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Research Article

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A Perspective on the Proposal for European Public Sector Accounting Standards, in the Context of Accruals in UK Government Accounting

Abstract: This paper offers a UK perspective on the proposal to develop European Public Sector Accounting Standards (EPSAS). It offers the fundamentals of the UK government's system of budgeting and accounting, which is the responsibility of the UK Treasury, being one part of its responsibilities for the UK's fiscal and monetary policies. In the light of this, the EPSAS proposal remains a puzzle and a peripheral one at that. The paper ponders on the forces underlying the EPSAS proposal and notes that for the government practitioner in an EU member state, rules emanating from the EU would naturally have a macro-level focus. Consequently, any potential advantages of an accrual accounting system at micro-level may not be fully appreciated.

Keywords: budgetary surveillance, financial risk management, fiscal policy, national accounts, whole of government accounts

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1 Introduction

The European Public Sector Accounting Standards (EPSAS) proposal may be puzzling for accountants because it falls between the two different metrics for measuring a government's income and wealth, namely an accrual-based accounting system and the system of national accounts which has its own accrual methodology (Jones, 2000a, 2000b, 2003, 2014).

The main objective of this paper is to discuss the EPSAS proposal in the context of UK government accounting and budgeting. The paper starts by considering the ambivalent involvement of Eurostat in the proposed public standards for government accounting of EU member states and tries to make sense of the underlying "logic". Then we try to anticipate the UK government's reaction to the proposal in the context of the fundamentals of the UK's government accounting system and traditions. This takes the argument into the role of the UK Whole of Government Accounts as a government tool at both micro- and macro-levels, and hence the overlap with national accounting rules especially with regards to consolidation. Following the UK perspective, the conclusion attempts to rationalise the role and utility of the proposed EPSAS for other EU member states.

2 The proposal for European public sector accounting standards

Eurostat is the statistical arm of the EU Commission; as such, it is the EU's custodian of the system of national accounts (globally known as the System of

National Accounts [SNA]; the EU's, conforming but more detailed, version is the European System of National and Regional Accounts [ESA95[1]]). Eurostat's relationship to all of accounting is the same as the national accounts' relationship to accounting: it gathers data from accounting (among other places) and transforms these data into the national accounts.

The proposal for EPSAS was made by Eurostat. It emerged from a process that began, in 2011, with the EU proposal to require each member state to adopt International Public Sector Accounting Standards (IPSAS), which rather quickly retreated to a requirement for the Commission to assess the suitability of IPSAS, and then with said assessment to be carried out specifically by Eurostat (2012). As part of this assessment, the proposal for the adoption of IPSAS became a proposal to develop EPSAS based on IPSAS, and at the same time, converging the new accounting standards with those used for national accounting, namely the ESA95 (Eurostat, 2013).

Part of the puzzle of the EPSAS proposal is that it is far from obvious why a statistical agency would now become the custodian of government accounting in the member states: what have statistics to do with accrual accounting? It is one thing to say that the statistics draw from the records of transactions that are the essence of accounting (whether cash- or accrual-based); but quite another to say that the statistics have any relation to accrual-based financial statements. Globally and within the EU, the development of the concepts and measurement rules of the SNA have played no role in the development of accrual accounting; nor vice versa.

The "logic" of the EPSAS proposal appears to be as follows: the eurozone has overtly been in crisis since 2008; some governments in the eurozone have serious fiscal problems; an inherent weakness of the eurozone itself is that the government of each member state – rather than the EU as a whole – has sovereignty over each government's fiscal policies; budgetary surveillance by the EU of each government's fiscal policies is, therefore, *faute de mieux*; one aspect of the eurozone crisis was (still is?) weak surveillance of some governments' budgets (see e.g. Schuknecht, Moutot, Rother, & Stark, 2011, p. 15); and that, since national accounts provide the framework for the data required by that surveillance, there is a need to improve the data (see e.g. Bowles, 2013). If that could serve as the broad logic of the proposal, then it would follow that the custodian of national accounts, Eurostat, would naturally have the responsibility for said improvement.

