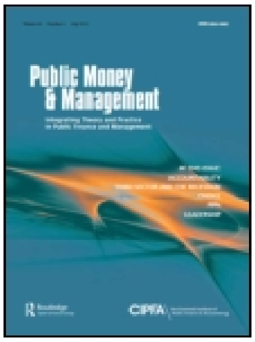

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Legitimating International Public Sector Accounting Standards (IPSAS): the case of Spain

Isabel Brusca, Vicente Montesinos and Danny S. L. Chow

Examinations of the growth in the adoption of International Public Sector Accounting Standards (IPSAS) at a global level have focused on Anglo-Saxon countries. This paper considers the implications of IPSAS adoption in Spain. The authors found that a combination of factors, such as the political need to demonstrate improvements in public sector accountability, 'code-law' based systems of governance, European Union pressures for the harmonization of business accounting and the credibility resulting from major international institutions adopting IPSAS, all contributed to its legitimation in Spain.

Keywords: Accruals; budgets; IPSAS; public sector accounting; Spain.

The spread of International Public Sector Accounting Standards (IPSAS) is an important trend in the development of public sector accounting, epitomizing the emergence of a global accounting architecture (Humphrey *et al.*, 2009). These developments can also be seen within the context of a worldwide move to adopt New Public Management (NPM) techniques. For example, Adhikari and Mellemvik (2010) have chartered the rapid take-up of these standards in a variety of different countries, and the trend is for them and international organizations to join the path towards IPSAS adoption or convergence (Christiaens *et al.*, 2010).

While there is a growing awareness of developments in the harmonization of business sector accounting standards with International Financial Reporting Standards (IFRS), the literature surrounding IPSAS adoption is less developed and often discussed from the perspective of Anglo-Saxon standard-setting processes. Anglo-Saxon countries were key pioneers of accruals-based government accounting reforms, which had its origins in the 1980s from being associated with the NPM movement. Most continental European governments have introduced similar reforms in recent years. Some continental countries have, for example, started to adapt their national government accounting standards to be based on IPSAS, which has added to the standard's growing legitimacy.

We have two related aims in this paper. First, we report on the global spread and legitimation of IPSAS. Second, we examine the Spanish government's decision to adopt IPSAS for the public sector.

Understanding the spread and legitimation of IPSAS

Neither the IPSAS board of IFAC (IPSASB), nor the accounting profession, has any legislative power to require compliance with IPSAS, IPSASB therefore has to rely on persuasion and example to propagate and gain acceptance for its standards.

Promoting IPSAS

The global public sector accounting harmonization agenda has recently become more high profile in the EU because accounting diversity across public entities makes comparability of financial information difficult, even for experts. In addition, the ongoing financial crisis from 2008 has also raised several public sector accounting issues. Many governments have deficits and high levels of debt and budgetary stability is critical. Politicians have started to stress the importance of high-quality financial reporting by governments. Moreover, the financial crisis has created distrust and increased the need to demonstrate greater accountability and transparency in the public sector, and at the same time put the spotlight on debt reduction (Bergman, 2010a; Ball, 2012).

In spite of the high degree of national accounting standardization in Europe, the relevance, reliability and transnational comparability of ratios assessing the financial/economic position and performance of

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governments are open to question. Lüder (2000, p. 127), for instance, argues that an improvement in this situation would require a shift in government accounting bases towards accruals, as well as a transnational standardization of procedures and practices. Although the use of national accounts in the EU (ESA 95) has an important role in international macroeconomic comparisons, harmonized microeconomic government accounting information can make such information easier to use and more reliable through disaggregation (Jones, 2003).

IPSAS adoption thus could be seen as an attempt by governments to show that they are trying to address the accountability deficit in dealing with the economic and financial rules. An alternative interpretation is that such deficits are intrinsic to the EU, whereby individual sovereign nations are being made to adopt out-sourced regulatory systems such as IPSAS to create the impression that the system is independent, free from the control of more dominant countries within the EU (Chiapello and Medjad, 2009).

