

## *The Global Revolution in Government Accounting: Introduction to Theme Articles*

The timing is right for *Public Money & Management* to bring together leading academic authorities and practitioners in this collection of articles. The theme articles illustrate the extent and depth of changes now taking place in government accounting. In brief, and albeit over-simplified, commercial-style accrual accounting is replacing traditional systems of cash accounting. Although far from universal or uniform, such changes are having an impact on many countries.

Our first article is by James Chan, who, together with Klaus Lüder, has played an invaluable role in stimulating research on government accounting, broadly conceived to include that for the diverse range of public bodies. Their efforts have brought government accounting in from the cold, rescuing it from atheoretical description and encouraging the growth of empirical research. In his article, Chan addresses the ways in which government accounting is legitimately different from private sector accounting, as a consequence of there being different objectives and different user groups.

Rowan Jones's article examines the neglected relationship between financial reporting and national accounting. This relationship is not only of intellectual interest, reflecting different institutions and traditions, but also of contemporary policy relevance. Not least, the conceptual and measurement differences between financial reporting standards (developed by accounting standard-setters) and the rules and conventions of national accounts (developed by international agencies) have acquired greater prominence as a result of the growth of international surveillance of government deficits and debt. An obvious example is the monitoring of EU countries under the Stability and Growth Pact.

After the two essentially theoretical articles, the third article, by Paul Sutcliffe, provides an exposition of the public sector accounting standards programme of the Public Sector Committee of the International Federation of Accountants. This article conveys the sheer scale of the tasks involved in accounting standard-setting, especially at the international level where different traditions and varying capabilities of implementation and enforcement have to be taken into account. Setting such standards is a task of great technical complexity,

especially when the anchor for public sector standards (i.e. International Accounting Standards for the private sector) is itself moving, partly because of institutional change (the transition from the International Accounting Standards Committee to the International Accounting Standards Board) and the damage which corporate misconduct has inflicted upon public confidence in those private sector accounting standards. Additional complications include the question of alignment with reporting requirements placed on countries, both for the International Monetary Fund's annual publication, *Government Finance Statistics*, and those imposed by multilateral aid agencies.

The fourth article, by Noel Hepworth, can be seen in part as the response of an experienced practitioner to these international standard-setting developments. His article argues powerfully for paying attention to the basics, which certainly include having the capacity to run an effective cash accounting system, and generally resisting over-ambition. Governments, particularly those in developing countries and transition economies, should build sound foundations and aim for steady improvement. The move from cash to accruals should be seen as an instrument for better government, not as an objective in itself.

The fifth article is by Sir Andrew Likierman, who combines being the head of the UK Government Accountancy Service with holding a chair at London Business School. He has been the driving force behind the UK's implementation of Resource Accounting and Budgeting. This has been a carefully phased and planned transition, which started with an announcement in November 1993 and will be fully complete in 2003/04. This has been consciously different from the rapid transition from cash to accruals effected in New Zealand in the early 1990s, and displayed a tenacity of purpose which some supportive observers—myself included—doubted could be sustained. Likierman's article takes the accounting reforms (fully implemented in 2001/02) as given, and explains the rationale and implementation of the budgeting dimension. The UK government now has a system of biennial Spending Reviews, with the 2002 Spending Review being the first to be conducted on a full resource budgeting basis (Heald and McLeod, 2002).

As guest editor of this theme, I will restrict

myself to three sets of observations. First, there is the relationship of debates about reforms of government accounting with debates about the much larger issues of the legitimate and desirable size and scope of the public sector (World Bank, 1997). Some academics (Newberry, 2002; Olson *et al.*, 1998) who research public sector accounting suspect a hidden agenda (i.e. a smaller state) behind the spread of private sector accounting into public services. This is not a view to which I subscribe, but the point is important because it has conditioned the tone of the academic debate on the technical accounting and budgeting reforms.

Second, I accept the view that there are differences in the objectives and user groups of government accounting from those of the private sector, whose needs drive the development of private sector accounting standards. Nevertheless, I wish to lock governments into a well-developed and continuously evolving set of accounting principles and standards. It is not necessary to have a rosy view of private sector accounting to believe that this linkage is vital. In my view, neither in the UK nor internationally does the public sector possess the institutional capacity and resources to develop and sustain an entirely separate set of public sector accounting standards. Ellwood (2002) has convincingly demonstrated that, in the UK, the claimed convergence of public sector accounting with UK GAAP, indeed consistency within the public sector, contains a degree of illusion. This point is well taken, but I regard this as a problem of transition that needs to be addressed, not as an argument against the common destination. A significant problem is likely to be that the developed body of International Public Sector Accounting Standards will seriously lag private sector standards: currently, the anchor point is International Accounting Standards at August 1997. Countries such as the UK should find it easier to keep their own public sector accounting standards more closely aligned with contemporary private sector standards, though this inevitably creates a problem of international comparability. Notwithstanding these difficulties, the most promising route for securing greater fiscal transparency is to lock governments into private sector standards and then concentrate effort on producing the supplementary disclosures and other information that meet the specific requirements of public accountability. Another attraction of commonality of standards with the private

sector is that, provided the public sector is competitive in professional labour markets, it affords the opportunity for a rapid upgrading of financial management skills, something which is unlikely if the accounting principles and practices are significantly divergent from best private sector practice.

Third, how should the research agenda be taken forward? Undoubtedly, research is needed on the implementation of accrual accounting and budgeting, and on the extent to which these changes make a difference to organisational performance. Inevitably, there are going to be problems in disentangling the effects of particular changes (for example the move from cash to accruals) in the context of wider management reforms.

The twin dangers in this era of global revolution in government accounting are those of oversell by involved practitioners, and of undue scepticism by academics concerned about the existence of hidden agendas. A trite, but important, observation about public sector management reform is that it is always set in a political context. Research and debate on both the technical aspects of government accounting reform and its relationship with broader political debates about the role of the state will keep the subject matter of this theme in the public view for many years ahead. ■

**David Heald**

*University of Aberdeen*

## References

- Ellwood, S. (2002), Bridging the GAAP across the UK public sector. Paper presented at the Audit Commission/BAA Special Interest Group on Public Services Accounting Research seminar (London).
- Heald, D. A. and McLeod, A. (2002), Public expenditure. In *The Laws of Scotland: Stair Memorial Encyclopaedia—Constitutional Law Volume* (Butterworths Tolley, Edinburgh), paras 480–551.
- Newberry, S. (2002), Intended or unintended consequences? Resource erosion in New Zealand's government departments. *Financial Accountability & Management*, 18, 4, pp. 309–330.
- Olson, O., Guthrie, J. and Humphrey, C. (Eds) (1998), *Global Warning! Debating International Development in New Public Financial Management* (Cappelen Akademisk Forlag, Oslo).
- World Bank (1997), *The State in a Changing World: World Development Report 1997* (Washington, D.C.).