PUBLIC SECTOR CREATIVE ACCOUNTING: PAST REFLECTIONS AND A FUTURE RESEARCH AGENDA

ABSTRACT

This paper was written to support a plenary address at the Comparative International Governmental Accounting Research (CIGAR) Network conference in Oporto in June 2017. It considers the significance of creative forms of accrual accounting in the context of both national accounting and government financial reporting. Examples are provided of public sector creative accounting (PSCA) in its ‘broad context’ of any manipulation of financial information to mislead users of financial statements, and in a ‘focused’ context which refers to the specific use of PSCA to manipulate the reporting of deficit / surplus and associated levels of debt. Some conclusions are provided, including that PSCA is an inherent side-effect of ‘hard’ targets and ‘soft’ accounting regulation. Many techniques of PSCA have been identified, but it remains unclear what are the drivers and who are the controllers of PSCA. There is a danger that PSCA research literature follows equivalent private sector studies in becoming obsessed with differences in statistical technique, while ignoring important implications of public policy. Some suggestions for future research are provided, including the need for accounting researchers to use their specialist knowledge and understanding to draw out the differences in accounting that exist within apparently consistent frameworks and to seek to understand the policy effects and the social implications of PSCA in the contexts of austerity and the changing politicisation of national and international forms of fiscal surveillance.

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1. INTRODUCTION

My intention this morning is to reflect on the use of creative accounting (CA) in and around the public sector. I will not be talking about CA in the private or corporate sector, other than to provide a short comparative assessment at the start. Similarly, I do not intend to consider non-financial forms of PSCA, although these might be used extensively, particularly when rigid or difficult-to-achieve performance targets are implemented (for example; Pitches et al, 2003). You might have noticed that I have changed the title of the talk: which on an earlier version of the conference programme referred specifically to IPSAS. The reason for this change is that I see CA as being prevalent, at least potentially, under any form of accounting. It does not depend upon IFRS, IPSAS, EPSAS or any other set of standards or principles. However, I will make some references to IPSAS when considering potential future themes of public sector creative accounting (PSCA) research.

CA is important for a number of reasons. First, it has been around for a long time and there is no reason to expect it to disappear. Parker (1991) warns historians of the danger of taking accounting information at face value and refers as far back as the second millennium B.C. and the stone cruciform monument from Sippar in Mesopotamia, which is now in the British Museum. The inscriptions are thought to be a forgery designed to strengthen the claim of the temple to its revenues (Parker, 1991, p.10).

PSCA as being a threat to the (limited) trust that citizens may have of their central, regional and local governments and for those that lead public services. If public sector financial information is seen to be unreliable, biased and infected with creative accounting techniques, then it quickly becomes part of ‘Fake News’, rather than being a bulwark against the manipulation of information. Fundamentally, PSCA is anti-democratic.

PSCA provides both challenges and opportunities for researchers. Challenges include access to data, determining the existence of manipulation of financial information and the understanding of who has promoted such manipulations and why. The opportunities include seeking to overcome these challenges and providing access to evidence of how and why they are committed. As independent researchers, we do have the possibility of disclosing robust evidence in a manner that is often impossible for politicians or policy makers (who are wedded to particular party interests) or to public sector managers (who are constrained by confidentiality clauses in employment contracts and by fears of exposure as whistle-blowers). Of course, politicians, policy makers and managers, in some cases, will be the very people who have promoted the PSCA and wish to avoid its disclosure.

