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FORUM : CHANGE IN THE PUBLIC SECTOR

THE PSASB: THE ACCOUNTING PROFESSION IN REGULATORY SPACE

Traditionally governments in Australia operated on a cash basis with requirements for financial accountability confined to compliance with spending limits. The public sector has a long history of codified accounting practices and regulations relating to cash-based reporting, formulated by a variety of public-sector bodies including treasury and finance departments, parliament and public accounts committees (PACs). The regulatory space construct, initially developed by Hancher and Moran (1989) as a means of summarising and integrating a set of studies about economic regulation, provides a framework for examining the contribution of the organised accounting profession, through the advent and operations of the Public Sector Accounting Standards Board (PSASB), in the extension of accrual accounting methods to the public sector.

Young (1994) described regulatory space as an abstract conceptual space in which the accounting standard-setter prescribes specific accounting standards that typically enhance and expand the domain of accrual accounting. In this paper, the regulatory space construct is used as a lens for viewing the agendas and processes of key institutional players, representing the accounting profession and the commonwealth and New South Wales public sectors, in extending the domain of accrual accounting to enhance public-sector financial accountability. Developments in NSW are highlighted to demonstrate the activity and leadership in reform processes at state government level.

The period from 1976 to 1996 was the critical one for the examination of accounting developments. This period was defined by the release of two influential documents: the 1976 Coombs Commission Report and AAS 31 *Financial Reporting for Whole of Government*, released by the Australian Accounting Research Foundation (AARF) in 1996.

BACKGROUND

Significant growth in the public sector between 1950 and 1976 was accompanied by concern about the

This study uses the “regulatory space” construct to examine the role of the organised accounting profession in expanding and enhancing the domain of accrual accounting to Australian public-sector financial reporting, through the advent, operations and output of the PSASB as its participant in regulatory space. To fully understand the role of the accounting profession, its actions and impacts are placed in historical and political contexts that also give consideration to the roles of other participants in regulatory space.

accountability of government agencies. While full-scale inquiries into national government administrations took place in Britain, New Zealand and Canada in the 1960s, Baker and Fryer (1994) suggest that public-sector accounting and management first became a major issue in Australia in the early 1970s as a result of the growing sophistication, complexity and size of government activities, functions and operations.

The creation by parliament of statutory authorities occurred because of a desire to “free certain public activities from the everyday political pressures of ordinary departments” (JCPA 1982, p. 1). It also led to a greater devolution of powers and responsibilities, and therefore more autonomy for public officials, statutory commissioners and managers. At the same time, the existence of more than 300 diverse commonwealth authorities placed considerable pressure on parliamentary resources for the evaluation of their activities and performance. The adequacy and comprehensiveness of information provided by statutory bodies, and the relevance to users, became issues of concern to parliament (JCPA 1982, p. 2). Taxpayers also began to question the efficiency and effectiveness of the public sector, and community concerns were raised about the quality and comparability of public-sector external reports (Baker and Fryer 1994). The public, represented by a range of interest groups, started demanding more information on how governments spent public funds and what governments actually owned and owed.

Dissatisfaction with the performance of the public sector culminated in the establishment in 1974 of the Royal Commission on Australian Government Administration (RCAGA), also known as the Coombs Commission. The resulting report, released in 1976, did not recommend standardised financial reporting, but highlighted the importance of financial reporting in meeting the accountability requirements of the public sector. Accountability is an underlying theme in the report, which put forward 337 recommendations for adaptation and change (Steele Craik 1982, p. 45).

1976-83: ESTABLISHING A POSITION IN REGULATORY SPACE

The organised accounting profession was, by the late 1960s, actively engaged in developing and promulgating accounting standards based on accrual accounting methods for private-sector financial reporting. The submission of the Australian Society of Accountants (ASA) to the RCAGA did not, however, support the extension of these accruals-based methods to financial reporting in the public sector (Langdon 1982). Chua and Sinclair (1994, p. 685) suggest that this lack of support was to some extent a reflection of the perceptions of the nature, training and job conditions of government accountants at the time, and that the formation of the ASA's Government Accountant's Coordinating Committee (GACC) in

1976 was an attempt to further both the development of appropriate accounting concepts for government and the role and status of the government accountant.

The 1976 RCAGA report signalled the beginning of a period of heightened activity directed towards improving public-sector accountability. Concern in the public sector about the quality of financial information was reflected in the 1977 Conference of Commonwealth and State PACs which focused on accountability issues, particularly the need for increased financial scrutiny of public-sector bodies (JCPA 1977, p. 9, Wilenski 1977).

By the late 1970s, in the absence of specific public-sector standards, commonwealth and state auditors-general began systematically to apply private-sector standards in the public sector (Chua and Sinclair 1994, p. 690). The accounting profession was split on the issue of the applicability of private-sector standards to public-sector financial reporting (JCPA 1982, p. 8, Chua and Sinclair 1994, p. 689). Kenley (1978, p. 561) typified the position of many private-sector accountants who believed in the universal applicability of accounting standards. In contrast, the view of government accountants was reflected in the June 1978 proposals of the ASA's GACC, which recommended that private-sector standards should apply only to commercial undertakings in the public sector. The GACC recommended that the AARF initiate research into accounting for the non-business undertakings of government; however, at that time little interest was shown by AARF. Resources were claimed to be scarce, corporate failures continued to embarrass the profession and there was pressure to deliver private-sector standards to maintain the confidence of government, business and the public in accounting information (Chua and Sinclair 1994, p. 689).