The logic is included in Eurostat's (2012, p. 2) own words:

> Budgetary surveillance in the EU is based on the European System of Accounts (ESA). ESA is a macro-economic accounting framework based on accruals principles, which is not

1 The ESA 2010 updates the ESA 95 and is applicable from September 2014.

> designed for entity-level accounting. ESA based statistics are in practice a transformation of "primary" accounts, established on the basis of Member States' national accounting standards. Member States' national public sector accounting standards are, in the majority, not accrual based. … the Commission supports the implementation of public sector accounting standards providing the information needed to compile ESA-based data for all sub-sectors of general government.

But the puzzle is how "EPSAS transformed from IPSAS" can emerge as providing the needed information. On "Budgetary surveillance": IPSAS explicitly have nothing to do with budgeting. On "ESA is not designed for entity-level accounting": entity-level accounting, which is what IPSAS are, was similarly not designed for the ESA; IPSAS, having been drawn from International Accounting Standards/International Financial Reporting Standards (IFRS), are based on entity-level business accounting standards that have never had the SNA in mind. Finally, IPSAS are inextricable from an independent audit providing an opinion on the fairness of the resultant financial statements, based on a set of auditing standards: on this, the EPSAS proposal is silent.

Added to all that, everyone knows (including Eurostat) that it will take years to produce any set of EPSAS, and many more for current cash-based systems in the member states to convert to any accrual basis. It would hardly be surprising to find that the EPSAS proposal was low in particular governments' priorities.

3 A UK perspective on the EPSAS proposal

To our knowledge, the UK government (either as a whole or in any of its significant parts) has taken no position on EPSAS. The Treasury, the National Audit Office and Parliament have not commented. The Financial Reporting Advisory Board (FRAB) of the Treasury is explicitly monitoring the development of EPSAS; in the minutes of a recent meeting, the following was reported (para. 63, Minutes of Meeting, 13 December 2013):

> [A Board member] asked where the developments [of EPSAS] were expected to take public sector financial reporting. The Secretary noted that this is still unclear but given the suggested timescales put forward by Eurostat we would expect to have a much better understanding over the next 12 months…. Treasury confirmed that the expectation was a clear link between EPSAS and ESA, indeed improvements to statistical reporting were the driving force behind the project.

Subsequently, the FRAB (paras. 4 and 7, Minutes of Meeting, 3 April 2014) noted that the UK Relevant Authorities monitoring the progress of the EPSAS project had decided not to respond to Eurostat's public consultation on EPSAS governance, and that a firm common position on the proposal would be determined after more concrete communication is received from the EU Commission. While the use of accrual accounting by public sector entities is supported, concern is expressed concerning Eurostat's goal of full harmonisation because:

> it would not be possible for the individual public sector context of each Member State to be taken properly into consideration … and would have a detrimental effect on Member States like the United Kingdom who have already converted from cash to accrual accounting and who use accrual throughout the public finance management system and not just for financial reporting… It was felt that Eurostat's central aim of improving macro-level statistical reporting by ensuring the application of accrual accounting standards at the micro-level could be met by other more proportionate approaches. (paras. 5 and 6, Minutes of Meeting, 3 April 2014)

From our understanding of the development of accrual-based financial reporting in the UK government, we would suggest that the UK government has little interest in EPSAS themselves. As a member of the EU (albeit one whose membership may well be subject to a referendum, either before or after the next general election, in 2015), and with an active interest in everything concerned with the euro (currently, short of membership of the eurozone), the UK government will clearly continue to monitor and respond to any EPSAS proposals. But if indeed the proposals are being driven by "statistical reporting", the key question for the UK government would be whether the data it currently provides for this "statistical reporting" would in any way be improved by a set of EPSAS. And even if a particular accounting policy developed within EPSAS did challenge an extant UK policy, UK policy-making could easily substitute the new policy without challenging the UK's system as a whole. In fact, this sort of "accommodation" is already being done by the UK Treasury. In the process of making IFRS applicable to the public sector environment, the UK Treasury takes into consideration ESA95 requirements, for example, the definition of which income is considered as taxation, and the consolidation rules (HM Treasury, 2013b). In this way, while still recognising that there are differences between IFRS for the public sector and the ESA, such differences are reduced, and the raw data extracted from the government accounting system can fit in easier within the statistical reports.