In a questionnaire commissioned by the External Review Panel on the Governance, Role and Organization of the IFAC-PSC (IFAC, 2004), 84.4% of respondents considered harmonization of accounting standards and statistical accounting very important. International accounting standards and some national standards are moving in this direction (for example IPSASB's No. 22 and the Australian Accounting Standards Board, AASB's No. 1049). IFAC's agenda is to ensure that IPSAS becomes the nexus for global harmonization across three fronts: business and public sector accounting harmonization; financial and statistical reporting harmonization; and international harmonization.

Statistical information

In late 2011, the European parliament issued a directive on requirements for budgetary frameworks of member states that included a reference to IPSAS, stating: 'By 31 December 2012, the Commission shall assess the suitability of the International Public Sector Accounting Standards for the member states by 31 December 2012' (art. 16.3, Council Directive 2011/85/EU). The parliament is considering a new approach to government accounting because it believes that government finance statistics (GFS) data is needed to ensure a proper functioning of EU fiscal surveillance, given recent economic problems. Following on from this, Eurostat (the EU's statistical office) issued a public consultation on the suitability of the IPSAS for EU member states, in order to develop a report about the suitability of implementing IPSAS-derived standards for member states.

While no form conclusions were drawn, the results showed that support for IPSAS-based standards were mixed. The strongest support came from the professions, whereas national finance ministries and audit offices were generally more reticent (Eurostat, 2012).

Adaptability of the IPSAS model

One of the ways that IPSAS demonstrated legitimacy was through its association with Anglo-Saxon capital markets-oriented models of government accounting (Chan, 2008). IPSAS was seen as an extension of existing global accounting architecture and would save large international institutions, and even governments, having to develop entirely stand-alone accounting systems (Heald, 2003). There is a view that this helped in the adoption of IPSAS by the public sectors of Anglo-Saxon countries, because the infrastructure in terms of professional expertise was readily available.

However, we believe that, as IPSAS develops over time, legitimacy acquired through incumbency could be replaced by legitimacy from being distinctive to the incumbent. In other words, the strength of IPSAS is in being able adapt to the public sector's particular characteristics, through modification of IFRSs using IPSASB's 'rules of the road' in situations where IFRS is not directly relevant for the public sector. Recognizing this, IFAC-PSC in 2002 initiated the second phase of the standards programme addressing issues of particular significance to the public sector, such as accounting for the social policies of government and accounting for non-exchange revenue.

This duality of incumbency and adaptability can be observed in the close alignment of standards between IPSAS and local IFRS-based adaptations for the public sector in Anglo-Saxon countries (Bergman, 2010b). For example, the AASB has issued Australian equivalents to IFRS (A-IFRS) with certain amendments to IASB pronouncements applicable to public sector reporting. These amendments, however, are very similar to IPSAS. In a similar fashion, New Zealand (NZ) has applied NZ-IFRS to the public sector and has included public benefit entity amendments that draw it closer to IPSAS. In the UK, the financial reporting guidance for the UK public sector (which is an IFRS-based) is also broadly consistent with IPSAS (CIPFA, 2009). Furthermore, the UK government did also consider adopting IPSAS in developing the guidance, and IPSAS will be relied upon in areas where there is little or no steer from IFRS or IAS (Treasury, 2011).

Incumbency and adaptability, however, can only go so far in facilitating the propagation of IFRS or IPSAS, as the absorptive capacities of Anglo-Saxon versus continental European governments for such reforms differ widely. For example, in the UK and New Zealand, accounting reforms have also included changes to not only financial reporting, but also budgetary processes, such as the move towards accrual-based budgeting and appropriations (Pallot, 1994; Likierman, 2003; Newberry and Pallot, 2006). In contrast, however, many continental European countries have decided to retain their (traditional) modified cash basis and commitments-based budget as their system of parliamentary appropriations (Portal *et al.*, 2012), even if they have adopted accruals-based financial reporting reforms. Instead, these countries have chosen to decouple financial reporting from their budgetary processes, which is used for day-to-day financial decision-making (*ibid.*). Pina *et al.* (2009) argued that many continental European countries have not made the requisite constitutional and organizational changes to enable accruals-based financial reporting and budgeting reforms to be more effective. The lack of absorptive capacity is illustrated in the recent case of the German federal government, which has decided to reverse much of their accruals-based budgeting reforms (see Jones and Lüder, 2011).