The rest of the paper is divided into five further Sections. Section 2 provides an outline definition of creative accounting and distinguish between what will call ‘the Broad View of PSCA’ which may incorporate the manipulation of any financial data, and what I will refer to as ‘the Narrow View of PSCA’ which concentrates on the manipulation of overall surplus or deficit (what would be called ‘earnings management’ in a corporate sector context) and the manipulation of reported figures of public debt. Section 3, use existing, largely normative, literature to explain why PSCA is carried out and to provide an overview of some of the techniques in use. In Section 4, I will look some examples of PSCA from the Broad View and in Section 5 some examples of the Narrow View. My examples are drawn from empirical literature, varying from single organisation case-studies through to statistical analyses of financial data. Finally, Section 6 draws these issues together, providing some general past reflections and I highlighting some features to provide future research topics that might be called, rather grandly, a future research agenda.
2. PUBLIC SECTOR CREATIVE ACCOUNTING - THE BROAD AND NARROW VIEWS

There is no formal definition of ‘creative accounting’. Healy and Whalen (1999, p. 368) provide an often quoted description of ‘earnings management’ as occurring when “…managers use their judgement in financial reporting and in structuring transactions to alter financial reports to either mislead some stakeholders about the underlying performance of the company or to influence contractual outcomes that depend upon reported accounting numbers.”

In the UK, CA first came to prominence as the title of a book by Ian Griffiths (1986), a combined ‘how to do it’ guide and ‘don’t believe everything you read’ warning. The manipulation of corporate accounts was publicised further in another highly successful book ‘Accounting for Growth’ by Terry Smith (1992). The broad implication of CA is that it involves some sort of manipulation in the presentation of accounting data. Griffiths (1986) and Smith (1992) imply that such manipulation may be carried out without necessarily breaking laws or the rules of accounting. However, it may be difficult to identify the practical and moral distinctions between CA and fraud; both are designed to mislead users of financial information.

A number of other terms are used in the literature in place of CA. In the corporate sector, the term ‘earnings management’ is often used, emphasising the importance of reported profits or losses in that context. The term ‘public sector creative accounting’ (PSCA) will be used in this paper to include accounting fudges (Dafflon and Rossi, 1999), cooking the books (Clémenceau and Soguel, 2017), earnings management (Ballantine et al, 2007), fiscal gimmickry (Koen and van den Noord, 2005), games (Anthony, 1985), performance adjustment (Arcas and Mati, 2016) and strategic misrepresentation (Jones and Euske, 1991).

The manipulation of accounting information is an issue of concern relevant to practitioners, standard-setters and regulators. In a public sector context, such concerns extend to policy makers, politicians, national governments and supra-national institutions. It is not surprising that there is an extensive literature on CA. The literature examining CA in the corporate sector (much of which is based upon US data) is much more extensive than in the public sector. An interesting comparison can be made between the review of literature on corporate earnings quality in Dechow et al (2010), based on more than 300 published studies, and the working paper of Cardoso and Fajardo (2014), which identified only 17 PSCA papers.

In this presentation, I will make a distinction between what I will call the Broad view of PSCA and the Narrow View. The Broad View refers to any attempt to manipulate accounting information, in a public sector context, to influence users. This is a broad view because of the wide scope of financial information used in the public sector and the related decision-making and accountability perspectives that might be influenced by such manipulation.

The Narrow View refers to PSCA in the specific context of published financial statements and concentrates on the measurement and presentation of financial performance (reported surplus or deficit) and the recognition and measurement of debt. This narrow view has affinity with the study of CA in the corporate sector, particularly the earnings management literature.

3. PURPOSES AND METHODS OF CREATIVE ACCOUNTING

In the private sector, there are a number of studies that indicate the use of creative accounting methods (Dechow et al., 2010, 2011). Such studies concentrate on corporates that have one or more

1 Cardoso and Fajardo (2014) refer to McKee (2005) providing fifteen different terms used to describe the manipulation of financial information.
types of publically-quoted securities, presumably because of the more significant agency issues in this type of corporation arising from the separation of management and ownership interests and because of the availability of information from financial reports and capital market returns. The purposes behind manipulation may include the smoothing of profits to influence of stock-market perceptions and to reduce the costs of financing; to increase or maximise executive bonuses; to achieve forecasts or external imposed targets; to avoid contract-based penalties such as loan covenants; and to avoid political costs, that may result in regulatory intervention when results are outside of acceptable measures of performance.

