

PUBLIC SECTOR FINANCIAL MANAGEMENT TRANSPARENCY AND ACCOUNTABILITY: THE USE OF INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS

Governments must implement the necessary institutional arrangements required to enhance public sector financial management transparency and accountability. An integral and essential part of these arrangements is the use of accrual-based accounting—through the adoption and implementation of International Public Sector Accounting Standards (IPSASs)—which promotes greater transparency and accountability in public sector finances and allows for enhanced monitoring of government debt and liabilities for their true economic implications.

IFAC is of the view that governments around the world must implement the necessary institutional arrangements to protect the public as well as investors in government bonds. Problems highlighted by sovereign debt crises include the lack of transparency and accountability of governments, poor public finance management and public sector financial reporting, and the deficiency of institutions for fiscal management in many countries. This means providing clear and comprehensive information regarding the financial consequences of economic, political, and social decisions. Such information can only be provided through a high-quality, robust, and effective accrual-based financial reporting system, which allows for government assets and liabilities (including debt) to be appropriately recorded, reported, and disclosed—and hence effectively monitored. The most globally accepted high-quality accrual-based financial reporting system is IPSASs.

Public Interest Considerations

Governments have a responsibility to enact legislation, formulate and implement policy, and deliver products and services to their citizens. Decisions made and actions taken in fulfilling these ambitions should be undertaken in the public interest. There is political accountability on the part of governments to ensure that they do act in the public interest. Governments also have a public interest obligation to market participants—investors and potential investors—to provide timely, reliable, and detailed information of their financial performance and positions.

Use of International Public Sector Accounting Standards (IPSASs)

IFAC supports the global adoption and implementation of IPSASs for public sector financial reporting. IPSASs are issued by the International Public Sector Accounting Standards Board (IPSASB), an independent standard-setting board supported by IFAC. The need for accrual-based public sector accounting is recognized by many governments around the world that already prepare financial statements on an accrual basis. The adoption of IPSASs by governments worldwide will improve the quality of financial information reported by public entities, which is critical for investors, taxpayers, and the general public to understand the full impact of decisions made by governments with respect to their financial performance, financial position, and cash flows. Global adoption of IPSASs will facilitate the comparability of information on a global basis and assist in internal management decisions in resource allocation (planning and budgeting), monitoring, and accountability.

Institutional Arrangements

IFAC recognizes that, to enhance public sector financial management, governments must implement the necessary institutional arrangements to support transparency and accountability, including: (i) the preparation and delivery of high-quality and timely accrual-based financial reporting; (ii) the publication, in a timely manner—no longer than within six months from the end of the reporting period—of independently audited financial statements; (iii) the preparation and publication of public sector budgets and appropriations on the same basis; that is, on an accrual basis and in a timely manner; (iv) full transparency—preparation and publication—of all financial reporting, budgets and appropriations in a sufficiently appropriate amount of time ahead of elections; (v) established, well-defined, and publicly available principles for fiscal management and control, with full transparency (publication in a timely manner) to demonstrate that principles are being followed.

Implications for IFAC Members and Associates

Statement of Membership Obligation 5, titled *International Public Sector Accounting Standards and Other IPSASB Guidance*, sets out the obligations of IFAC member bodies in relation to IPSASs and other guidance issued by the IPSASB. These obligations are that member bodies should: (i) notify their members of all IPSASs, guidelines, studies, and occasional papers developed by the IPSASB; and (ii) use their best endeavors to incorporate the requirements of IPSASs into their national public sector accounting requirements, and assist with the implementation of IPSASs or national public sector accounting standards that incorporate IPSASs.