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Governance, transparency and accountability: An international comparison

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Abstract

Governmental financial transparency is an essential element in the implementation of policies to overcome the present crisis of public finances. The international financial reporting standards aim to improve governmental transparency and accountability through the use of new accounting models. Based on an international empirical study involving the Supreme Audit Institutions of 29 countries, this paper examines the political decisions associated with the introduction of the fair value accounting (FVA) to improve governmental financial transparency. Our findings show that the application of FVA would require action in three areas of government public policy: regulatory reform, skills training for public-sector staff and internationalisation. © 2015 Society for Policy Modeling. Published by Elsevier Inc. All rights reserved.

Keywords: Governmental transparency; Accountability; Public policy; International Public Sector Accounting Standards; Fair value accounting

1. Introduction

In the context of the present international crisis of government finances, according to both the Fiscal Sustainability Report ([European Union, 2012](#)) and Directive 2011/85/EU ([Council of Europe, 2011](#)), improvements in public accounting practices are crucial for obtaining high-quality information on budgetary stability and governmental financial sustainability. In agreement with

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this, several previous studies (Cooper, 2006; Hubbard, 2006; Klein & Salvatore, 2013; Paredes, Pedregal, & Pérez, 2014; Salvatore, 2006) have agreed that governmental accounting systems play an essential role in implementing appropriate public policies to overcome the financial crisis affecting the public sector worldwide.

In this context, the proposed International Public Sector Accounting Standards (IPSAS) (IFAC, 2011) seek to enhance the accountability of public sector entities by increasing transparency in governmental financial statements. The application of the fair value (FV) model (IFAC, 2011), represents the current international benchmark for the preparation of governmental financial statements, with a view to improving their relevance, comparability and transparency (Haque, 2006). The adoption of fair value accounting (FVA) may have important policy implications because it could influence the choice of the best model to manage public sector services (Rodríguez & Navarro, 2007).

Accordingly, prior research has shown that the selection of an appropriate policy for accounting measurement could enable a better response to information demands, by focusing on the reforms being undertaken by public administrations, known as New Public Management (Rodríguez & Navarro, 2007), especially those associated with transparency. These reforms are expected to produce information that is more reliable, secure and complete (Khurana & Kim, 2003).

Nonetheless, the possible replacement of historical cost accounting (HCA) by FVA is arousing much academic debate concerning the relationship between FVA and certain financial information characteristics. With respect to this relationship, national governments wishing to implement FVA may need to take policy decisions and adapt public accounting rules accordingly (Whittington, 2008). Directive 2011/85/EU states that audits by government agencies such as Supreme Audit Institutions (SAI) should encourage the adoption of international accounting practices. In this respect, policy implications may arise due to the problems of reliability that have been imputed to FVA. The information obtained from applying FVA is believed to be more relevant for users than that derived from HCA, but at the same time, less reliable (Betts & Wines, 2004).

In accordance with international auditing standards (IFAC, 2008; INTOSAI, 2006), financial audit reports must make specific reference to the understandability and comparability of the information content of governmental financial statements. Accordingly, the replacement of HCA by FVA could have repercussions on the SAI decision making process, as the main users of governmental financial statements, by impacting on the performance of its functions.

Taking into account the above considerations, the aim of the present study is to identify the policy implications of implementing the IPSAS to improve governmental accountability. To achieve this aim, based on international empirical research conducted in 29 countries, we seek to determine the policy actions required to implement FVA for the purpose of improving governmental financial transparency.

The rest of this paper is organised as follows. In Section 2, we study the importance of FV with respect to public administrations' transparency and accountability, and we identify the reasons why changes in accounting criteria may influence the development of the functions performed by SAI. Section 3 presents an empirical study based on a questionnaire, detailing the research questions and the main results obtained. In Section 4, we discuss the implications of these results and highlight the main conclusions drawn.

2. Accounting measurement basis and SAIs' functions

In recent years, the reforms of accounting policies have sought to improve governmental accountability, and thus, transparency and efficiency (Haque, 2006; OECD, 2001), having as

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