



New challenges for governmental reporting: international trends and accounting reforms in Spain

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Università Ca'Foscari. Venezia, November 2019

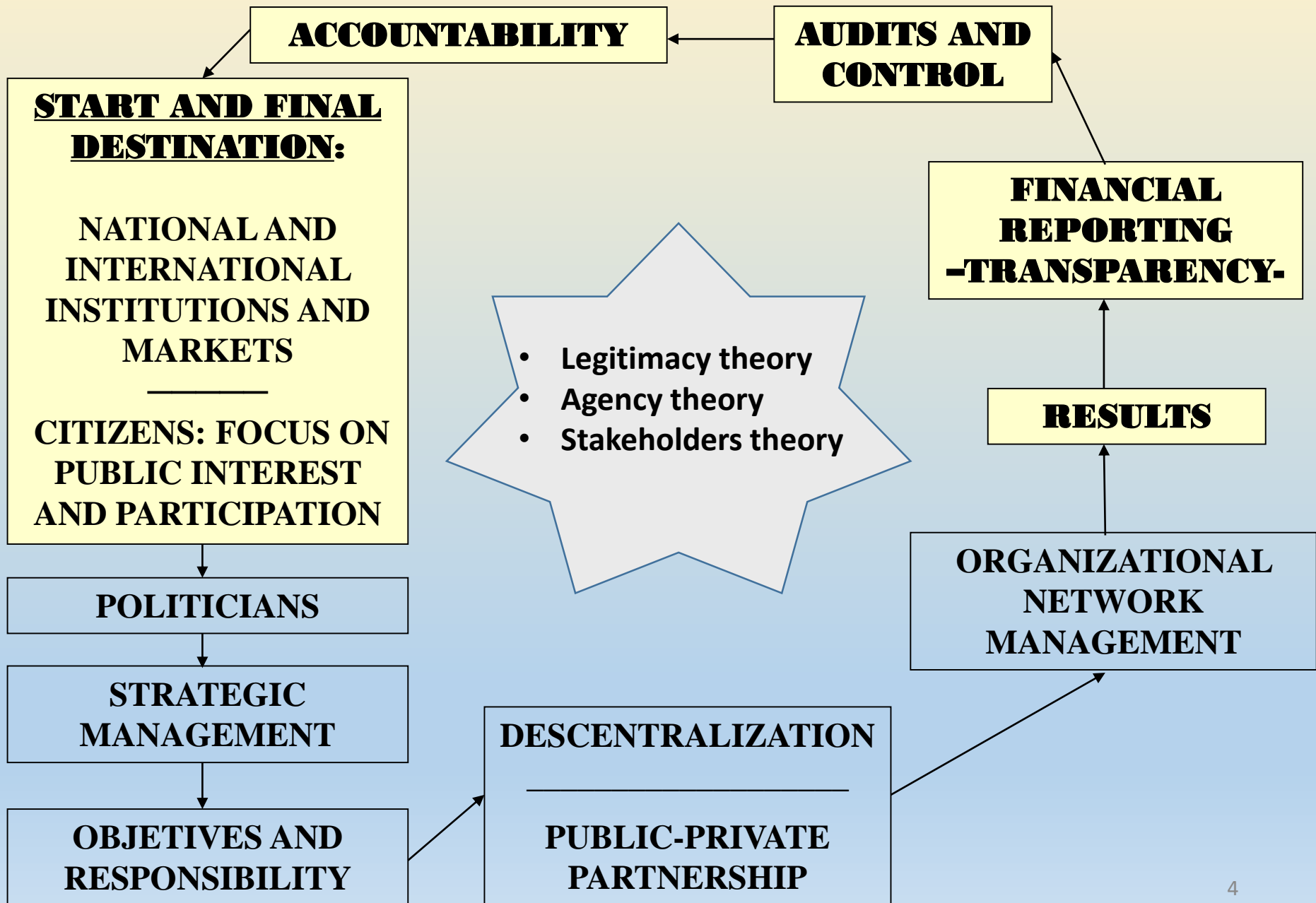
Summary

- I. The needs for public sector governance: better answers of Financial Reporting**
- II. The convergence of Government Financial Reporting Systems: towards an international harmonized regulatory framework**
- III. Government Accounting Reforms: the Spanish experience**
- IV. The next challenges: Non-financial information, Integrated Reporting**