Responsiveness of IPSASB in providing assistance

IPSASB was quick to recognize that, as governance structures in continental European countries differ from their Anglo-Saxon counterparts, tinkering with standards would not be sufficient. So they developed a standard focusing specifically on budgetary issues (IPSAS 24), which is more attuned to the governance in countries such as France, Germany (Portal *et al.*, 2012), Italy, Portugal and Spain, where budgets retain its historically central role as the key mechanism for accountability. More recently, IPSASB has adopted an active policy for the dissemination of IPSAS by translating them into different languages, such as Spanish and French. Moreover, IPSASB claims that they have made, and continue to make, significant efforts in co-operating with national standard-setters in preparing and issuing standards, with a view to sharing resources, minimizing duplication of effort and reaching consensus and convergence in standards at an early stage in their development (Bergman, 2010a).

IPSASB and its predecessor IFAC-PSC have made great efforts to adapt to the environment and interests of the profession. In 2004, IFAC-PSC carried out an externally-chaired review panel on governance, role and organization. This resulted in a number of projects, such as reporting service performance information, heritage assets, service concession arrangements, or reporting on the long-term sustainability of public finances (IFAC, 2012). Another strategy it has adopted to build legitimacy as a global standard-setter is to broaden its membership. Its committee comprises 18 volunteer members appointed by the IFAC board based on recommendations from the IFAC nominating committee, but there are also observers from many international organizations, such as the IMF, the International Organization of Supreme Audit Institutions (INTOSAI), the EC, the UN and the World Bank. Members of the public can also observe and comment. Before standards are approved, drafts are published and there is a period of time in which interested parties, including those preparers and users directly affected by the IPSAS, may send in comments to make their views known to IPSASB. However, IPSASB is not obliged to act on the comments received.

This contrasts with accounting standard-setting in many European countries where an élite group of individuals in government develops national conceptual frameworks and standards. As a result, IPSASB has been well received, because it provides not only ready-made standards that travel well, but also the necessary support infrastructure in the form of research reports in order to attract participants involved in public sector accounting reform. For instance, IPSASB provides advice on financial reporting issues in the public sector based on the study of the best practices and most effective methods for dealing with the issues being addressed (IPSASB, 2012).

Mimicry

A tendency to mimic supposed best practices adopted by international institutions has also contributed to the entrenchment of IPSAS as the premier model for public sector adoption. For example, institutions such as the EU and UN exert pressure through their harmonization initiatives, which occur at a number of levels.

An important development cementing IPSAS's reputation as a credible standard to mimic came from the EU's decision to require listed companies in its member states to report using IFRS in 2005 (Chiapello and Medjad, 2009). The effect of IFRS adoption by the EU meant that countries are thus implicitly 'coerced' through the premise of greater EU harmonization to also consider IPSAS for their public sectors. Other supra-national organizations that have adopted IPSAS include the OECD (EC, 2008), NATO, the Council of Europe and INTERPOL. Recently, the UN issued a mandate that all of its agencies should become IPSAS compliant,

The rapid adoption of IPSAS by important global institutions has, however, led to calls for more evaluation to look at the full implications of public sector institutions adopting business-focused accounting systems (Ellwood and Newberry, 2007; Chan, 2008). It is not clear whether the transparency and accountability of governments and public institutions has genuinely been increased (Ball, 2012). The limited evidence we have so far suggests not. For example, concerns persist over accounting for public–private partnerships (PPPs), especially on the nature of off-balance sheet liabilities (Newberry and Pallot, 2006; Heald and Georgiou, 2011). Moreover, while some EU countries favour IPSAS harmonization, a notable dissent came from the French standard setter (CNOCP), which was uneasy about the incompleteness of IPSAS and IPSASB's perceived lack of legitimacy to set standards for the EU (Calmel, 2012).