On the question of whether EPSAS would be developed by a new policy-making body, if EPSAS were to be limited to a role in "statistical reporting", it is presumably possible that they would be hermetically sealed within the requirements established by Eurostat for submission of data consistent with the ESA. On its face, this would not require any separate body to promulgate the requirements. On the other hand, policy-making within the SNA (and, therefore, ESA) is, especially compared to business accounting, opaque; and given the scale of the eurozone crisis, it does not seem unreasonable to question the role of budgetary surveillance in it, a questioning that might point to a more formal and transparent policy-making for the ESA.

If, however, EPSAS were to be seen to be developed as the accounting policies for the financial accounting and reporting by government departments and by the wholes of governments of member states, we would assume that the UK government's stance would be to undermine, and ultimately object to, their development. We have no idea how the politics of this would work.

But setting aside the politics, and on the basis of the roots and current manifestation of the UK's financial accounting and reporting system, we would suggest that the Treasury would not voluntarily cede its sovereign right to make the UK government's accounting policies to anyone.[2] We would also suggest that the Treasury would not voluntarily cede that sovereign right to the private sector, within the UK or outside of it; in the specific case of IPSAS, it is not clear why the Treasury would cede its right to a private sector body that is anyway doing what the Treasury is doing, namely adapting IFRS to the governmental context. We would further suggest that the Treasury would not voluntarily cede its sovereign right to an EU institution: given the long, and separate, traditions of accounting and auditing between the UK (not matters of law) and continental Europe (law), this would be tantamount to fire conceding to ice (or vice versa) (Jones, 2005). Finally, we would suggest that neither the Treasury nor the National Audit Office would countenance auditors as accounting policy-makers: this would be anathema to accounting as we understand it.

4 Some fundamentals of the UK's system

Unlike Eurozone countries whose monetary policy is dictated by the European Central Bank, the UK government is responsible for its own fiscal and

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2 This is quite different from the harmonisation process for the private sector, which led to the adoption of the IFRS in 2005. Compulsory adherence to IFRS requirements (as adopted by the EU) is only required for the consolidated financial statements of a category of private sector companies, being listed companies trading on a regulated market. This move was acceptable for various reasons. Besides the possible advantages of such harmonisation for the UK financial services industry, IFRS are similar to Financial Reporting Standards (FRS) issued by the UK Financial Reporting Council (FRC) – the underlying concepts and objectives are basically the same. Moreover, the FRC did not give up its role in issuing and updating FRS that are applicable for other UK companies not required to be IFRS-compliant.

monetary policies. As far as we are aware, neither the International Monetary Fund nor the European Central Bank has a problem with the data that the UK government is required to provide for budgetary surveillance. Budgeting and accounting for the UK government, at both micro- and macro-levels, are – to a degree unparalleled in the major countries of the EU and the US – the responsibility of the executive, and specifically of the Treasury (Jones, Lande, Lüder, & Portal, 2013, p. 435). At the micro-level (meaning for each government department/agency and for the meta-consolidation we know as Whole of Government Accounts), cash-based budgeting and accounting have been supplemented by an accrual basis.

Jones et al. (2013) provide our current understanding of the government's accounting, except that we now have four consecutive years of Whole of Government Accounts (2010–2013). To focus on policy-making specifically, the 2000 law[3] that established accrual-based financial reporting requires the financial statements of each department and of the whole of government to present a true and fair view (a concept and legal requirement drawn from business accounting) and to conform to generally accepted accounting practice (a concept drawn from business accounting) subject to such adaptations as are deemed necessary by the Treasury. The Treasury now uses EU-adopted IFRS as its point of departure for each of its accrual-based policies (HM Treasury, 2013a, pp. 43, 217; Biondi, 2013b).

