

# TRANSPARENCY AND STABILITY

**Ian Ball**, CEO of IFAC, calls on accountants to pressure governments to be transparent about their accounting and management of taxpayers' money



Irrespective of the future course of this crisis, certain conclusions can already be reached that have significant implications for the manner in which governments manage their finances. As things currently stand, governments seem to be set on proceeding as they have in the past, with no real move toward the needed financial transparency and institutional reform.

Astonishingly, there has been little mention in the public debate about the crisis being the result of poor accounting, auditing and financial management by governments. We can no longer turn a blind eye to the causes of or needed reforms implied by this crisis. It is clear that a serious commitment by governments to reform in institutions of financial reporting, auditing and financial management should be of the highest priority.

## **NO POLITICAL WILL TO REFORM**

The failure of fiscal management in the public sector has already resulted in significant economic loss. That loss will be magnified and the crisis repeated unless governments act to radically reform their arrangements for managing public finances. The changes needed must be institutional. It is not enough to vote out a government that has mismanaged public finances if the incoming government operates within the same system, faces the same incentives, and is subject to similar constraints. Under these conditions the results too are likely to be the same.

There is clearly a lack of political will for sound, transparent reporting on the part of governments. Earlier this year, we witnessed the rejection of a proposal by the European Parliament's monetary and economic affairs committee, which would mandate all member states to adopt International Public Sector Accounting Standards (IPSAS) within three years. A positive step that did not survive the European process, replaced instead by a study by the European Commission.

Government leaders need to be committed

**T**he global financial and sovereign debt crises continue to dominate the headlines, and at the time of writing, the future course of the sovereign debt crisis is dangerously uncertain. Without doubt, it is one that represents the greatest current threat to global economic stability.

While the most urgent and deep-seated problems appear to lie within the Eurozone and in the US, there are also significant risks in other parts of the world. The crisis that first paralysed Greece, triggered by the financial reporting fraud of the Greek government, is continuing to have a substantial impact on both the public and private sectors well beyond the borders of that country. Even economic powerhouses like Germany and France are being seriously impacted through the exposure to Greek government debt by their banks.

to reform. It is critical that they take steps now to establish greater trust between themselves and their constituents, and the capital markets. Higher quality and more consistently applied standards in accounting, auditing, and financial management will not solve the current crisis, but they will address one of its key causes – the lack of transparent, consistent, and measurable financial reporting.

In respect to their accounting, many governments adhere to the cash basis of accounting, and consequently can provide only minimal information relative to what the public, banks, investors, and credit providers generally expect of private sector issuers. The US Sarbanes-Oxley Act – which was later replicated in many developed countries – addressed deficiencies in financial reporting in the private sector.

Despite the magnitude of the sovereign debt crisis, triggered by the financial reporting fraud of the Greek government, there has been no recognition by governments of the role their reporting and financial management practices have played in creating the crisis. Worse, they have resisted the single serious proposition from the European Parliament that would improve their accounting.

There are many steps that need to be taken to address the problems of governmental financial management – adherence to one set of internationally recognised financial reporting standards is the first step to a solution.

### INTERNATIONAL STANDARDS FOR GOVERNMENT

As the global organisation of the accountancy profession, the International Federation of Accountants (IFAC) is dedicated to contributing to the development, adoption, and implementation of high-quality international standards and guidance. For over a decade IFAC has supported the International Public Sector Accounting Standards Board (IPSASB) – an independent standard-setting board – in setting financial reporting standards for the public sector.

Since 1997, the IPSASB has developed a comprehensive set of 31 accrual accounting standards for the public sector, plus a cash-basis standard for countries moving toward full accrual accounting. The board's IPSAS – the government equivalent of International Financial Reporting Standards – have been adopted by the United Nations, the OECD, and the European Commission (for its own financial statements), among others.

IPSASs have also been adopted for some (but not nearly enough) national level governments such as Switzerland, Austria, Peru, and South Africa. The momentum toward adopting IPSASs is building globally.



**There has been no recognition by governments of the role their reporting and financial management practices have played in creating the crisis**

Increasingly, IFAC and the IPSASB have pressed for action in the area of governmental financial reporting through our submissions to the G-20 encouraging support for the adoption of IPSAS in all nations; a call for all governments to provide transparent and timely financial reporting and accountability in public sector finances. IFAC has encouraged the G-20 to continue its work on addressing important issues stemming from the global financial crisis, and to meet the commitments it made in 2008-2010.

### LEADERSHIP ROLE FOR ACCOUNTANTS

While governments and decision makers are urged to answer the call for public sector financial reporting reform, this crisis must serve as a wake-up call for the accountancy profession as well. We need to take a leadership role in pressing for change, both nationally and internationally. We must use our voices to pressure governments to account in a fully transparent way for the resources they manage on our behalf. The adoption and implementation of high-quality financial reporting standards would be an important signal to the capital markets, and a step toward enhancing economic growth and stability. With the adoption of accrual accounting – and budgeting – governments would have to face the consequences of their financial decisions now, rather than passing them on to future generations.

Public sector financial reporting and financial management practices have proven not only to be inadequate, but destructive. The adoption and implementation of high-quality international financial reporting standards is the single most important signal governments can send that they intend to mend the financial management system failures that have led to the current crisis.

**Ian Ball is CEO of the International Federation of Accountants (IFAC) which represents 164 professional accountancy and associate bodies in 125 countries. Find out more about IFAC's work at [www.ifac.org](http://www.ifac.org). ICAEW is a founding member of IFAC. Find out about ICAEW views on public sector transparency and financial management at [www.icaew.com/publicpolicy](http://www.icaew.com/publicpolicy)**