Intuitively, it seems reasonable to assume that managers of public sector bodies may have similar reasons to manipulate their financial reports, although there are relatively few published studies that indicate the reasons for and methods of PSCA. Some of these studies will be considered later in the paper and there are a number of common findings from these studies will can provide some general understanding of why PSCA occurs.

First, there may be contexts where specific financial performance targets are set, typically by a higher legislative authority, or where the meeting of financial targets is important to meet expectations of capital markets or to avoid political costs. For example, member states of the ‘eurozone’ are expected to avoid deficits of above 3% of GDP and to limit borrowings to no more than 60% of GDP under the terms of the Stability and Growth Pack (European Council, 2011). Failing to achieve these targets may result in a country becoming subject to the Excessive Debt Procedures (EDP) of the Eurozone, with resulting financial, social and political costs.

Second, even where there is no imposed financial performance target, there may be expectations that a public sector body will be managed to achieve a financial result with parameters expected by the public and media. For example, a public sector organisation might wish to avoid a deficit with the implications of poor financial managements and an inability to ‘live within its means’. On the other hand, a large surplus might also result in criticism on the grounds that a public sector entity is not created to maximise financial returns, and that a large surplus suggests that the taxes, levies or prices that it charges are excessive for its purposes. These factors point towards public sector entities being likely to wish to avoid both deficits and large surpluses.

Third, the governance structure of public sector entities will often differ considerably from a private corporation, leading to different costs and incentives. There may be short-term political incentives to ‘cheat’, particularly before elections, which outweigh longer-term detriments. There may be few with sufficient knowledge or incentives to monitor public sector financial statements in detail, so that manipulations go undetected for many years and the likelihood of getting caught is low. In contrast, the political and economic consequences if failing to achieve mandatory targets set by higher authorities may be substantial, both to the organisations and to its managers.

An interpretation of the circumstances leading to the manipulation of information is shown in Figure 1, which is adapted from Birnberg et al. (1983). They interpret information-manipulating behaviour as being influenced by two beliefs concerning the accounting data used to support decision-making. The first of these is the extent to which accounting data is believed to be measureable and verifiable as representing the conditions that they purport to represent. In figure 1 a distinction is made between high belief, for which the data is taken to be measured and verifiable without the need to incur expensive audit costs, and low belief, for which considerable audit time and expense is needed to gain such assurance. The second belief is that managers can analyse the data to confirm that it supports to decisions made. The authors interpret each scenario is the context of management accounting decisions in the private sector: managers are the ‘principal actors’ who seek to ensure
that decisions are made that are consistent with their own desires or to benefit the organisation. The subordinates are the ‘agents’, who seek to use their greater knowledge to ensure that decisions are not made that are contrary to their own interests.

Figure 1: Information Manipulating Behaviour

<table>
<thead>
<tr>
<th>BELIEF IN THE ANALYZABILITY OF DATA</th>
<th>BELIEF IN MEASURABILITY AND VERIFIABILITY OF DATA</th>
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<tbody>
<tr>
<td>HIGH BELIEF</td>
<td>HIGH BELIEF</td>
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<tr>
<td>LOW BELIEF</td>
<td>LOW BELIEF</td>
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<tr>
<td>HIGH BELIEF</td>
<td>Cell 3: Filtering the Truth</td>
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<tr>
<td>LOW BELIEF</td>
<td>Cell 4: All Manipulating Methods</td>
</tr>
</tbody>
</table>

Source: adapted from Birnberg et al (1983, p. 125)

In Cell 1, there is high belief in the measurability, reliability and analysability of accounting data. This is seen to eliminate much of the opportunity to manipulate data for decision-making purposes. The agents select projects that are consistent with the desires of the principals. Birnberg et al (1983) suggest that it is rarely possible to encounter a Cell 1 situation in practice.

In Cell 2 (high analysability; low measurability) the principals know the questions that are needed but cannot evaluate the validity of the answers. Agents put forward the best possible set of results as it is difficult for the principals to analyse the data. There may be biasing or gaming of data because of its low measurability and verifiability.