In this use of business accounting, the Treasury's policies are, at bottom, part of Anglo-American business accounting and auditing:

> At the heart of this influential [Anglo-American] accounting and auditing is the requirement that the accounting policies are set by a private sector (nonprofit) body, formally independent of the accounting profession and independent of the companies preparing the financial statements, with compliance of those financial statements being judged in the first instance by auditors in the private sector, responsible to their professional accounting bodies (and, in the US, to a public body[4]), who are also independent of the companies being audited. (Jones & Pendlebury, 2010, p. 14)

It is important in this to note that the creation of "EU-adopted" IFRS, in which an EU institution can veto specific IFRS policies, does not seem to have fundamentally changed the Anglo-American nature of IFRS – yet.

Notwithstanding this dependence on Anglo-American business accounting, there are two important divergences of the UK government's system from this

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3 Government Resources and Accounts Act 2000.

4 In the US, the Sarbanes-Oxley Act of 2002, which created the Public Company Accounting Oversight Board (PCAOB), requires that auditors of US public companies be subject to external and independent oversight. The Securities and Exchange Commission (SEC) has oversight authority over the PCAOB.

business accounting. The first is that the Treasury, in the end, sets its own accounting policies. The second is that compliance with those policies is judged by auditors (in the National Audit Office) who are not in the private sector and who, indeed, are part of the state.

The extent of these two divergences is more difficult to define. Sovereign governments are unique institutions and concepts of independence within and outside them are, by their nature, slippery. In practice, there are ways of securing optimal (never absolute) levels of independence of a Ministry of Finance in setting accounting policies and of a supreme audit institution in auditing their implementation.[5]

IPSAS have no current role in the UK government's system. IPSAS are inseparable from Anglo-American business accounting and auditing, except that they were developed and continue to be promulgated by the accounting profession itself, or at least by the world's umbrella organisation for the accounting profession, which emphasises that it is "non-profit, non-governmental, non-political" (Jones, 2004, p. 49), rather than by bodies now independent of the accounting profession. In this, they may seem an obvious reference for the UK's system; but they are not. Indeed, as Jones et al. (2013, p. 430) report, while IPSAS were previously referenced in the Treasury's hierarchy of GAAP, this reference was removed in 2012.

As explained in the opening section, the EPSAS proposal conflates accrual accounting and budgetary surveillance. And, in a sense, the UK's system does too: its accrual micro-budgeting is determined by accounting standards. The clear difference with the EPSAS proposal is that the UK's accrual system is not only one of budgetary surveillance: it is one of budgetary control. To what extent the budgetary control system is cash-based and to what extent accrual-based is, however, not clear-cut:

> The UK is alone [among France, Germany and the US] in explicitly introducing accrual-based information into the budget and the budgetary accounting. This distinction is unequivocal but the details are not necessarily always clear in UK practice. The purely cash-based system was retained and, since cash-based budgets appear alongside the accrual-based equivalents, there are important respects in which it could be assumed that significant decisions are still being taken with reference to the cash basis. (Jones et al., 2013, p. 435)

5 Unlike the UK Treasury, a company in the private sector does not set its own accounting rules. And the independent audit firm that checks whether a company is complying with those rules does not set its own audit rules. In this way, a framework is present that should enhance the integrity of financial reporting by ensuring independence. Indeed, the human element can undermine any regulatory system, but in the private sector both parties would pursue their own separate private interests. In the public sector, both parties serve the same public interest.

Three additional technical points might be made. First, the accrual-based budgets do form the basis of budgeted accrual-based financial statements but these budgeted financial statements are not prominent in budget documents, being reported only as a footnote in the individual departmental and ministerial reports. Second, the reporting of depreciation is technically complicated because of the need to separate capital spending itself from depreciation. And third, it was striking how the most radical part of the UK's accrual budgeting – the charge for the opportunity cost of capital – was so easily withdrawn by a new government faced with the financial crisis post-2008: this did not sit well with the idea that the accrual budgeting system had replaced cash budgeting (Jones et al., 2013, p. 431).