The adoption of IPSAS in Spain

In tandem with many other continental European countries, a strong legalistic tradition persists in Spain, where the administrative law model dominates the public sector. Central government is the key accounting regulator, having sole responsibility to determine standards for both businesses and the public sector through legislative means. While accounting standards set are obligatory, the accounting profession's influence is weaker compared with their contemporaries in Anglo-Saxon countries, where common law traditions ensure power to enforce accounting standards is more diffused (Montesinos, 1998). For the business sector, the Ministry of Economy created a the Spanish Institute of Accounting and Auditing (ICAC) to prepare accounting standards for business accounting and audit. In the public sector, the Intervención General de la Administración del Estado' (IGAE) is responsible for issuing governmental accounting standards for central and local

Figure 1. Diffusion of business accounting standards in the public sector.

Year	Business sector standards	Public sector standards
1973	First chart of accounts for Spanish business sector	
1977		General budgetary law 1977 (paving way for public sector chart of accounts)
1981		First chart of accounts for public sector (provisional version)
1983		First chart of Accounts for public Sector (definitive version)
1986		First accrual financial statements for central government
1990	Adapting the chart of accounts to meet European Union Directives	First chart of accounts for local government, based on CA 1973
1992		First accrual financial statements for local government
1994		Harmonizing public with business sector chart of accounts
2002	White book for the reform of the Spanish Accounting System	
2004		Harmonizing local government with business sector chart of accounts
2007	IAS/IFRS harmonization	
2010		IAS/IFRS and IPSAS harmonization

jurisdictions. Autonomous regional governments within Spain's federated structure are responsible for public sector accounting standards in their respective jurisdictions.

The Spanish governmental accounting system has traditionally been based on the business accounting conceptual framework, although it includes adaptations for the public sector. Standard-setters responsible for both public and business sector accounting come under the sole authority of the Ministry of Economy and Finance and often work together. This close relationship between individuals working in both sectors partly explains the trend for public sector accounting to follow developments in business sector standards (see figure 1).

Despite the rapid adoption of international standards in the public sector and the introduction of accruals accounting, there have been no reforms or changes in the budgetary system, which still uses a modified cash basis of accounting (though there are some new linkages forged between budgetary and accruals-based systems). The lack of substantive reforms in budgetary accounting is indicative of the political importance attached to administrative traditions. The decoupling of financial reporting from budgetary processes, however, can dilute the effectiveness of accounting reforms because parliamentary appropriations and debate continues to be based on commitments and not accruals-based budgets. The case for aligning financial reporting, budgets and parliamentary appropriations together was meant to induce positive behavioural changes in the decision-making process (Likierman, 2003; Ball, 2012).

Rationalizing the need for IPSAS in Spain

In Spain, the development of public sector accounting standards has mirrored changes in accounting in the business sector. The EU requirement to use IAS and IFRS (Regulation 2002/1606/EC, 19 July 2002) had an important influence on the Spanish government's decision to adopt IPSAS. The EU regulation sparked off a discussion on the appropriateness of aligning Spanish law (on accounting standards) with international standards (López Combarros, 2002); The result was a new chart of accounts for business accounting (November 2007) adapted from IFRS, which mandates accounting harmonization for all listed and unlisted companies and also between individual and group accounts. As a consequence, the Spanish standard-setter for business accounting (ICAC) has preferred to work with the European Commission and IASB in order to legitimate the new standards proposed. The move towards IAS/IFRS for the business sector also triggered a debate on the feasibility of aligning existing accounting standards for the public sector with IPSAS.

The alignment of Spanish public sector accounting with IPSAS was premised on improving the quality of accounting information, including information to support management and external users' decision-making and provide increased accountability (Ministerio de Economía y Hacienda, 2010). The idea that IPSAS adoption leads to improvements in international comparability and transparency of information through the use of standardized accounting was also used to rationalize its adoption in Spain. In line with many other countries in a similar position, IPSAS in Spain is used as a basic model to emulate, but does not over-ride, the existing accounting regime (i.e. the Spanish chart of accounts).