In Cell 3 (low analysability; high measurability) the principals cannot be sure that they are asking the right questions. The agents tell the truth (as far as it goes) as there is a greater chance of false data being identified than in CELL 2. However, agents will carefully select which truths they select to tell, emphasising those which they believe are likely to be accepted by principals to accept the proposals while downplaying, or even ignoring, other issues that throw poorer light on the proposals.

Finally Cell 4 (low analysability; low measurability) provides the most difficult set of circumstances for the principals to interpret the measurability, validity and analysability of the data. Interestingly, Birnberg et al (1983) interpret this situation as akin to the evaluation of social programs and to public sector allocation decisions; concluding that a formalistic approach to decision-making is less effective than methods that take account of specific circumstances and contexts.

A number of articles draw attention to particular forms of PSCA. Two are mention here: Anthony (1985) because it gives an early indication of methods used (in the context of US local and state governments) to manipulate the financial results; and Irwin (2012) because it provides a broad description of accounting devices used to manipulate central governments accounts within the context of the System of National Accounts (SNA) / European System of Accounts (ESA).

Anthony (1985) describes two major types of PSCA accounting. The cash basis of accounting is found wanting as it allows income or expenses to be omitted from financial reports by the simple expedient of delaying the payment of expenses or not accepting receipts until the following reporting period. However, accrual accounting in the form used by US states and local government is also found wanting on an accruals basis. PSCA is carried out through the use of special fund accounts, which are not consolidated within the boundary of the authority. He concludes that accrual-based GAAP with consolidations and backed by independent audit are needed to prevent the continuing abuse of public sector accounting.
Irwin (2012) provides a taxonomy of accounting devices used to create fiscal illusions in national accounts. The basis of his analysis is that the immediate impact of such devices is to create (by implication artificially) increased revenue or decreased expenditure, but that the future impact is either more spending or reduced revenue. This leads to the four categories of accounting devices shown in figure 2.

Figure 2: A Taxonomy of Accounting Devices

<table>
<thead>
<tr>
<th>IMMEDIATE IMPACT OF PSCA</th>
<th>FUTURE IMPACT OF PSCA</th>
<th>REDUCED REVENUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>MORE REVENUE</td>
<td>Cell 1: HIDDEN BORROWING</td>
<td>Cell 2: DISINVESTMENT</td>
</tr>
<tr>
<td>REDUCED EXPENDITURE</td>
<td>Cell 3: DEFERRED SPENDING</td>
<td>Cell 4: FOREGONE INVESTMENT</td>
</tr>
</tbody>
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Source: adapted from Irwin (2012, p. 5)

In his paper Irwin provides a comprehensive list of examples from many different countries. Hidden borrowings include taking those arising from pension transactions, sale and leaseback and certain derivative liabilities. Disinvestment may result from the sale of assets to reduce borrowings or the securitization of future revenues. Deferred spending includes deferring maintenance and other current payments, and the use of leasing and public private partnership (PPP) transactions. Foregone investments include cutting back on capital payments and the use of concessions to replace direct public sector investment in infrastructure. More generally, Irwin refers to “disappearing government” when debt or similar obligations are moved outside of the general government boundary.

4. BROAD VIEW EXAMPLES OF PSCA STUDIES

In Section 2, I described the “Broad View” of PSCA as any attempt to manipulate accounting information, in a public sector context, to influence users. In this section, I will describe and analyse certain examples which exclude the “Narrow View”. In other words, the examples in this section exclude the use of PSCA to manipulate the reporting of deficit / surplus or the reporting of debt, as they will be considered in Section 5.

