in the business sector. Even so, it is true that these standards are serving as a stimulus for accounting reform in some international organisations, such as OCDE or European Union Institutions.

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