



# Newsletter

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## Editorial Board

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## Setting public sector accounting standards in a decentralised setting

Setting accounting standards is a difficult task. The challenge arises from issues which can be technically hard to address. It is also affected by the way standards can be legally and politically enforced. The challenge is even greater in a federal system where decentralised jurisdictions have the power to decide which standards suit them. Switzerland, with its 26 sub-federal states—the “cantons”—provides us with an interesting example. The country’s subsidiarity principle, which is enshrined in the Federal Constitution, provides that “The Cantons are sovereign except to the extent that their sovereignty is limited by the Federal Constitution”. The Constitution is in fact silent concerning cantonal fiscal matters. Therefore the power lies in the hands of the cantons, with no legal possibility for the central government to force them to adopt uniform accounting standards.

To some extent the IPSAS Board faces a similar legal powerlessness: it may propose standards but cannot force public entities to adopt them. Under these circumstances, how does one explain that so many entities have taken them up? The likely reason is that they consider that the benefits of adopting proposed standards (being at a level playing field on the financial markets, getting a true and fairer view of their fiscal situation, avoiding the cost of developing one’s own standards, etc.) exceed the costs (loss of sovereignty, lesser adequacy to local preferences, increased accounting complexity, etc.).

Returning to the Swiss cantons, most of them consider that the costs of centrally imposed standards, notably the IPSASs, surpass the benefits. They favour simplicity over more accuracy. They favour the possibility of continuing to disclose financial information the way they previously did. Most cantons do not feel the external pressure of financial markets since they are debt-free. Above all they abhor the idea that their sovereignty would be curtailed and that they would not be masters in their own house.

This kind of blanket application of the subsidiarity principle might have created a jungle of 26 different accounting standards. Far from it! Without interference from the central government, cantons have twice deliberately decided to harmonise their standards. Each time they were somehow incentivised by external pressures. The first harmonisation step was taken in the late 1970s. It was dictated by the advent of the ‘new public management’. The wish for more competition and benchmarking, together with that of fostering the user-pay principle, required a better understanding of the cost of public services delivery. Thus, the 26 cantonal finance ministers agreed to recommend that each single canton move towards accrual accounting and use harmonised measurement basis. They also recommended adopting a common chart of accounts.

However, as time went by, cantons started to deviate from the recommended standards and new external pressures also urged for a second (re)harmonisation step: the big cantons that are regularly in the financial markets were in need of adopting the IPSAS; enlarged fiscal equalisation and cost-sharing schemes required robust financial information; the bilateral agreements with the EU commanded Switzerland to harmonise its statistics with those of the EU.



Nils Soguel  
University of Lausanne  
and Chair of the Swiss  
Public Sector Financial  
Reporting Advisory Committee

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## CIGAR Conference in Porto, June 2017, 30<sup>th</sup> Anniversary of the Network

The 16<sup>th</sup> Biennial CIGAR Conference for 2017, which is also the celebration for the 30<sup>th</sup> Anniversary of our Network, will take place in Porto, in June, 8-9, 2017, being preceded by the PhD seminar in June 7, 2017.

The event will be jointly organized by the Polytechnic Institute of Cávado and Ave (IPCA - [www.ipca.pt](http://www.ipca.pt)) – Management School and Research Centre on Accounting and Taxation (CICF - <http://www.cicf.ipca.pt/en>) – and the Faculty of Economics of the University of Coimbra (FEUC – [www.fe.uc.pt](http://www.fe.uc.pt)).

Reaching an indisputable landmark in governmental accounting research, it is time for the CIGAR Network to reflect on how to continue facing and creating new research challenges. The current context seems to be bountiful, as it is providing yet again many topics promising to become future avenues for public sector accounting research. Furthermore, despite the effort of CIGAR scholars, a considerable gap between academic and practitioners continues to exist. An increased collaboration between these, accompanied perhaps by more practice-oriented approaches, seems imperative to accomplish research goals. A more socially and politically accountable knowledge production process and output is highly important to make public sector accounting more relevant.

Under the main theme of «Future avenues for Public Sector Accounting: engaging research, practice and use», this conference will address the following topics:

- international and European harmonization in public sector accounting, namely the adoption of IPSAS/ EPSAS (advantages and disadvantages; motivations; consequences for individual reporting, WGA and transparency; differences between IPSAS and EPSAS; IPSAS/EPSAS development and governance processes; implications to the fiscal discipline of Member-states and to the European convergence);
- the role of accounting systems for ‘new’ phenomena (accounting for austerity, financial resilience, risk and sustainability, public services innovations, corruption and fraud; management accounting, efficiency and public value reporting; most adequate methods to calculate the cost of public services and assets; accounting systems for good management and financial reporting of hybrid entities and processes);
- the usefulness of public sector accounting information (who are the real users and for what purposes? How can financial information be made more useful for decision makers, especially politicians, when the budget seems to be the central tool? How can financial accounting be articulated with budgeting, e.g. leading to accrual-based or performance-based budgets?).

Abstracts for the Conference and PhD seminar are to be submitted by 31 January 2017. Full papers/projects by 30 April 2017.

For further information, please contact the local organizers: Patrícia Gomes (IPCA) – [pgomes@ipca.pt](mailto:pgomes@ipca.pt); Maria José Fernandes (IPCA) – [mjfernandes@ipca.pt](mailto:mjfernandes@ipca.pt), and Susana Jorge (FEUC) – [susjor@fe.uc.pt](mailto:susjor@fe.uc.pt) •

### Setting public sector accounting standards in a decentralised setting (continued)

As a result, in 2008, the 26 cantonal finance ministers agreed to tighten standards. Together with the central government, they also established, for the first time ever, a national standard setting body, the Swiss Public Sector Financial Reporting Advisory Committee (SRS). SRS’s mission is to promote comparable and transparent accounting by Swiss public entities, to monitor how standards are implemented and to propose additional or improved standards.

In that capacity, SRS faces a complex task. It must develop standards that are technically consistent. At the same time and since it has no legal power, its proposals must also be reasonable. They must be politically acceptable in the sense that some clearly defined and identified solutions should be tolerated for the sake of financial and budgetary politics. They must also be tailored to the administrative capacities: the standards must be enforceable not only by the central government and the big cantons, but also by the small cantons and municipalities. These latter often do not have the necessary skills to face overly complex standards. Although we might regret this reality, this is a situation we cannot escape.

*Nils Soguel, University of Lausanne and chair of the Swiss Public Sector Financial Reporting Advisory Committee (SRS), January 2016 •*