I. The needs for public sector governance: better answers of Financial Reporting



The Wheel of Good Governance and Reporting



The keys for the reform of public Governance and Accountability

**Information is
Transparency and
accountability**



- **Emphasis on *accountability***
- **Emphasis on *outputs and outcomes***
- ***Social and environmental* responsibility. *Sustainable* policies and development**
- ***Social participation***
- ***Transparency:* Complete, clear, in time and easily accessible disclosure of information**

**Good performance is
Efficiency and
sustainability**



- ***Benchmarking* (nacional/international)**
- **Management and information *integrated systems***
- ***Best practices***
- ***Cost and performance* indicators**
- **Market/non-market parameters**

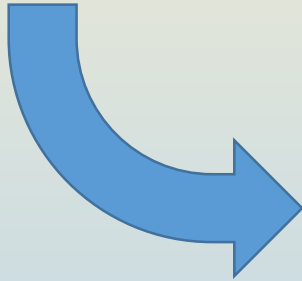
Is traditional governmental accounting old fashioned?

- Annual budget single-entry recording as the only government Accounting in Public entities tradition
- The duality in modern government Accounting: Budgetary & Financial Reporting
- Cash criterion in budgets produces “fiscal illusion”: Sale of assets, as asset reduction is not disclosed; order now and pay later; doubtful receivables not recorded...
- Is the duality of basis “cash” in budgets Vs. “accrual” in financial statements a sound practice according to GAAP?
- More than financial: managerial, social and ecological accountability

The logic for a harmonized accrual-based system

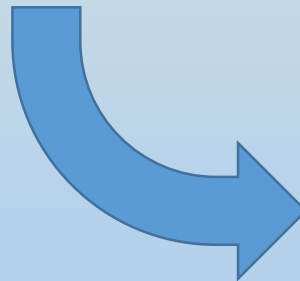
1. The NEEDS

- Fiscal Transparency
- Comparability



2. DEFICIENCIES

- Incomplete data
- Lack of comparability
- Inconsistent information



3. AFFECTS

- General purpose financial reports
- Aggregate Reports of National Accounts and Government Financial Statistics

New trends in Governmental Accounting

- From traditional Input-oriented stewardship and control of fraud to Output and outcome-oriented Management and control
- From traditional “exactness” to “true and fair view” accounting information
- From accounting for a Burocratic Administration to accounting for Good Governance of organisations
- From “cash basis” reporting to three-pillars based Accounting for Public Reporting

Next horizons for Governmental Reporting

- Focusing on *quality* of public services, *social* and *sustainable* public policies?
- A new concept and scope for public *accountability*?
- Through *accrual budgeting*?
- Through more *participative* public management, budgeting and even audits?
- Through an integrated and comprehensive *Public Reporting System*?

