

Chapter 3

Towards the Modernisation of EU Public Sector Accounting Standards: Lessons From the Reconciliation Between National and Governmental Accounting

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ABSTRACT

In the field of comparative international governmental accounting research, this chapter participates to the growing debate around the EPSAS-project that according to the EU Commission has a political priority. In this vein, it demonstrates that considering all the governmental subsectors of public administration (central government, state government, local government, social security funds) of the 28 EU Member States, proximity of national regulation to the IPSAS affects the magnitude of total adjustments. These are a proxy of fiscal fragility and are the difference between the non-harmonized data of governmental accounting and the harmonized ESA-2010 national accounting. Findings show that adjustments are significant in magnitude in countries whose regulation has low proximity to IPSAS; opposite, their magnitude is low in countries with high proximity to the IPSAS. Even if they have not provided the anticipated level of harmonisation, the process of modernising the EU public sector accounting standards cannot ignore that the future EPSAS should not diverge much from the IPSAS.

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INTRODUCTION

In the European Union (EU), an important public-sector accounting reform will result in a set of harmonised European Public Sector Accounting Standards (EPSAS). The European Commission has established that the EPSAS-project has a political priority for the coming years and uses the already existing International Public Sector Accounting Standards (IPSAS) as a basis for developing the future EPSAS. In a document issued in 2013 (European Commission, 2013), the Commission has launched the project to establish and implement EPSAS, because of several concerns towards IPSAS and in response to the sovereign debt crisis that has certainly highlighted the need for more rigorous, transparent and comparable financial reporting by Member States. Always regarding the need for harmonisation, a study prepared for Eurostat by Ernst and Young (EY, 2012) provides evidence that the public accounting system and the related arrangements for auditing vary significantly among Member States and within different sub-sectors of government (EY, 2012, p. 1), thus contributing to the fiscal fragility of the EU public accounting system. Also, PricewaterhouseCoopers (PwC) has investigated the potential costs and benefits of implementing EPSAS in Member States and the suitability of IPSAS for developing EPSAS (PWC, 2014, p. 2). Analysing surplus/deficit data, all these studies show that there are significant adjustments between the working balance (WB) calculated at the micro-level by Member States following different accounting models – from cash to accrual – and the net/borrowing lending (NBL) calculated at the macro-level according to the European System of National and Regional Accounts (ESA) statistical framework, which records accounting flows on the accrual basis.

This research belongs to the comparative international governmental accounting research (e.g. Chan & Jones, 1988) in the field that investigates the relationships between governmental accounting (micro-economic perspective) and national accounting (macro-economic perspective). It participates to the debate around the factors that, more than others, may affect the divergences (e.g. total adjustments) between the surplus/deficit in governmental (WB) and national accounting (NBL) which could be considered a proxy for EU fiscal fragility. Between these factors, this study focuses on proximity of national regulation to the IPSAS.

The main motivation for this research is the interest shown in the accounting literature towards different factors that affect the divergence between the WB and the NBL. Most studies have shown how total adjustments vary in relation to the basis for assessing the WB at the micro-economic level (Dasí et al., 2013, 2016; Jesus & Jorge, 2012, 2016; Jorge et al., 2014). Other scholars have studied the effect of accounting practices that vary not only cross-sectionally according to the different institutional environments (Sforza & Cimini, 2017a) but also over time (Sforza & Cimini, 2017b). None of these scholars controlled for proximity to the IPSAS as a variable that may affect the magnitude of total adjustments. Another important aspect that motivated this study is the European Commission's decision not to adopt directly the IPSAS so as to develop specific EPSAS with reference to the former. If proximity of the current accounting regulation to the IPSAS is a factor that reduces fiscal fragility (e.g. the magnitude of adjustments), the authors can predict that, overall, future EPSAS (which will be based on IPSAS) will be able to contrast such fragility.

According to our hypothesis, proximity to the IPSAS should reduce overall, the magnitude of adjustments. On the one hand, IPSAS are accrual-based accounting standards and so accounting regulation close to such standards could be a factor that should reduce divergences with deficit/surplus data calculated following the ESA rules. On the other hand, a high-quality set of accounting standards goes beyond the basis for accounting because, among other things, they require practices that should help

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