Three arguments were used to justify and legitimate the adoption of IPSAS in Spain:

- The Spanish business sector had adopted IFRS and the Spanish government has a tradition of basing public sector standards on business accounting.
- IPSAS has legitimacy because so many countries and international organizations have adopted it. For instance, the Spanish chart of accounts (2010) made it clear that these standards are well perceived internationally.
- A desire to align the Spanish public sector with the latest international accounting innovations.

The above arguments are a synopsis of comments taken from the IGAE expert panel and official papers from the 'Interventor General del Estado (comptroller general of Spain)' (Nicolás, 2008 and 2010).

Table 1 presents a chronology of events leading up to IPSAS adoption in Spain. The white book on Spanish accounting reforms first recorded the importance of reforming public sector accounting and adapting it to IPSAS, providing evidence that a panel of experts (made up of academics and the accounting profession) supported the move towards IPSASs (IGAE, 2009). In 2006, the 'Tribunal de Cuentas'—the supreme audit institution (SAI)—prepared a motion for accounting standards and principles, asking the government to harmonize accounting standards in public sector entities. It was the first time that the SAI had made a recommendation on accounting standards, taking advantage of its entitlement to provide backing for the proposed new standards. The SAI's core agenda prioritized harmonization to ensure IPSAS formed the basis of a uniform standard across central, regional and local government, as well as for all other entities with a public sector remit (administrative, foundations or not-for-profit and business).

As a result of the SAI's work, a parliamentary motion ('Comisión Mixta Congreso-Senado') in 2007 mandated that the SAI investigate the feasibility of reforming Spanish public sector accounting into a single, harmonized system for all entities. The outcome was that the governing political party wanted to adopt IPSAS, while the opposition party did not. The opposition wanted the public sector to adapt to the Spanish business accounting system (IFRS). IGAE decided to capitalize on having won broad political support for accounting reform, and combined both IPSAS and business accounting standards into one set of new standards. The adaptation of existing international standards made it easier for the government to obtain the support of Spanish professionals and academics, who were generally sympathetic to the idea of international accounting harmonization (Benito *et al.*, 2007; Pina *et al.*, 2009).

2007 was the most critical period for the transition to an IPSAS-based system in Spain. Following the publication of a new chart of accounts for business accounting, IGAE subsequently released a first draft of an IPSAS-based chart of accounts for the public sector

Table 1. Chronology of recommendations and outcomes for accounting reform within the Spanish public sector.

Year	*Recommendations and outcomes*	*Sources*
2002	Consider the harmonization of Spanish public sector accounting standards in Spain with IPSAS	White book for the reform of the Spanish accounting system
2006	SAI announced that public sector accounting reform was needed to ensure reporting uniformity at different levels of government and for different entities within the public sector (administrative, commercial and not-for-profit). Consolidated financial statements should also be produced	Motion of the SAI (Tribunal de Cuentas), on public sector accounting standards
2007	Government: Proposed that public sector accounting standards adopt IPSAS Opposition: Suggested that business sector accounting standards be used	Parliamentary debate triggered by the SAI motion
2007	The Spanish standard-setter, IGAE, announced it was preparing a new chart of accounts for public sector accounting based on IPSAS. Public sector accounting and auditing experts (academics and professionals) were invited to form a working group to discuss this	Meeting of the commission for the elaboration of specific studies in public sector accounting (16 April)
2007	The proposed new chart of accounts was made up of standards drawn from both IPSAS and business sector accounting	First draft of the public sector chart of accounts (parts I and II)
2007	It was decided, with no objections among members, that basing the new chart of accounts on IPSAS represented the best way forward	Working group meeting discussed parts I and II (17 October)
2008	Minor technical issues of the new chart of accounts were discussed	Working group meeting discussed part III (28 February)
2008	The commission supported the draft chart of accounts prepared by the IGAE and discussed by the working group	Meeting of the commission for the elaboration of specific studies in public sector accounting (17 November)
2009	The panel recommended that Spanish public sector accounting standards should adopt IPSAS to have international harmonization	Panel of the president of the SAI
2010	Ministry of Economy and Finance Order	The IPSAS-based chart of accounts receives legislative approval