In summary: New Answers for a new and sustainable framework

Socio-economic & environmental framework

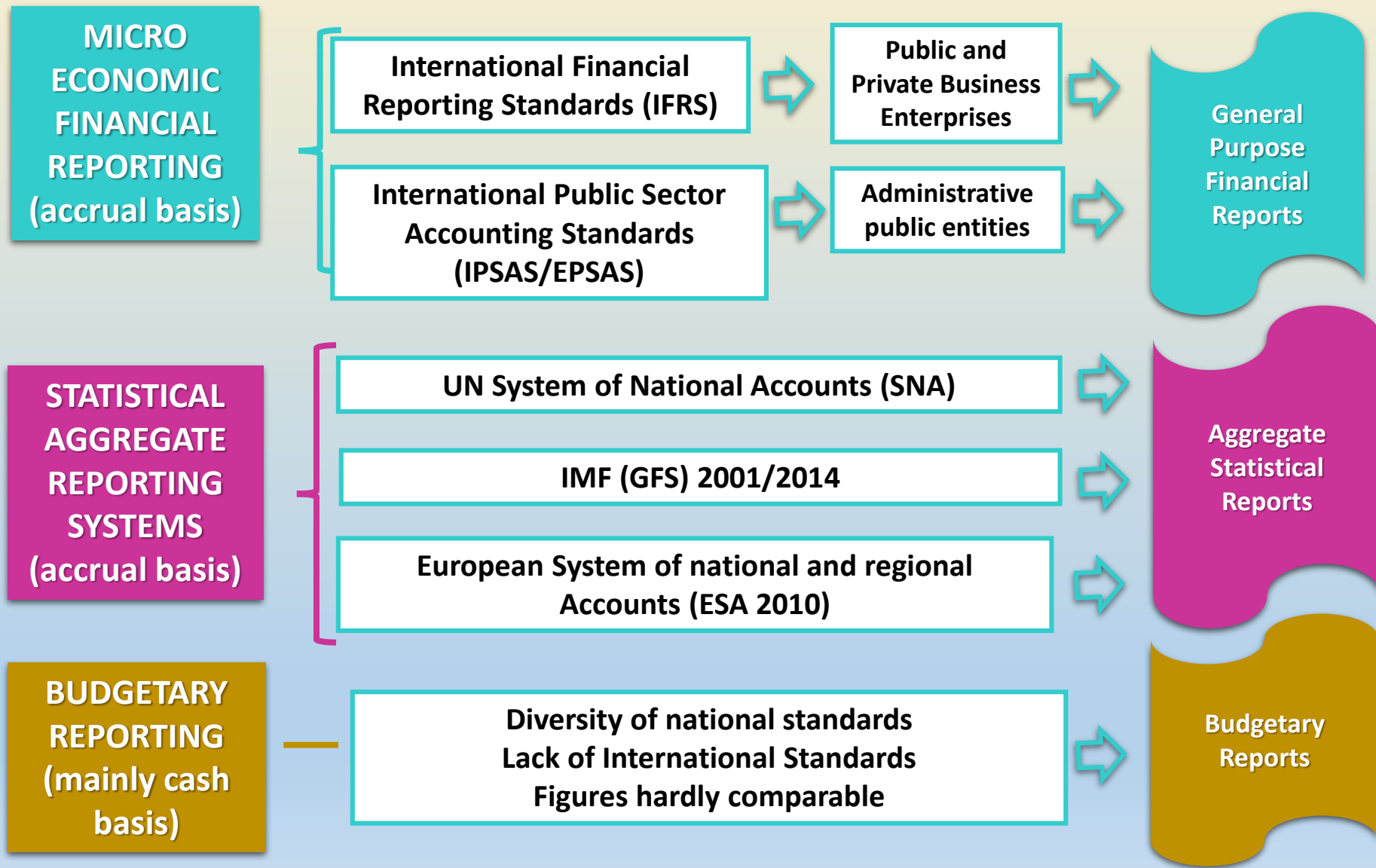
Government Accounting and Reporting Issues



II. The convergence of Government Financial Reporting Systems: towards an international harmonized regulatory framework



The three Pillars/Systems of Public Reporting



Towards an integrated financial and economic reporting system for public entities

The main features of Public Reporting Systems

Accounting System	Basis	Reporting Focus
National Accounts	<i><u>Accrual</u> for any operation affecting <u>public funding</u></i>	<i><u>Net lending / net borrowing</u></i>
Budgetary Accounting	<i><u>Modified Cash</u></i>	<i>Financial effect of operations in the <u>short term</u></i>
Financial Accounting	<i><u>Accrual</u> for any operation affecting <u>net worth</u></i>	<i>Net positive or negative <u>saving</u></i>

National Accounts require **Adjustments** on budgetary/financial accounting figures, as a consequence of different recognition, measurement and time assignment bases

Financial Information Convergence in Public Entities



IASB Business Standards (IAS/IFRS)

IPSASB Public Sector Standards (IPSAS)



