

EXPANDED ABSTRACT

The reform of spanish local governmental accounting: some critical considerations about new accounting regulation

Objectives

This paper attempts to analyse from a critical perspective the recent reform of local governmental accounting in Spain, in order to identify some weak points that will need in the future further developments. This reform has been introduced by two main accounting instructions that develop the accounting standards to be applied by Spanish local authorities for financial reporting purposes. Those new standards are in force since the first of January 2015.

Design / methodology / approach

The paper is structured in three parts, which follow three different approaches. The first part uses a descriptive approach in order to present the evolution and stages of accounting standards process in Spain. The second part uses a deductive approach to identify the main guidelines of the reform and the third part uses a critical and deductive approach to identify some weak points of the reform.

Results / Research limitations / implications

The first part of the paper presents the evolution and stages of the setting of accounting standards process for Spanish local authorities that started 25 years ago, pointing out the relevant changes introduced by the last reform introduced in 2015. This process started first at central government level in the eighties, and the reforms introduced were progressively shifted to lower levels of Public Administration such as local governments and regions.

The second part of the paper tries to identify the main guidelines that according to the authors have inspired the 2015 reform, focusing its attention on three main questions using a deductive approach: the strong influence of business accounting, the adaptation of local governmental accounting new regulations to those previously introduced at central government level and the compatibility of the accounting standards introduced with the International Accounting standards introduced by the Public Sector Committee of the International Federation of Accounting, that are now in force.

The influence of business accounting on governmental accounting has traditionally been very strong in Spain, a country where the paradigm of the superiority of business accounting over public sector accounting has always been accepted by legislation and accounting profession. The fact is this influence explains why the introduction of accrual basis in governmental accounting has not been difficult to achieve in Spain, specially considering that all the Charts of Accounts introduced in the Public Sector have always followed the model of previous Charts introduced for the business sector

The influence of central government accounting has been also very strong in local government accounting, considering that all the Chart of Accounts previously introduced at central government level have been progressively extended and adapted for local authorities, as it has occurred in 2015.

With respect to the adaptation of Spanish local government accounting standards to those issued by the International Federation of Accountants through its Public Sector Accounting Committee, it has to be stressed that this adaptation has been a basic guideline of the reform, even if no mandatory or compulsory instructions from the European Union have established the need to do so,

The third part of the paper identifies, using a deductive and critical approach, some weak points of the reform. Those points are basically related with the following facts:

a) The complexity of the accounting system for a great part of its users. This complexity is certainly due to the influence of business accounting, that has inspired the development of a quite complex developed system of financial accounting, especially in the case of small sized municipalities.

b) The structure of the models of annual accounts and reports. The structure of annual accounts is the same as the adopted for business entities, including additional statements concerned with the budget execution of revenues and expenses. And the fact is that information included in financial statements concerned with the equity position are considered not relevant by most information users

c) The need of summarized and abbreviated reporting information would perhaps be useful also for users with a lack of financial and accounting culture, that often have found important problem to understand fairly the financial reports provided.

d) The development of cost accounting has been introduced by the reform even if this question will require further efforts by many municipalities that are not still used to develop it. Spanish governmental accounting legislation requires presenting information on economy, efficiency and effectiveness of public services, and this is why the development of cost accounting will require in the future a significant attention in order to provide this kind of information for accounting users.

e) Consolidation of financial annual reports is not a general practice in Spanish local authorities, even if it will be required for years ending after the 1st of January 2017. Even if the present reform has not introduced rules or standards useful for developing it, the future presentation of consolidated financial statements will require in a near future further regulations still to be issued.

f) The need for budgetary stability is a clear paradigm that is inspiring Public Management in all the levels of Spanish Public Administration. Budgetary Laws in Spain establish requirements for budget deficit and debt limits that are calculated in national accounting statistics using SEC 95 criteria. Even if those criteria are sometimes different of those developed by governmental accounting at micro-economic level, and have not been affected by the recent reform, some accounting users require information of how the municipality has managed his debt and deficit using SEC 95 terms. Unfortunately, this information is still not developed in notes to the financial statements

g) The establishment of a legal regulation that forces local authorities to audit externally its annual accounts on a regular and annual basis is the last fact to be stressed. This last question is considered as the main weak point of an accounting system that has introduced significant improvements with this recent reform, such as the definition of a conceptual framework based on accrual accounting.

Practical conclusions and original value

The paper main conclusion suggests that the above points should require in the future further developments and attention, in order to improve the scope, relevance, reliability and understandability of the Spanish system of local governments financial reporting and accounting. As financial reports issued by local authorities in accordance with the 2015 will not be available until the end of 2016, those statements will be the basis for further empirical research, in order to establish how accounting information users evaluate the usefulness and convenience of the reforms introduced.

KEY WORDS: Governmental Accounting, Local Authorities, Setting of Accounting Standards Process in the Public Sector, Accounting Reform.