with two initial sections—conceptual framework and recognition and valuation criteria. A working group of public sector accounting professionals and academics was then assembled to discuss the draft. The draft's publication, however, was a *fait accompli* on the IGAE's part, as it had already decided that the chart of accounts should be aligned with IPSAS prior to the working group's inaugural official meeting in October that year. This was further reinforced when the working group unanimously agreed with the IGAE's position. As a result, during that official meeting, the group only debated narrow and specific technical issues, such as the criteria for asset valuations and the use of fair values for properties, plant and equipment (which were subsequently incorporated into a revised draft). Broader, conceptually important questions on the relevance and feasibility of adapting existing Spanish accounting to international standards were not discussed. Further rubber-stamping occurred during the second meeting in February 2008, which saw the draft acquiring a new section on 'financial statements', and the group agreeing that the chart be aligned with IPSAS 1.

It is clear that change, in the form of accounting harmonization and reform, was the only agenda on the table for both government and opposition. The lack of any robust opposition to the harmonization agenda was a surprising finding, and that is probably because the reform did not affected the budgetary system. In the Spanish case (much like French and German attempts to modernize accounting away from commitment-based budgeting—see Portal *et al*., 2012), legislators rubber-stamped these reforms because they do not encroach on budgetary accounting systems (which remains substantially unaltered), which is where the real political contests reside. The effect is, from the Spanish parliament's viewpoint, a decoupling of financial reporting from the more important budgetary decision-making process. The predominance of budget as a governance mechanism is sustained by a legal-administrative culture based on code-law, unlike that of Anglo-Saxon countries where financial reporting and audit has greater prominence over internal accounting.

Conclusions

We have added to the academic literature on the growing importance of IFAC/IPSASB in accounting standard-setting (Chiapello and Medjad, 2009; Humphrey *et al*., 2009) by considering the Spanish case. In Europe, the EU is considering whether to promote IPSAS adoption among its member nations. Therefore, timely examination of this initiative is useful, as debate has largely focused on private sector standards, rather than on the public sector case.

We found that there have been multiple influences on the Spanish government to harmonize its accounting standards with what it perceives to be international norms and best practice. On the demand side, there was a political desire to demonstrate improvements in public sector accountability coupled with a wish to align public sector accounting with business accounting—with IPSAS harmonization seen as the best way forward. There was, however, no debate over the appropriateness of harmonization for Spain (for example usefulness of IPSAS; loss of sovereignty) and the unanimous backing from the Spanish standard-setter (IGAE), professionals and academic experts further added to legitimate the harmonization agenda. In addition, progress from initial rationalization to final adoption was rapid, aided by a code-law system of governance that concentrates decision-making powers on accounting standard setting into the hands of a small élite.

On the supply side, concerted promotional efforts by IPSASB and the accounting profession, and adoption by supra-national institutions such as the EU and UN has enhanced IPSAS legitimacy with national governments. Furthermore, the EU's strategy of promoting commercial standards such as IFRS has been an important driving force in increasing the credibility of parallel systems such as IPSAS. Other forces have also been at work in legitimating IPSAS adoption: IPSAS has been presented as a 'logical' innovation to emulate, with early adoption by international organizations and other countries encouraging Spain to do the same. Also, the need to remain relevant and to be seen as being ahead in accounting reform has made the Spanish accounting standard-setting body more aware of the importance of engaging and embracing initiatives such as IPSAS.

However, despite its growing international reputation, we have been unable to properly assess the outcome(s) of IPSAS adoption as there is a very little published evidence in Spain or elsewhere about this. We suggest these as fruitful lines of inquiry for future research to consider.

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