PROCESS OF CONVERGENCE

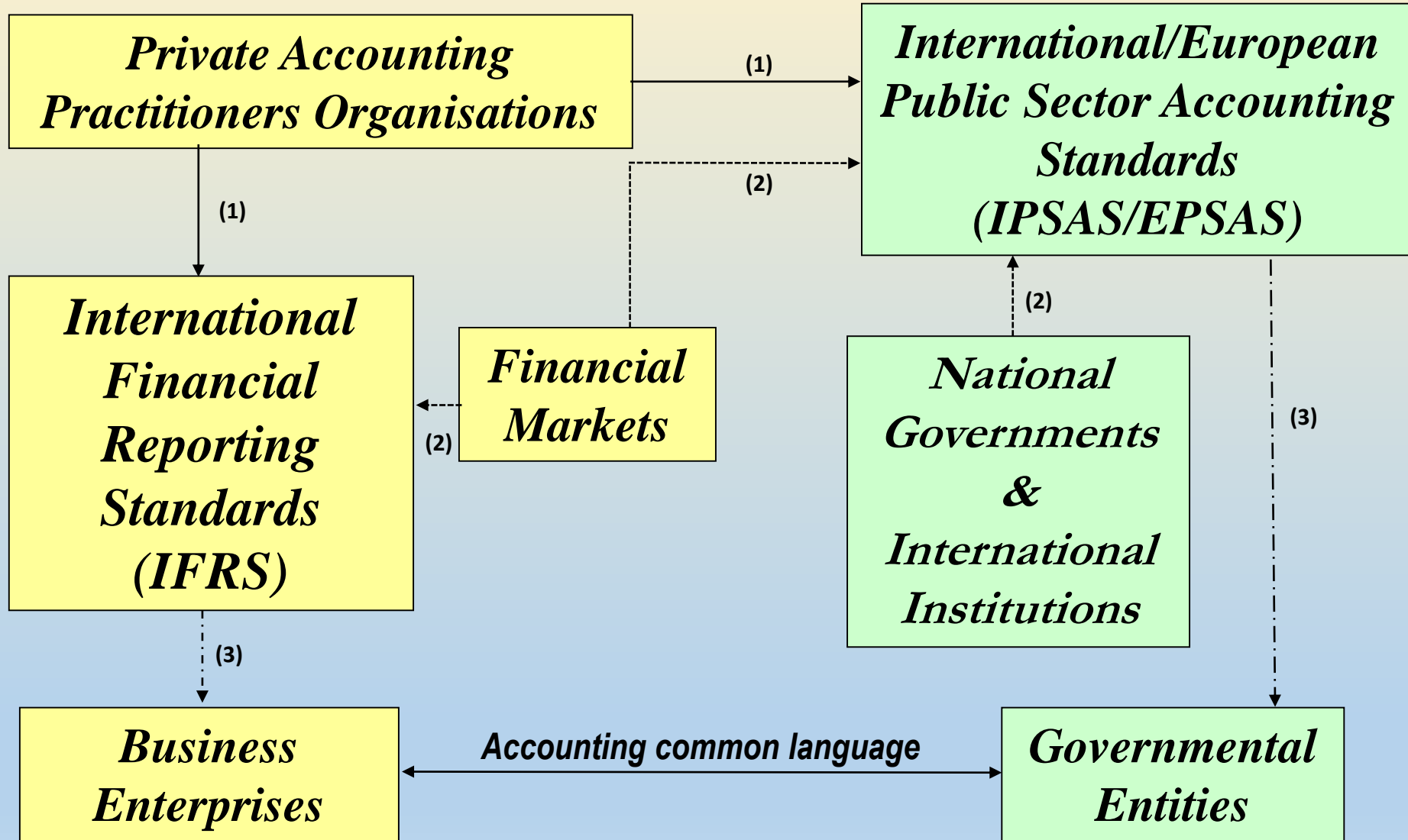


BUDGETARY REPORTING

STATISTICAL FINANCIAL REPORTING



IFRS and IPSAS / EPSAS approaches



(1) Standards setting

(2) Market and institutional standards supports

(3) Standards implementation

From language of business to language of government: is it the best way?

- The Accounting path: From business enterprises to non-profit organisations and public entities
- Accounting as the (common) language of business: the IASB and the financial market “authority”
- Is Accounting a common language of government today?
- Where the IFAC and IPSASB “authority” comes from...?
- Does accounting model require a more particular structure, better adapted to particular governmental objectives, activities and stakeholders' needs?

III. Government Accounting Reforms: the Spanish experience



Government Reporting Harmonisation in Europe

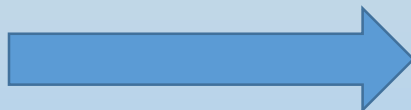
European Union



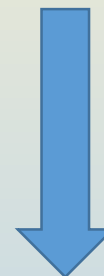
- ACCOUNTING RULES *FOR THE COMMISSION*
- EPSAS PROJECT



EPSAS**



IPSAS*



Member States – The case of Spain



NATIONAL LAW – GGAP - SPECIFIC STANDARDS

*Non-compulsory standards

**To become compulsory standards in the future

Government Accounting Reporting in Spain: Four sources for public entities' financial figures

- **Budgetary**.- Traditional cash based information according to specific regulation
- **Financial**.- Businesslike accounting information, according to Governmental Accounting Chart
- **National Accounts**
 - Macro-economic aggregated information
 - Micro-economic figures measured according to EAS 2010 criteria (for each public entity) as basic indicator of EU deficit and debt objectives fulfillment
- **Performance indicators** (budget objectives execution, public services costs and public prices...)

