

IPSAS: the Greek elephant in the room

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The Greek government's failure to adopt international accounting standards means the fiscal opacity that existed before the financial crisis remains substantially unchanged. The costs to Greece and Europe are high but avoidable.

Moving to international accounting standards would be good for Greece and good for Europe. As we've seen, bad government accounting is horrific for Greece and bad for Europe.

Bad accounting by Greece triggered the sovereign debt crisis in Europe. The 'elephant in the room' is that government accounting in Greece has not changed. Greece has yet to set foot on the road to international public sector accounting standards.

What makes this lack of progress remarkable are the many benefits that would accrue to both Greece and Europe if Greece were to implement international accounting standards. These benefits fall into two groups, both of which support sustainable economic growth and job creation, and build trust and confidence among citizens, business, and investors.

The first group is the positive benefits that contribute directly to broadly-based and sustainable economic growth, especially through improved government decision-making. The second group, protective benefits, safeguards growth from risks and failures of control, and results from increased government transparency and strengthened accountability.

Since 1995, the list of governments implementing international accounting standards has grown dramatically and the reported benefits are widely communicated. The public sector equivalent of IFRS – International Public Sector Accounting Standards (IPSAS) – have been adopted by many countries in Europe and around the world.

The countries adopting international accounting standards report many positive benefits. Amongst these benefits are the better fiscal decisions that result from greater understanding of the fiscal position. One of the lessons from the crisis, especially applicable to Greece, was the poor understanding many governments had of their fiscal position. Countries adopting international accounting standards also identify many other positive benefits, including more sustainable economic growth, lower levels of taxation, and net debt reduction associated with a voting public that better understands the need for fiscal responsibility.

International accounting standards create an environment of greater trust and confidence, further facilitating foreign investment. As countries become more financially transparent, they earn benefits in the global capital markets, including lower cost of capital, more extended maturity profiles, and greater predictability of fund raising. A lower cost of capital for the government, in a situation like Greece, also feeds through into the cost of capital to companies, making them more competitive internationally.

Greece would also gain a unique benefit in that international accounting standards begin to address the country's unfavorable accounting reputation. It will allow decision-makers, including the capital markets, to see the government's real debt and performance-related metrics. These would provide a more accurate reflection of economic reality, especially relative to Greece's peers.

While there are a number of protective benefits, two are especially relevant to Greece. First is the role accounting plays in combating corruption. The systems that produce high quality financial information also, through both transparency and accounting controls, make corruption more difficult. While this is generally true, it is especially significant in the context of large-scale privatisation programs, in which the

treatment of asset sales under international accounting standards is very different, and significantly more transparent, than the existing cash accounting of the Greek government.

Second, international accounting standards reduce the negative impacts associated with fiscal illusion and short-term decision-making, preventing decisions and actions that are based on a picture of the current fiscal position, which does not reflect economic reality. In the case of Greece, the failure to adopt international accounting standards means the fiscal opacity existing before the crisis remains substantially unchanged. The costs to Greece and Europe of that opacity remain high and avoidable.

While there has been little political debate over the role of accounting in the crisis, there is a long list of supporters – countries and institutions – who understand the importance of high integrity, and internationally comparable, financial reporting by governments. Their views apply globally, but especially to Greece. And there is a long list, getting longer each year, of countries that report the significant benefits of implementing international public sector accounting standards.

Also, major international intergovernmental institutions (The World Bank, IMF, United Nations and OECD); key regional organizations (the European Commission, Eurostat, the European Securities and Markets Authority); and international and regional accounting bodies (the International Federation of Accountants and the European Federation of Accountants (FEE)) are on record supporting the call for improved governmental accounting. Many of these institutions, including the EC, the OECD, NATO and the UN system agencies, have adopted IPSAS.

Greece would achieve immediate benefits from making a credible announcement of its decision to implement IPSAS urgently and aggressively. This would signal a seriousness about addressing one of the key factors instrumental in the market's loss of confidence in Greek debt and in triggering the debt crisis in Europe.

But action is needed not just from the Greek government. Other institutions must also speak and act in support, especially those institutions that have significant roles (and stakes) in restoring the Greek economy. While there is widespread support for reform of governmental financial reporting in general, and for Greece in particular, it is not being voiced loudly enough. The volume needs to be raised, not just by those who wish to see Greece revitalized, but also by those whose job it is to protect Europe.

International public sector accounting standards exist today. Now is the time for all stakeholders to demonstrate a greater commitment to good accounting by advocating passionately for the adoption and implementation of international accounting standards. International accounting standards for Greece are good for both Greece and Europe.

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