



Honesty in accounting

David Heald argues that fiscal transparency is vital for accountability and good governance

David Heald, Professor of Public Sector Accounting at ASBS, organises his research around the concept of transparency. Although he has contributed significantly to conceptual development (Hood and Heald, 2006), the main focus of his work is now on its application to the public finances of nation states and the public entities they control.

Accounting is about the measurement of economic activities and unavoidably involves drawing lines to establish what a reporting entity is under International Financial Reporting Standards (IFRS) and what a sector of the national accounts is under the European System of Accounts (ESA10). Because they have different origins and stakeholders, financial reporting on commercial lines and national accounts do not necessarily adopt the same treatments. Sometimes this prompts insights into the transactions which are causing difficulties, sometimes it signals that there is manipulation of data. Increasingly, public sector financial reporting has not only moved from cash to accruals, but in countries such as Australia, New Zealand and the United Kingdom has become very close to the accounting adopted by multinational business. There is currently a Eurostat-led project to harmonise public sector accounting across the European Union (Heald and Hodges, 2015).

The desirability of these developments is disputed, not least by those academics who detect an underlying agenda to roll back the State. Yet a commitment to sector-neutral accounting, wherever possible, does not necessarily indicate a political preference for a smaller state in terms of the public expenditure/GDP ratio.

Fiscal transparency has attracted much international attention, in part because of the 1998 Asian financial crisis and the 2008 global financial crisis, which in turn led to fiscal crises in many European Union countries. Prominent examples are the International Monetary Fund's Fiscal Transparency Code, which details good practices, and the International Budget Partnership's Open Budget Index which gives a score out of 100 to each country that is covered. On the 2015 Index, New Zealand is top with 88, the United Kingdom is eighth with 75, and Qatar and Saudi Arabia share bottom place with 0. Although limited weight should

be placed on precise numbers, the relative positions of countries are informative about systems of government, political values, and financial management and statistical capabilities.

Without reliable numbers about government activities, there can be no effective accountability for the utilisation of public resources. Under fiscal and political pressures, governments are tempted to make the numbers look better than they are, for example, by using off-balance sheet financing techniques. This emphasises the importance of scrutiny by the legislature, and the contribution that civil society organisations and academics can make. For effective fiscal transparency to be achieved, the numbers must be accessible and comprehensible and not spun in deliberately misleading ways. I have often praised the UK Treasury for its technical achievements, such as the UK Whole of Government Account which consolidates almost all public sector activity in a single

financial report. I have regularly denounced the UK Treasury's presentational games as designed to confuse and deceive.

To focus action on how to alleviate obstacles to fiscal transparency, I have distinguished between those that are intrinsic and those which are constructed. In an analysis for the Global Initiative for Fiscal Transparency (Heald, 2015). This is illustrated to the right.

My experience as a specialist adviser to UK parliamentary committees has convinced me that, provided there is transparent reporting and high-quality explanations, scrutiny can improve the quality of government. However, that requires a willingness of those with information control to share the data on a reliable and timely basis, and for recipients to devote considerable effort to understand terminology, processes and data.

References

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Obstacles to Fiscal Transparency

Intrinsic Obstacles	Constructed Obstacles
1. Technical complexity of measurement systems, both financial reporting and national accounts	5. Denial of legitimacy of claims to information (<i>downwards transparency</i>). Information about the financial affairs of state is regarded as the sole preserve of the executive, most likely in (a) non-democratic regimes, and/or (b) where the person and the role of ruler as public authority are not distinguished
2. The well-delineated 'positive' state (which held assets and delivered services) has partly given way to a more-difficult-to-map 'regulatory' and 'contract' state (which has more complex and diffused modes of governance and extensive liabilities) (Majone, 1997). This process has gone further in Anglo-Saxon countries than in much of continental Europe	6. Volume and opaqueness used by governments as tools for managing hostile and aggressive media and for disabling and discouraging users of government financial information. High index scores for fiscal transparency may co-exist with inaccessibility
3. Cognitive problems about numbers that make many elected politicians switch off, and which diminish citizen understanding	7. Perceptions of unfairness may validate cheating in the minds of those subjected to <i>upwards transparency</i> . Those lower down the principal-agent chain manipulate data (for example, project appraisals for Public-Private Partnerships) as a means of 'doing good by stealth', within constraints they cannot challenge
4. Relentless media negativity that interacts with government incentives to 'spin' and 'plant', thereby reinforcing the career advancement incentives of elected politicians not to commit to a scrutiny role	8. Perceptions that rulers engage in fraud and corruption leads to such practices becoming endemic across hierarchical levels. In such a cultural context, all are incriminated whether by commission (personal engagement in such practices) or omission (toleration of what others do, perhaps for reasons of self-preservation)

(Heald, 2015)