Complementing cash-based budgetary accounting with accrual-based numbers is very complicated. This is obviously a problem for national governments in a democracy, which are predicated on the centrality of politicians (in the legislature and the executive), who cannot be assumed to understand accrual budgeting and accounting. Whether managers of government departments can be assumed to understand is an open question. Of course, there are now (presumably) many people in the UK government who understand accrual-based information but whether, or to what extent, this understanding affects budgetary decision is not known by the literature.

We must now put all of this micro-budgeting and accounting into the much wider responsibilities of the Treasury in macro-budgeting (and accounting). Jones (2014) points out that no one appears to have – or if they have, do not appear willing to explain how they have – a comprehensive understanding of the relationship between government accounting and national accounting, and that at the heart of this lack of understanding is the lack of understanding of the relationship between ex-post measures of government income and wealth and ex ante measures. The UK system does provide large amounts of data, especially in its budget documents, concerning this relationship.[6] Statistical measures as calculated in national accounting are shown on the budget. They are described as targets, but it is not clear whether the link between decisions taken on budgetary allocations and these targets is understood at all (Jones, 2000a).

The Whole of Government Accounts attempt to explain the connection between the figures disclosed in the financial reports and those derived from national accounts (HM Treasury, 2013a, Chapter 3). These data, however, are hard to understand from the outside and are not underpinned by any conceptual

6 The Budget for 2014 also includes consideration of the impact of the ESA10 on some financial measures (HM Treasury, 2014, pp. 21, 22, 113–115).

framework or set of rules. National accounts apply a framework driven by economic theory; and financial reporting applies its own framework based on accounting theory; but reconciliations of the two systems appear pointless and do not make much sense (Jones & Caruana, 2014). On the other hand, Heald and Georgiou (2011, p. 446) call for well-documented reconciliations to reduce the risk of accounting manipulation that would distort fiscal transparency.

5 Managing government financial risk

The UK system provides a set of annual audited accrual-based financial statements for the government as a whole; albeit not, as yet, in a timely fashion nor with an unqualified audit report. The utility of the UK's Whole of Government Accounts in measuring and thus managing government financial risk can be viewed through the consolidation rules, the reported pension liabilities and the resulting negative equity.

5.1 Consolidation

The UK's meta-consolidation uses the SNA's concept of the reporting entity for government and provides discussion of how it is otherwise different from the SNA (HM Treasury, 2013a, Chapter 3).

The three Commonwealth countries that produce Whole of Government Accounts, that is, the UK, Australia and New Zealand, have all worked directly with IFRS at some point or another but attempt to converge these accounting requirements with national accounting requirements when it comes to consolidation (Grossi et al., 2009, p. 211). In spite of this, differences in the boundary of the reporting entity still arise between them, as pointed out by Heald and Georgiou (2011, p. 473). While it appears that Australia has made the boldest move by presenting SNA financial reports to Parliament and thus eliminating the need of these reconciliations (Barton, 2011).

In an attempt to make these reconciliations understandable, Annexes 1, 2 and 3 of the UK Whole of Government Accounts list the entities consolidated in the accounts; the entities not consolidated; and the minor entities that have been excluded from the consolidation (HM Treasury, 2013a, pp. 197–218). The Treasury justifies this limited consolidation boundary by stating that it is applying the same practices of the Office of National Statistics. The Auditor, however, does not appear happy with this consolidation exercise because it is not in line with IFRS requirements (HM Treasury, 2013a, pp. 185–187), being the latter the retained frame of reference that is expected to be applied.

With the help of these annexes, it is clear from the meta-consolidated balance sheet which assets and liabilities have been included and which debateable assets and liabilities have not. It is also clear that by following SNA concepts of consolidation, the meta-consolidated balance sheet is not as whole as it purports to be (Chow, Humphrey, & Moll, 2007, 2008; Heald & Georgiou, 2009, 2011).

5.2 Pension liabilities

Depending on the purpose for which a financial liability is acquired, it will be classified and accounted for either as a financial liability at fair value through profit or loss or as other financial liability, which will be accounted for at amortised cost (HM Treasury, 2013a, p. 56). The Treasury determines the classification of a financial liability. With particular reference to pension liabilities, given that it is the largest liability recorded in the UK Whole of Government Accounts,[7] accounting for pensions can usefully be explained in more detail. There are three major kinds of schemes that have different relationships with Whole of Government Accounts.