Studies of PSCA, although limited in number, nevertheless reflect a variety of circumstances that involve the manipulation of public sector accounting or financial data. The examples discussed here reflect the following circumstances: (a) Revenue is determined based upon formulae which enable revenue. (b) Accounting or financial data is used to determine the position of a public sector entity with a ‘league table’ of similar organisations. Such league tables may have a high media profile. The objective of data manipulation is to show the entity in good light, which does not necessarily mean that the entity wishes to be at the top of the league table. (c) Data is manipulated to provide a ‘just’ (or ‘fair’ or ‘appropriate’) measure of some variable. The objective is to show the organisation in good light – that is it working to some measure of high or appropriate standards. (d) Data is manipulated to meet some target, but one which does not come with the “Narrow View” of overall surplus / deficit or level of debt.

Legried and Neby (2016) provide a case study of the first type of manipulation based upon the application of Diagnostic Related Groups (DRG) and Activity-Based Funding (ABF) in Norwegian Hospitals. Various gaming mechanisms are found to apply including false diagnosis of patients, putting them into higher DRG income categories, reclassifying patients into more lucrative DRG categories, over provision of services to low-severity patients and selecting patients in high-profit /
low-cost DRG categories. Accountability mechanisms are multiplied but are not seen to generate trust for effective working between officials.

The second type is illustrated by the National Reference Costing Exercise (NRCE) in UK hospitals from 1998. The NRCE was, like the previous example, linked to activity based funding dependent upon the average cost of various treatments (Llewellyn and Northcott, 2005). Hospital costs under NRCE were incorporated into league tables. The study shows how hospitals sought to be ‘average’ under NRCE. Being a high-cost hospital was interpreted as ‘bad news’ because it had the implications of wastefulness and poor financial management as well implying losses on particular treatments. However, being low cost was also considered by hospital managements to be detrimental with implications of lower quality and inadequate resources. The paper shows how hospitals became ‘more average’ over a five year period as the percentage close to the mean increased.

Marino (1993) provides an intriguing study of creative accounting in the age of Philip II of Spain. The case refers to the prepayment of additional taxation by the Kingdom of Naples to Spain in the 1570s. The documents at the time refer to an interest rate of 9 % under the arrangement, although this is later recomputed as only 3.3%. The implicit rate of interest using modern discounting methods would be around 7.1%. The paper (p. 777) highlights that modern views about financial arrangements are ‘as much constructed mathematical constructs as any other’. The author concludes that accountants working on behalf of Philip II sought to convince various parties of the validity of the scheme by using different computations of the interest rate.

A much more recent example of the strategic use of creative accounting is illustrated in the computation of UK defence spending in the light of promise of NATO members to spend 2% of GDP for defence purposes. The House of Commons Defence Committee (2016) report, highlights how the Ministry of Defence altered the allocation of costs making up the UK defence budget and, by doing so, the UK defence allocation for 2016 was increased from 1.97% to 2.08% of GDP, so achieving the pledge to NATO.

5. SOME FOCUSED EXAMPLES OF PSCA STUDIES

Some types of PSCA are focused on the reporting of deficits / surpluses and on the level of debt. These are likely to be particularly significant metrics in any set of financial statements. They become of even greater importance if there are targets to achieve to avoid economic or political penalties. Such measures were of particular importance in the run-up to European Monetary Union (EMU) and are explicit in the subsequent SGP of the European Union.

5.1 Reporting deficits and debt in the context of EMU and SGP

Typical circumstances of PSCA are those of hard targets (either rigid and / or difficult to achieve) combined with ‘soft’ accounting that provides flexibility of accounting treatment, including the potential to move gains or losses into or out of the accounting boundary. The period leading to the EMU appears to be an explicitly strong example of this (Dafflon and Rossi, 1999). The period up to and immediately following EMU saw a fall in reported deficits until 2000 when a combination of reducing economic activity and the absence of further windfalls from the sale of mobile bandwidth resulted in deficits starting to increase again. Koen and van den Noord (2005) illustrate how forecasted surplus in the EU were continually deferred and they find that the use of accounting gimmicks is strongly correlated to pre-adjusted deficits. A number of authors have described and analysed mechanisms in various European countries to meet EMU and SGP targets including France,
Belgium and Germany (Dafflon and Rossi, 1999), Spain (Montesinos and Vela, 2000) and Italy, Portugal and Greece (Balassone et al, 2003). The reduction in assets was found to be strongly correlated with reductions in debt from 1992-97 (Milesi-Ferretti and Moriyama, 2006), suggesting that EU countries reduced their debts without necessarily improving net worth or future fiscal stability.

