



## International Federation of Accountants

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Sir,

One aspect of your commentary—as well as the policy debate—on the sovereign debt crisis is frankly astonishing. There is virtually no acknowledgement that this crisis is a result of woefully deficient accounting, auditing, and financial management practices by governments. The consequences would be amusing, were they not so serious. We read of the need for banks to hold more capital; in fact the problem is that governments do not have enough capital. But it is worse than that – most governments do not even know what their capital is, because their archaic budgetary and accounting practices do not record and report assets and liabilities other than cash. Hard though it may be to believe, they do not actually know what their balance sheets look like.

At the beginning of this century, deficiencies in the accounting of some large companies were exposed, leading to the Sarbanes Oxley Act, which was then replicated in most developed countries. These were legitimate attempts to improve the quality and reliability of financial reporting in the private sector. However, when the financial reporting fraud committed by the Greek Government was exposed, and the perilously weak financial positions of other governments became apparent, there was no equivalent call for strengthened accounting, auditing, and financial management. Yet the impact of Enron et al was trivial compared to the impact of the failures in government accounting and financial management.

Better accounting, auditing, and financial management won't solve the current crisis—they would take too long to implement. But a commitment to reform would signal the intention of governments to address the fundamental problem of a lack of transparency, and the profligate behavior that enables and encourages. Instead of these steps in the *right* direction, we see the rejection of the proposal by the European Parliament's Monetary and Economic Affairs Committee (ECON)—which would be a first step on the path to transparency—that all Member States adopt International Public Sector Accounting Standards within three years. That proposal, made in May 2011, has been emasculated, and we now have in its place a study by the European Commission.

The signal this sends is clear: even in the face of the most severe economic consequences, governments would prefer to budget, account, and manage their finances in ways that are non-transparent and are according to rules they themselves set. The Board of Enron should have been so lucky.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Ian Ball', written in a cursive style.

Ian Ball  
Chief Executive Officer