The first kind is unfunded pension schemes within central government (e.g. civil servants, armed forces, but also the health service and teachers). The entities that employ the members of these schemes follow IAS 19 "Employee Benefits" as interpreted for the public sector by the Treasury: meaning that they are required to account for the contributions as being related to defined contribution schemes (HM Treasury, 2013b, p. 2, Chapter 12). The financial statements of the schemes themselves also follow IFRS and apply IAS 26 "Accounting and Reporting by Retirement Benefit Plans" as interpreted for the public sector context by the Treasury, with the result that they have no option but to disclose the actuarially determined present value of promised retirement benefits within the Statement of Financial Position (HM Treasury, 2013b, p. 4, Chapter 12). The financial statements of these schemes are consolidated in the Whole of Government Accounts.

The second kind of scheme, being the funded pension scheme, is, most notably, for local government (refer to Table 1). There are many such schemes, each for a group of local authorities, and all are, in principle, fully funded: meaning that they were often in their history fully funded but sometimes, by

7 The total net pension liability stood at £1,007.8 billion as an 31 March 2012 (2010–2011 restated: £961.0 billion).

Table 1: Analysis of the pension liability by type of scheme

	2011–2012 £bn	2010–2011 Restated £bn	2011–2012 Percentage of liability %	2010–2011 Percentage of liability %
Unfunded schemes (gross)				
Teachers (UK)	233.3	222.8	23	23
NHS (UK)	282.6	292.3	28	30
Civil service	155.1	145.0	15	15
Armed forces	105.6	100.6	11	11
Police	101.6	93.8	10	10
Fire	21.1	19.8	2	2
Other unfunded	20.0	19.9	2	2
	919.3	**894.2**	**91**	**93**
Funded schemes (net)				
Local government	78.4	57.7	8	6
Other funded	10.1	9.1	1	1
	88.5	**66.8**	**9**	**7**
Total	**1,007.8**	**961.0**	**100%**	**100%**

Source: HM Treasury (2013a, p. 108).

deliberate action ultimately of central government, the current funding fell below 100%. The net public sector pension liability of each of the funds is included within the accounts of the employing local authorities and consolidated in the Whole of Government Accounts (HM Treasury, 2013a, p. 108).

Finally, there is the state pension scheme (for the whole population) known as National Insurance. This is an unfunded scheme, the financial transactions of which are recorded in the National Insurance Fund. This fund is one of the core, cash-based funds of the central government, managed by the Treasury. The fund's financial statements are consolidated in the Whole of Government Accounts but, since they are cash-based, liabilities for future state pensions are not included. Even if they could somehow be accrual-based, state pensions would need to be reported differently from the other pension schemes applicable to public sector employees, since state retirement pensions payable to the general public are outside the scope of IAS 19.

The assets and liabilities shown in Table 2 are calculated as required by accounting standards. The difference between the assets and liabilities should represent the total liability faced by the public sector, but, as described shortly, it does not fully reflect the effect of pensions on public finances in the future. The total pension liabilities reflect the net present value of the total liability owed to current pensioners, deferred pensioners (who are no longer in

Table 2: Total net pension scheme liability at 31 March 2012

	Unfunded schemes £bn	Funded schemes £bn	Total £bn	2010–2011 restated Total £bn
Gross liability	919.3	304.5	1,223.8	1,169.2
Gross assets	–	(216.0)	(216.0)	(208.2)
Net liability	**919.3**	**88.5**	**1,007.8**	**961.0**

Source: HM Treasury (2013a, p. 103).

employment but will receive a pension on reaching retirement age) and current employees (entitled to a pension on retirement). The liability allows for salaries projected to retirement (or earlier leaving date), but only reflects the number of years of service to date. The liability does not reflect the pension that may be paid to current employees in respect of future years of service to retirement or to future employees (HM Treasury, 2013a, p. 19).