5.2 Stock-Flow Adjustments

If all transactions and changes in value applicable to a government are included in its record of income and expenses, then the deficit (or surplus) for the year would equate with the change in debt. This might be called the ‘clean deficit’, equivalent to clean income surplus in private sector accounting. In practice, the deficit is not a comprehensive measure of all changes in debt so there may be differences between the deficit and the change in debt. This is sometimes referred to as the Stock-Flow Adjustment (SFA). If the SFA were generated by random events, it would be expected that it would, over time, be evenly distributed around a mean of zero. In fact, research evidence suggests that the SFA has tended to be positive during the run-up to EMU and in the SGP period since then. A positive SFA implies that there are residual causes of debt beyond those included in the deficit. One of the causes of a SFA is the existence of PSCA.

Studies of SFA include that by Hagen and Wolff (2006) which concludes that countries in surplus tend to buy assets, rather than reducing debt, while those with a change in debt above 3% use SFA to manage their level of deficit. Buti et al (2007) found that SFA increases when deficits are above the SGP threshold and that SFA increase in the year of elections. Weber (2012) found SFA to be significantly lower for countries with a higher transparency index score. However, there are some papers which identify limitations in such studies. For example, Seiferling (2013) found that there was no significant variance in SFA with fiscal transparency once controlled for banking crises, inflations and fiscal rules. He concluded that there was a need to disentangle the separate elements of the difference between deficit and change in debt. Many of the SFA studies fail to consider differences in the detailed application of accounting methods, an exception being Jesus and Jorge (2016) which examines the accounting methods of Portugal, Spain and Italy.

5.3 PSCA to Achieve Near Break-Even (NBE)

It was mentioned earlier that public sector entities might be reluctant to report deficits or large surpluses, preferring instead to report a result near to break-even. This has led to a number of studies which seek to examine the impact of abnormal levels of discretionary accruals and to relate this to the discontinuity of reported results around zero.

Ballantine et al (2007) examine the results of English NHS hospitals and find a spike in reported income just above zero, which is eliminated after the removal of discretionary accruals. Pina et al (2012) in a study of UK executive agencies find, similarly, that earnings-increasing discretionary accruals are used mainly when pre-managed earnings are negative. Ferreira et al (2013) also find a discontinuity of earnings around zero in a study of local government in Portugal and find that there is more earnings management for pre-election years in areas of strong political competition before, but not after, local elections. Similarly, Arcas and Marti find, in an English local government study, that almost all authorities with pre-managed deficits use income increasing accruals. Clemencau and Soguel, 2017) find that those Swiss Cantons with pre-managed surpluses are more likely to apply

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2 Buti et al (2007) indicate other causes including (a) differences between the use of accruals and cash basis of accounting in the computation of deficit and debt; (b) the impact of the purchase or sale of financial assets; (c) valuation changes, such as exchange rate movements, and volume changes arising from restructuring of banks.
additional depreciation charges. Pilcher and van der Zahn examine local government in New South Wales and find that additional depreciation charges are linked to higher losses and higher surpluses rather than NBE conditions. Similarly Stalebrink (2007) in a study of municipalities in Sweden find that additional depreciation charges are linked to large surpluses and deficits and the study finds that a change of political control is not significant to the measurement of PSCA. Cleamenceau and Soguel (2017) similarly find that the political ideology of finance ministers does not influence the use of additional depreciation charges. A case study paper of a local authority in Finland (Vinnari and Nasi) provides a rather different style of paper to illustrate how sales of assets and subsidisation from outside the entity boundary may be used to balance the budget.

