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# Challenges for European Public Sector Accounting

<https://doi.org/10.1515/ael-2017-0021>

Published online February 24, 2017

**Abstract:** This article is based upon the transcript of a speech given at the international workshop on “Which accounting regulation for Europe’s economy and society?” held at the European Parliament, Strasbourg, on May 20, 2015, in tribute to Mr Jérôme Haas (1963–2014), first chairman of the Accounting Standards Authority of France (ANC).

## Accounting for the European Public Sector: Roundtable on the Ongoing Reform of European Public Sector Accounting Standards (EPSAS)

1. “Harmonising European Public Sector Accounting Standards (EPSAS): Issues and Perspectives” by Yuri Biondi, <https://doi.org/10.1515/ael-2017-0014>
2. “France Supports Accrual Accounting For The Public Sector” by Marie-Pierre Calmel, <https://doi.org/10.1515/ael-2017-0019>
3. “Challenges for European Public Sector Accounting” by David Heald, <https://doi.org/10.1515/ael-2017-0021>
4. “Italian Public Sector Accounting Reform: A Step Towards European Public Sector Accounting Harmonisation” by Riccardo Mussari and Daniela Sorrentino, <https://doi.org/10.1515/ael-2017-0006>
5. “European Public Sector Accounting Standards (EPSAS)” by Alexandre Makaronidis, <https://doi.org/10.1515/ael-2017-0008>
6. “Open Debate on Accounting for the European Public Sector” by Imke Graeff, <https://doi.org/10.1515/ael-2017-0025>

Thank you very much for the invitation and to the organisers in general. To summarise my position: I support international standards for public sector accounting. If I had my way, Europe would have adopted IPSAS, and would have put resources into improving IPSAS, making the IPSASB better resourced and responding more quickly. I recognise that that is not a practical option but I would like EPSAS to be as close to IPSAS as possible. The reason for that is that I do not accept there are many significant differences between the public sector and the private sector in terms of doing the accounting.

I recognise that there are significant differences on the budgeting side. There are significant differences in terms of the uses to which that information is put. So

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for example, we have just had an explanation that France separates out the bases of budgeting and accounting, while the United Kingdom has an integrated system. I would regard as a matter for a Member State what is the relationship between the budgeting and the accounting. Also Yuri Biondi made reference to the possibility that under accruals accounting, certainly at whole of government level, government is shown to have negative net assets. That is where the interpretation of public and private is significantly different. The United Kingdom has been publishing for the last five years the fact that the UK government has negative net assets; this has had virtually no capital market implications in terms of what the government could borrow. Clearly it has to explain to the markets what the position is.

There is sometimes a temptation to imply that I adopt a neoliberal stance; I do not. I have no wish to privatise the public sector. I have no wish not to use public power for regulatory purposes, so I certainly do not take a free market, anti-public sector line. What I do believe is that accounting is about conveying financial information, and I do not think one helps that process if you change the accounting to deal with particular domestic circumstances or company law circumstances. Particularly in the context of the European Union, because traditions are so evidently different, something that might appear to help in the context of one country is not likely to help many countries at the same time. One of the things I am beginning to appreciate, as the discussion about EPSAS goes on, is how hostile European Parliament attitudes towards IFRS are affecting the debate about public sector accounting.

So there are several contests going on. One is an international power struggle about jurisdiction, which one has seen in previous presentations about the IASB and the European Union. One thing that really worries me, coming from a country where our modifications from IFRS for the public sector are transparent and relatively modest, is if Europe were to adopt a set of public sector accounting standards that were very significantly different and made the United Kingdom less internationally comparable. The United Kingdom put twenty years of effort into becoming as internationally comparable as one can. This discussion is not about IFRS but I am just going to make one point; I do not accept Yuri Biondi's position that IFRS was a significant factor in the global financial crisis. My reading of the literature does not support that view at all.

One thing I think is happening is that the debate is about EPSAS governance, whereas I would want it to be a debate about how one would wish to change the standards adopted by the IPSASB. What modifications could you justify in a European context to what the IPSASB has done? And it might be in certain cases that one got closer to IFRS than the IPSASB, so the compromises might be different, but I would rather have the discussion on technical questions about the standards. I am suspicious when people want to talk only about governance: governance of

EPSAS is important, but I rather suspect that people want to talk about governance as a way of delaying progress and delaying talking about the technical matters.

I made a note this morning that one person on a previous panel wanted accounting standard setting to be independent, transparent and democratic. Now, one is tempted to invoke Kenneth Arrow's Impossibility Theorem here: you cannot have a system of accounting standard setting that is independent, transparent and democratic, if by democratic you mean that the elected body – the European Parliament – is going to overrule what the standard setters recommend. If that is the arrangement, it is certainly not fully independent. And for any standard setter, whether notionally a public standard setter or a private standard setter, one of the ways that they have to build their legitimacy is being transparent about what they do.