The value of the public service pension liability is also very sensitive to changes in assumptions that are inherently subject to significant uncertainty, for example, the rate of increase in salaries and pensions inflation and the discount rate.

The net pension liability of the government with regards to benefits for public sector employees is, therefore, estimated and reported in the Whole of Government Accounts and an explanation is given of how this, to some extent, understates the effect of pensions on public finances (HM Treasury, 2013a, pp. 18–19). Moreover, at the end of the day, any shortfall in the cash required to meet the payment of pensions is financed by the Exchequer (HM Treasury, 2013a, p. 103). The balance sheet of a government may resemble that of a financial institution but it is important to bear in mind that it is not (Newberry, 2011, p. 523). The Treasury's role in managing financial risk is not satisfied through the Whole of Government Accounts. The framework assisting the Treasury's role in managing the Government's financial risk is wider than this and includes the Spending Reviews (that set departmental spending budgets over several years) and the Budget and estimates process (required to obtain the statutory authority to consume resources and spend cash) (HM Treasury, 2013a, pp. 28–29).

It is interesting to note that while the net liabilities in the Whole of Government Accounts include the net public service pension liability for the public sector employees, the National Accounts only recognise the cash payments and receipts associated with these pensions. The public service pension liability is not included in public sector net debt reported to Eurostat.

5.3 Negative equity

It is clear from the UK Whole of Government Accounts that there is very material negative equity:

> The balance sheet [at end of 09-10], of course, discloses negative equity (described as "Total liabilities to be funded by future revenues") – of £1,211,800,000,000.[8] Since this equity balance includes £758,900,000,000 of non-current, non-monetary assets valued at current cost, future revenues probably have to be somewhat higher than £1.2tn. (Jones, 2012, p. 1 and p. 3)

On the face of it, to an accountant, it is peculiar that negative equity is the norm in such meta-consolidations of government. As Heald and Georgiou (2011, p. 470) put it: "Negative net assets for a government, which has the power to tax, do not have the same implications as for a corporate entity". It is to be expected that lenders to national governments do not typically lend on the security of financial or physical net assets; they lend on the security of future national income (Jones, 2014, p. 68). A numerical illustration of this is given by Biondi (2013a).

6 Summary conclusion

The UK Treasury does recognise that the Whole of Government Accounts is not a substitute for the national accounts produced by the Office of National Statistics (HM Treasury, 2013a, p. 21). It emphasises that while they are complementary, the two systems have evolved independently of each other and refer to different international standards. The Treasury recognises that the two systems have been designed to suit different purposes:

> While the National Accounts remain the measures used to assess the economic and fiscal position of the UK for policy purposes, WGA (Whole of Government Accounts) provides an accounting standards-based presentation to offer new insights into long-term sustainability, as well as presenting the figures in a format familiar to the commercial sector. (HM Treasury, 2013a, p. 21)

However, the Treasury acknowledges that both sets of reporting do not provide a complete assessment of the future fiscal position of the public sector because they exclude future revenues, assets and liabilities (HM Treasury, 2013a, p. 21). Coupled with the fact that the Whole of Government Accounts are not as

8 As on 31 March 2012, negative equity stood at £1,347 billion (HM Treasury, 2013a, p. 40).

"whole" as they purport to be, this emphasises once again the importance of budgeting for the government. The EPSAS proposal does not mention budgeting.

The Treasury also acknowledges the fundamental conceptual differences that exist between the two systems,[9] which give rise to different figures of deficit and debts. However, the Treasury still endeavours to reconcile these figures (HM Treasury, 2013a, p. 22). Even though some academics regard such reconciliations as a must for fiscal transparency and accountability (Heald & Georgiou, 2011), the actual meaning of these reconciliations is rather opaque; their purpose could be to provide comfort to the two preparers involved rather than to have any useful purpose (Jones & Caruana, 2014). And how the EPSAS (transformed from IPSAS) will impact this situation is rather mind boggling as to the understandability of the ensuing information, its auditability and control purposes for budgetary surveillance.