Governmental Accounting stages in Spain

⑩ Cameralistic Single-Entry Accounting: From 1812 to 1978 Constitutions

⑩ II. Introduction and Implementation of Double-Entry Accrual Accounting: The Accounting and Budgetary Information System (SICOP) and the first General Governmental Accounting Plan (GGAP) in 1981

• III. Governmental Accounting adaptation to European Accounting Rules: The 1994 GGAP

⑩ IV. Implementing the 1997 Stability and Growth Pact (SGP) for a Financial Discipline: Deficit and Debt measurement according to National Accounts criteria

⑩ V. International harmonization and widespread application of the accrual criteria (IPSAS/EPAS): The 2010 GGAP

⑩ VI. The use of information for management and sustainable development: Non-financial information, Performance Indicators and SDGs

⑩ VII. Towards an Integrated Reporting in the Public Sector

Bases and main features of Spanish Governmental Accounting System

- **The aim**: Harmonization of accounting standards at Central, Local and Regional levels
- **Methodology**: Top-down approach, transferring the transferring central Government reforms to Local and Regional jurisdictions
- **Legal framework**. As in other European countries with a continental legal tradition, governmental accounting standards are set by law and are thus compulsory
- **To be effective**: The three levels of government should adapt their standards to the General Governmental Accounting Plan (GGAP)

Standard-setters

- **Parliament**. The Parliament is responsible for the approval of a general legal framework for financial reporting purposes. Central government is competent for the approval of a General Governmental Accounting Plan (GGAP) developing the Public Accounting Principles
- **Central Government**. Central government is also responsible for the development of accounting standards for central and local government levels
- **Autonomous regions**. The regional governments have autonomy and legislative power, including accounting, budgeting and auditing aspects.

Adapting Government Accounting Standards to International Framework in Spain




- **Commercial Law and Business Accounting Standards were adapted to European Regulations in 2007. A new General Accounting Plan for business enterprises was then passed, in force since 1-1-2008**
- **General Governmental Accounting Plan was adapted to Spanish Business Accounting Plan and IPSAS in 2010.**
- **Main issues in the reform of Government Accounting Standards:**
 - ***New Conceptual Framework and Governmental Accounting Principles***
 - ***Recognition and measurement rules***
 - ***New Annual Financial Statements for public entities***

The delays in Local authorities and Autonomous Communities Accounting Reforms

- There are delays between the date of GGAP and the reform of Accounting Standards for Municipalities, that was approved in 2013 and came into force in 2016.
- The adaptation of Autonomous Communities Accounting to GGAP has not only taken a considerable delay, but in most of them, either the adapted rules has been passed recently or even is still pending.
- A recent survey on the regional accountants' opinions about the suitability of the reforms, most of them consider the new regulation a useful tool for the elaboration of consolidated financial statements, decision making processes and quality of accountability.

**IV. The next challenges:
Non-financial information,
Integrated Reporting**

The “global crisis” and governmental reporting systems

- Ecological, economic and social crisis, leads Citizens to discontent and distrust, with the erosion of ethical values and the arrival of populisms
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- UN has set 169 concrete Sustainable Development Goals (SDG) for the year 2030, focused on 17 objectives
- 
- Within this framework, a new paradigm is required to improve transparency and enrich the information reported to stakeholders.
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- Thus, in addition to financial information, the social responsibility of governments requires the preparation and presentation of non-financial information, in an integrated manner, useful for monitoring the process of value creation by public entities.

Towards a “holistic” reporting approach for public entities

The holistic approach to information (thinking integrated) in public entities follows the criteria and guidelines of business companies

It is significant the recognition of the incorporation of non-financial information in 2014 IPSASB Conceptual Framework and the implementation of holistic projects by professional organizations, even with the support of World Bank

Advantages of the integrated reporting approach in public sector:

- Improve accountability and decision making
- Strengthen relations between stakeholders and managers
- Serve as a guide for the provision of sustainable services
- Allow the long-term orientation of management, in a robust and integrated way to create value
- Increase connection of the internal and external communication fields

Experiences on Public Sector Non-financial and Integrated Reporting in Spain

Non-financial information

Experiences focus on *objective budgeting* (sometimes more rhetorical than real), *charts of services* and *performance indicators* in annual reports

Integrated reporting

- *Public companies*. There is clear progress in the field of large public companies, but in public administrations, initiatives are rather scarce
- *Universities*. Involvement of universities is significant. Many of them have implemented the Guide for the elaboration of sustainability reports of the GRI
- *Legal Regulation*. The approval of 2014-2020 strategy for companies, public administrations and other organizations to move towards a more competitive, productive, sustainable and inclusive society and economy can be highlighted.

Another institutional initiative has been the 2016 order regulating the social responsibility and sustainability reports of companies, organizations and public administrations, but it has not had a significant impact on governmental reporting practices.

Thank you for your attention

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