5.4 Obligations Off Balance Sheet (OOBS)

This section is concluded by a brief review of two articles concerned with the manipulation of reporting of debt. Hodges and Mellett (2003), use NHS accounting in the UK to show that accrual accounting adjustments for such items as depreciation and evaluation of fixed assets and provisions for liabilities are sometimes labelled as ‘merely technical’, with the implication that they are unrelated to the functioning of the organisation. One impact of this view that accrual accounting is a technical matter, rather than for decision-making or accountability, is that entities move towards operating methods that are nearer to being cash based. Examples given include mutual insurance-type schemes for clinical negligence and PPP schemes for major capital investments.

Benito et al (2008) discusses the financing of infrastructure in Spain and identifies a number of ways in which recognition of debt is avoided or transferred elsewhere. These include reconstituting public entities to avoid consolidation into general government budgets and the use of concessions and PPPs.

6. CONCLUDING DISCUSSION AND A FUTURE PSCA RESEARCH AGENDA

This paper has provided an outline review of the objectives and methods of PSCA together with some perspectives of the research conducted in this area of study. A few general conclusions may be drawn.

First, PSCA has been around for a long time and is unlikely to go away. Indeed, efforts to increase the control and supervision of national governments, sub-national governments and associated public sector entities seem likely to make PSCA as attractive as ever, particularly if ‘hard’ financial targets as set as part of supervisory regimes,

Second, many techniques of PSCA have been identified, but their drivers and extent of use remain unclear. A similar comment may be made about much PSCA research as hat made in private sector context in Healy and Wahlen (1999), which is that research literature is of little use to standard setters and regulators.

Third, there is a danger that research literature in this area become obsessed with distinctions in statistical and econometric technique rather than with matter of public policy. This will happen if the public sector accounting research community follows the path of its private sector counterparts.

Fourth, the examination of PSCA is linked to the differences between national accounting / government financial statistics and that of government financial reporting. There is an argument for closer links between the communities and methods of accounting (e.g. Jones, 2000). An alternative approach would be to accept the differences of purpose and approach to maintain separate and ‘nested’ forms of government accounting (Irwin, 2012b). Reconciliations between the various
methods of accounting become important to help understanding and to allow the sets to be mutually supporting.

Finally, which of the above approaches is taken, it would appear that consolidation and provisioning e.g. for pensions and guarantees, supported by strong and independent audit are key issues (Bergmann, 2014).

I finish this talk with some thoughts about future PSCA research. There are a number of questions that are worthy of further consideration and studies.

First, which particular accounting standards or rules are used to implement PSCA? We need to use our specialist knowledge as accounting academics to understand the techniques in use. This is something largely missing from econometric studies. What comprises the SFA or other reconciliations between accrual and cash based figures? As IPSAS adoption increases, we might want to consider how similar or different are the actual techniques in use? After all, accrual accounting may not mean accrual accounting (Falkman and Tagesson, 2008).

Second, what factors limit the use and impact of PSCA? There is the potential for more consistent accounting treatment and disclosures e.g. following IPSAS or based on rules and standards developed through Eurostat. So this could form the basis of (a) comparative studies of a particular sector within a country or (b) comparative international governmental accounting research. Such studies might include both technical issues: e.g. on consolidations, associates and joint ventures, measurement methods, and provisioning – especially pensions and guarantees. As well as political and organizational issues around who controls and implements PSCA?

Third, what changing circumstances affect or be affecting the implementation of PSCA. For example, under conditions of austerity is everyone in deficit now, so that achieving NBE is no longer a realistic objective. In the context of government borrowing, it might be reasonable to assume that nothing is of great significance or can provide much in the way of savings if the next financial crash is around the corner and the taxpayer will once again have to bail out the financial sector (Hodges and Lapsley, 2016).

Finally, how are social outcomes affected by PSCA and the resulting public sector resource allocations, if at all? It might be appropriate for accounting academics to be working within multi-disciplinary research teams in order to help assess how significant such financial manipulations are.

REFERENCES