The construction of transparency, and hence of legitimacy, depends upon the operating mode of the standard-setting body. Clearly there is a difference between Continental European and British traditions but I think that some of the debate about the IASB and the IPSASB being private sector bodies and therefore intrinsically bad and that the standard setter must be a public sector body, is diversionary tactics. What is obvious from the Ernst & Young and PwC reports that Eurostat commissioned is that, as Marie-Pierre Calmel has said, adoption of accruals accounting in government in France has been a slow, long and expensive process. It was a long and expensive process in the United Kingdom. The United Kingdom took about fifteen years, on some criteria arguably twenty, to get to the position it has now reached. Countries that have not already moved in this direction are going to find it very, very difficult to do so quickly. And of course France and the United Kingdom made their moves in a far more benevolent economic climate than one has at the moment. Arguing for more accountants rather than for more nurses is never a popular activity.

The two countries that come out from the studies commissioned by Eurostat as having significant issues are Germany and Italy, where, if you look at the costing of EPSAS adoption, those two countries have obviously got very big cost issues. On the question about how long it takes before countries become compliant, assuming there were an EPSAS Board with standards to match the IPSASB, this will obviously take rather longer than the kind of time horizon that the European Commission and Eurostat are currently talking about.

If the climate about IFRS becomes too toxic and it delays or cancels the EPSAS project, let me refer back to what somebody said this morning: that if the European Commission had not gone ahead with IFRS adoption, the rest of the world, including much of Europe, would have adopted US GAAP. What do I think would happen if Europe does not go ahead with EPSAS? What I hope would happen in those circumstances is that more countries would go

to IPSAS. So people should not think that by stopping the EPSAS project one is going to stop changes happening. As I said in my opening position, I would rather have had a wholesale move to IPSAS by the European Union. I am not at all sure that partial moves to IPSAS by some countries would necessarily be beneficial for harmonisation. The United Kingdom now goes directly to IFRS and it was fascinating from the Eurostat studies that the two most compliant countries with IPSAS are the United Kingdom that does not follow IPSAS, or only at a tertiary level, and France that is often critical of the IPSASB.

The other consequence of not going ahead with EPSAS would be that statistical accounting would dominate in terms of the uses to which people want to put public sector financial information. These uses will not go away within the context of a single market and the single currency. So what will happen is that fiscal surveillance will be done by the European Commission on the basis of less good data about the public sector than one would have if all governments went to financial reporting on harmonised accruals. There are obviously externalities within the context of the European Union, but even more so within the context of the Eurozone. And these externalities matter.

In my view, the European Union as a whole is incriminated in the knowledge that the accounts of Greece had very serious faults before it joined the Eurozone. Francesco Forte wrote a long piece about the various manipulations that Italy did to qualify to join the single currency. So people have known about these things. There are fiscal externalities within the context of the single currency. Part of the ambiguity of the Greek crisis was that there were very significant exposures of German banks to the Greek economy. So who actually benefits from the Greek bailout is at least ambiguous.

So I would like to make a positive argument. I agree with Marie-Pierre Calmel that governments should do their accounts on accruals. From what she said, I am much more enthusiastic about harmonisation than she is. I think that it is important in the modern interconnected world that, within the context of the European Union and the Eurozone, one gets as good fiscal information as possible. My point is that, if there is not good accruals-based information on reasonably consistent lines, what you will find is the statisticians will make the best estimates they can on the basis of information that might not be that good and that will continue to be used. So in terms of legitimising fiscal surveillance, which is an inevitable feature of belonging to a single currency, the better information one can get, the better.

One of the things which I do not think there is any dispute about is that the way that countries deal with their budgets is a separate issue from that of financial reporting. I strongly argued in the United Kingdom for the integration of budgeting and accounting. When Scotland got its Parliament again after almost 300 years in 1999, I was one of the people arguing that government accounting in

Scotland should continue to be harmonised with the rest of the United Kingdom. I think there are significant benefits in terms of comparability, in terms of fiscal transparency. And at a time when democratic institutions have lost a significant amount of public trust, one of the contributions that public sector accountants can make is to ensure that the provided information is as good as it possibly can be. Thank you very much.

**Acknowledgements:** This speech was prepared for and read at the international workshop on “Which accounting regulation for Europe’s economy and society?” organised under the auspices of the European Parliament in Strasbourg, on 20 May 2015, in tribute to Mr Jérôme Haas (1963–2014), first chairman of the Accounting Standards Authority of France (ANC). It was organised by the Laboratory of Excellence on Financial Regulation (Labex ReFi), which is supported by PRES heSam under the reference ANR-10-LABX-0095. It benefitted from a French government grant by the National Research Agency (ANR) under the funding program ‘Investissements d’Avenir Paris Nouveaux Mondes (Investments for the future Paris – New Worlds) reference ANR-11-IDEX-0006-02.

**Funding:** Labex ReFi/PRES heSam, (Grant/Award Number: ‘ANR-10-LABX-0095’) ‘Investissements d’Avenir Paris Nouveaux Mondes (Investments for the future Paris – New Worlds), (Grant/Award Number: ‘ANR-11-IDEX-0006-02’).