New Zealand's Public Finance Act at 30: lessons, achievements and future directions
Academic perspectives from Switzerland

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Public Financial Management

Budgeting  Accounting  Audit  Governmental Financial Statistics
Public Financial Management

Public Finance Act 1989

Budgeting
Accounting
Audit
Governmental Financial Statistics

Accrual Budgeting and Appropriations
Standard Based Accrual Financial Reporting
Financial Statement Audits
Accrual Accounting

– Not a recent idea at all
  - Italian cities from the 13th century
  - Russia from the 18th century under Tsar Peter the Great
  - Scandinavia/Switzerland/Chile/Spain 1970s – including accrual budgeting
  - Globally from 1990s (part of «New Public Management»), in particular UK

– Characteristics:
  - Economic view
    Stocks and Flows: Assets, Liabilities, Revenues, Expenses
    In the period of the economic event Completeness
  - But as a novelty of the NZ-PFA: Fair Presentation («true and fair view»)
Accrual Accounting History is not always glamorous

Johann Heinrich Waser
Accountant of the State of Zurich/Switzerland

• Beheaded 27 May 1780, 1:00 pm, in Zurich

• His offence: The publication of the accrual basis Financial Statements of the State of Zurich

• Why so harsh? Officially because it included information about defense, unofficially to discourage others …
... and many of the others have some shortcomings

- **Non-democratic/dictatorships at the time of accrual adoption**
  - Russia: Absolutist monarchy
  - Chile: Accrual accounting was introduced by General Pinochet
  - Spain: Accrual accounting was introduced by General Franco
  - Switzerland: Earliest moves resulted in capital punishment

- **Reforms were somewhat limited**
  - Italy: City level
  - Switzerland: Federal constitution allows only for recommendations and not for standards
  - Sweden: Different standards at national and subnational level
  - Finland: Little relationship with international standards

- **Reforms were sometimes reversed**
  - Denmark: Went back to cash accounting in 1955, before going forward again in 1970s
The New Zealand Public Finance Act and subsequent reforms

- **Unique characteristics**
  - Democratic: Legislative act issued by an elected parliament
  - Cooperative: Politics, profession and academia working together
  - Comprehensive: Integrating all Public Financial Management functions
  - Evolving: Development did not stop, but is still going on
  - Based on international standards: for some time IFRS, now IPSAS
The New Zealand Public Finance Act and subsequent reforms

- Success factors
  - Relatively simple government structure (two levels of government, no federalism)
  - Very strong accounting profession
  - Economic relevancy, at least at the time
  - No countervailing incentives (e.g. no zero or negative interest rates)
  - Integrated approach, avoiding offsetting incentives
Influential scholars from NZ

vanZijl
Pallot
Cordery
Newberry
Ball
Baskerville
Simpkins
At the border of standard setting an academics

Bradbury
Allen
Dale
Newby
Pont
Lee
Warren
Mackintosh
Teixeira
International scholars influenced by NZ

Laughlin  Barton
Broadbent  Buschor
Grossi  Brusca
Paullson  Guthrie
Christiaens  Elwood
ChanSchedlerHeald
Joo Oulesvirta
Bergmann
GeorgiouTagesson
Jacobs
And where does academia stand?

Admiration or refusal

• Many refer to the 1989 Public Finance Act as cornerstone in Public Financial Management
• Some, however, are very critical, often against accrual in general or against the way it was implemented

• How can that be? Is it ideological?
The lack of a theoretical basis

Two «eye-openers»

• Ileana Steccolini’s APIRA key note
• Kerry Jacobs’ meta analysis published in FAM November 2016


Bottom line: We in PFM and in particular Public Sector Accounting lack an “indigenous” theoretical basis!
Jacobs, K. (2016): Mainly, the following theoretical basis were used (in this order)

- Accountability Theory
- New Public Management
- Critical Theory (based on Habermas, Foucault and others)
- New Institutional Theory

- Accountability Theory: Rooted in political science, but at least refers to a key objective of PFM/Public Sector Accounting
- New Public Management: Organizational theory, however, no global consensus on definition
- Critical and New Institutional Theories: Sociological theories, not develop to assess PFM/Public Sector Accounting
What about private sector accounting research?

• Very different from Private Sector Accounting research, which is mainly using Principal Agent Theory and analyzing financial market data in function of information presented
  • Seminal papers: Ball/Brown (1968), Fama et al (1969)
  • Generally highly liquid stock market (e.g. NYSE)

• Does not fit well with governments/public sector
  • Investment decisions are not the only/not the most important purpose of financial statements in this sector (IPSASB, 2014)
  • Government do not issue stock, rather bonds, and bond markets are less volatile
  • Government bond markets are often not that liquid, because certain investors (e.g. pension funds, recently central banks) simply «hold to maturity»

• «Publicness» is missing (Steccolini, 2018)
The lack of a theoretical basis: Way forward

A possible starting point: Formulating the theoretical basis

• The theoretical basis needs to be developed towards a theoretical model «how it works» (and not «how it fails»)
  • Include accounting literature and standards (e.g. IPSASB Conceptual Framework)
  • Acknowledge and include cultural and institutional factors
  • Acknowledge that accounting information is not the only information affecting political decision making («no black or white»)
  • Consider interaction within PFM: Budget, Audit and GFS
• Such a model needs to be tested
  • Considering that innovation works different in public sector (Bugge/Bloch, 2016)

References

References


