



High-Level Meeting on Accounting for Development

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STATEMENT OF

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The Public Financial Management Context

The Sovereign Debt Crisis has grown steadily over the past two or three years to its current climax.

Its origins lie in the Global Financial Crisis of 2007 onwards.

As we know, the Global Crisis caused many national economies to fall into recession. And whilst in most cases recession is technically over, nations are struggling to return to strong levels of growth and this impacts on the development environment.

But this time we have also had a third factor hitting Government finances – the ‘bail out’ of banks and financial institutions. These extraordinary transactions have made an already difficult situation seem untenable. No wonder that rating agencies start to reflect more cautious views of government debt, and markets become jittery and volatile.

Of course, Government financial crises do not respect national boundaries.

And this is the environment within which development currently operates and which accountancy must address.

At its heart lies a major problem for capacity building. Most Governments still account on a cash basis. They do not maintain balance sheets. They do not systematically record and value assets and liabilities including multi-billion dollar obligations to bail out funds.

Against this backcloth, one question looms large: “What should the profession do?”

Should we be cautious and maintain a watching brief from the sidelines? Should we be defensive and concentrate our energies on protecting the profession’s reputation, marshalling our arguments that accountants and auditors did not create this crisis? Or should we be bolder – much more proactive - advocating responses which will serve the public interest in the long term.

I deliberately mention the public interest because it is so vividly at stake. The way in which all governments steward public money affects the quality and availability of public services; economic prosperity, growth and jobs; accountability, trust and confidence in government, and the quality of people’s lives and life chances and particularly in the developing world.

Governments account largely on a cash basis because Governments choose to do so. They take decisions without proper regard to financial consequences because they choose to do. They run up large debts and deficits because they choose to do so.

But Governments are susceptible to pressure and influence.

If the accountancy profession really wants to create pressure for a step change in public financial management, reporting and auditing globally, we can make it happen. It will not be easy but it is possible. What it calls for is concerted, co-ordinated action.

Only a single system of accounting standards will provide that firm foundation.

Because the biggest challenges facing the profession right now are the quality of Government reporting, auditing and financial management. This is a key issue in the current crisis and it is a massive issue in creating conditions for stability, the avoidance of future crises, and the environment for economic development.

Government finances are not a separate self-contained thing. We can see in the current crisis how they are wired into the financial sector, the wider economy and the lives of us all. They have profound implications for society and the communities in which people live and work. They affect the quality of vital public services, of schools, roads, healthcare and public transport. They impact on jobs, growth and development. They affect the quality of peoples' lives and, in many cases, their life chances.

In short, government financial management matters. And it is time for the profession to bring all of its influence to bear and to take its share of responsibility to make change happen.

My Institute, CIPFA, has a special interest in these matters. Governments and public sector finance is our exclusive focus. We are committed to try to bring about a step-change in financial management performance around the world, and we are convinced that now is the moment. There will never be a better opportunity.

We have some strong ideas and plans for affecting change: a global programme to make the change from cash to accruals and to implement modern standards; a global portal to join up government finance practitioners around the world, supporting both the sharing of good practice and continuous learning and development; a programme for making that step-change across the world and building the professional capacity to sustain it. Capacity which will help to deliver better reporting, better auditing, better controls, better management accounting and forecasting. And, of course, capacity which will help to deliver better decisions, greater transparency, stronger accountability and greater confidence.

And the importance of sound, comparable accounting standards to development is not without its own context. An understanding of the global public financial management infrastructure – a whole system approach – is vital to making effective interventions for development.

In 2012, DFID and CIPFA published what we believe is the first analysis of that infrastructure – showing global public financial management and in a worldwide context.

Effective development interventions have a number of common characteristics:

- Partnership – accounting bodies must work with and nurture the local profession, not impose their view from above.
- Sustainability – the capabilities developed by the project must be capable of self-replication, of sustaining themselves.
- Getting the level right – too often the providers of development solutions in accountancy fail to realise that what is often needed are many more accounting technicians than professional accountants.

But where the accounting profession works well with the closer community and the local in-country profession – balancing the principles of partnership, sustainability and level, the contribution of good accounting practice to development can be immeasurable.