When there is profound disharmony, it is not unnatural to yearn for harmony. When the disharmony is accompanied by profound differences in budgeting and accounting systems, it is not unusual for non-accountants to call for harmonised systems. It requires much technical knowledge and understanding of Anglo-American accounting to explain that this does not follow. On the basis of what has been written about EPSAS, the proposal shows a similar disconcerting lack of understanding of what Anglo-American accounting actually is. Independent standard setting of both financial reporting and auditing; and, consequently, an independent audit of financial statements complying with those financial reporting standards, which audit is carried out in line with auditing standards – these are the foundations of Anglo-American accounting. The EPSAS proposal is silent about these issues.

The expectation given by the EU Commission is that EPSAS will have both macro- and micro-purposes (Eurostat, 2013). The result that EPSAS will increase the reliability of national accounts is not something automatic. It is taken for granted that accrual-based financial statements are properly audited. This is what makes them a reliable source of information. But if these data are not used directly for national accounting and need to be turned around to fit national accounting standards – can you then rationally deduce that national accounting is reliable? (Jones & Caruana, 2014) Is national accounting itself being audited? To what extent is it audited or could be audited, and by whom? (Jones, 2003)

The dominance of national accounting over government accounting is apparent from the feedback received by Eurostat on its public consultation

9 The HM Treasury refers to an article by the Office of National Statistics that explains these differences, namely *Comparison between Public Sector Finance measures from the National Accounts and Whole of Government Accounts* (June 2011).

regarding the suitability of the IPSAS for EU member states and the resulting EU Commission's report (Eurostat, 2013). This is understandable for EU member states like the UK, given that this statistical reporting is loaded with value (Jones & Caruana, 2014). While Barton (2011) gives various other reasons why all governments should use government finance statistics for their decision making.

Government accounting is a social and institutional practice, like other types of accounting, and is therefore a product of rational calculations of costs and benefits by self-interested stakeholders (Hopwood & Miller, 1994). The choice of accounting policies by governments can be studied as the result of political and market processes, as in private sector accounting (Watts, 1992). The implementation of new accounting practices in the public sector is intended to improve productivity and efficiency, but the emphasis is always directed to the symbolic power and legitimation roles of accounting information (Carpenter & Feroz, 1992). Once again, this is manifest in the "logic" of EPSAS, which seems to have emerged from a financial crisis. The apparent failure of statisticians is pushing them to seek legitimacy through accounting[10] – an institution established by the accountancy profession. While statistics cannot be described as a profession, the standards employed enjoy legal backing, and it is thus trying to urge accounting to take certain approaches that are not in line with accounting principles and objectives. Resistance would be the expected reaction from the accountancy profession given that accounting has always been primarily to control people's behaviour (Jones, 1992).

An accrual accounting system may help improve financial reporting for public sector entities at micro-level. The publication of financial statements of the various public sector entities could improve accountability and transparency. The UK Whole of Government Accounts is a meta-consolidation, that is, a consolidation of consolidated financial statements. The fact that the UK does not publish financial reports consolidated at central government level perhaps indicates that macro-fiscal considerations are more important than accountability (Heald & Georgiou, 2011, p. 473). For the government practitioner in an EU member state, rules emanating from the EU would naturally have such focus and any potential advantages of an accrual accounting system at micro-level may not be fully appreciated. Moreover, the EPSAS do not cover budgeting; so what purpose could they serve for control at micro-level?

10 One can note, for example, the emphasis placed on the involvement of the statistical community in the development of IPSAS, in the comment submitted by the UK's Office of National Statistics to Eurostat's Public Consultation on the Suitability of IPSAS for EU Member States carried out in 2012.

Jones et al. (2013, p. 438) conclude:

> it is to be hoped that harmonisation … of government budgeting and accounting is not a necessary part of the resolution of the … eurozone crisis – because, in the light of our research … the likelihood of harmonisation of national government budgeting and accounting any time soon beggars belief.

With added emphasis, it is to be hoped that the eurozone crisis will be solved long before any implementation of any EPSAS proposal. And since it is difficult to imagine that anyone involved does not share this view, the EPSAS proposal can only be viewed as a peripheral matter.

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