As concerns about public-sector accountability escalated, the commonwealth auditor-general initiated a joint study with the Department of Finance (DoF) into the reporting requirements for statutory bodies and departmental business undertakings. This joint initiative signalled the interest of key government departments in pursuing the development of a set of accounting standards for commonwealth agencies based on commercial accounting practices. The resulting “Report of the Joint Working Party on Financial Statements of Government Undertakings” and “Exposure Draft on Guidelines for the Form and Standard of Financial Statements of Commonwealth Undertakings” (forerunner of JCPA 1982) emphasised the need for accrual accounting and recommended the use of existing accounting standards where appropriate. The joint working party (JWP) acknowledged deficiencies in existing standards but recommended adoption of overseas standards where necessary rather than the development of a new set of public-sector standards (Department of Finance and Auditor General's Office 1981, p. 24). The terms of reference of the JWP had foreshadowed the establishment and occupation of a regulatory space within

which standards advocating accrual accounting for public-sector financial reporting could be set and applied. However, development of a public-sector accounting standards board was not specifically mooted in the JWP Report.

Meanwhile, following continued pressure from the GACC for AARF's involvement in standard-setting for the public sector, the national council of the ASA established a task force on relationships with the public sector. The task force argued that the AARF was not the appropriate venue for the development of public-sector standards and recommended the creation of a separate Public Sector Accounting Standards Committee controlled by the accounting profession (Miller 1982, Chua and Sinclair 1994, p. 694). The release of the task force report in May 1982 coincided with publication of an article by AARF technical director Kevin Stevenson in which he explained that government accounting had been added to the waiting list of AARF projects. In what could be construed as an acknowledgement of the possibility of an emerging regulatory space being occupied by a government agency holding a potentially dominant position, Stevenson argued against a second standard-setting body, advocating a restructuring of AARF to facilitate standard-setting for both private and public sectors.

Concerns about the level of accountability and the adequacy of financial information expressed at commonwealth level were echoed in NSW. The NSW auditor-general, Jack O'Donnell, lobbied the Wran government for authority to prescribe forms of financial reporting for government trading enterprises (Longley 1992, p. 7). The NSW treasurer, Ken Booth, subsequently announced the introduction of an Annual Reports Act to govern the accounting and reporting requirements of statutory authorities, and the NSW PAC recommended adoption of accrual accounting methods for financial reporting (NSW PAC 1983, p. 46).

The JCPA response to the JWP Report, issued in October 1982, gave formal recognition to the existence of a regulatory space in which standards applying accrual accounting methods to public-sector financial reporting are set and applied. The JCPA response also heralded the intention of government to occupy a dominant position in regulatory space through the advent of an Accounting Standards Review Committee representing parliament, the public sector and the accounting profession. Guidelines issued by the commonwealth finance minister provided authoritative guidance for statutory authorities and departmental business undertakings on the preparation of annual accounts (Georges 1983). Similar interest in the prescription of accounting standards was flagged in NSW with the introduction of the Public Finance and Audit Act 1983 with accounting, audit and review provisions mandating the adoption of standard requirements for annual reports (Longley 1992, p. 3).

The organised accounting profession meanwhile continued to be divided on the issue of public-sector

standard-setting. While government accountants favoured a standards board that was independent of the AARF, members of the ICAA and AARF preferred a single board that would set standards for the public and private sectors (Chua and Sinclair 1994, p. 698). The release of the JCPA 1982 report prompted the establishment of an ASA national task force on Accounting Standards in Government to examine the recommendations of the report. Before the delivery of the task force report, however, the ICAA and the ASA agreed to the setting up of a separate public-sector standard-setting body (Chua and Sinclair 1994, p. 698). The premature announcement in the ICAA journal in February 1983 of the establishment of a "Government Accounting Standards Board" was a declaration by the organised accounting profession of its intention to contest the occupancy of regulatory space.

In August 1983, the Joint Standing Committee of the ASA and the ICAA formally approved the formation of the Public Sector Accounting Standards Board, which would operate under the auspices of the AARF (Badawy 1983). The establishment of the board, which was to promulgate accounting standards for the public sector and provide a means of coordinating the development of consistent public-sector financial reporting, confirmed the intention of the organised accounting profession to occupy a key position in regulatory space alongside government legislators.

The period 1976-83, characterised by growing concerns about public-sector accountability and the absence of specific public-sector standards, culminated in the establishment of the PSASB by the organised accounting profession.

1983-96: OCCUPYING REGULATORY SPACE

Using the regulatory space lens, the formation of the PSASB can be seen as an attempt by the organised accounting profession to establish a position in the space in which accounting standards advocating accrual accounting for public-sector financial reporting are set and applied. Establishment of the PSASB placed the organised accounting profession alongside other key participants, including the DoF and PACs, within the regulatory space that had been formally recognised in the JCPA 1982 report.

Two of the early representatives on the board (Dick Humphry and Graham Carpenter) had, at the time, direct responsibility for the development of legislation dealing with the accountability and reporting requirements of public-sector entities. Despite this representation, PSASB standards would not be legally binding on government and government organisations (except to the extent that members of the profession are obliged to support professional accounting standards). The PSASB was therefore in an uneasy authority position in regulatory space. To confirm and maintain its position, the board had to engage in

“appropriate activities” consistent with the expectations of other regulatory space participants about the role and purpose of the PSASB.

The main goal of the PSASB was to promote the development of regulated general-purpose financial reporting in the public sector. This included promulgating Statements of Accounting Standards for financial reporting by all tiers of government (PSASB 1984). The JCPA 1982 report had recommended the development of a separate conceptual framework for public-sector financial reporting. Despite the development and release of SAC 1 *Objectives of Financial Reporting by Public Sector Entities*, the PSASB decided that, as far as possible, there should be common accounting concepts and standards for the public and private sectors (Shand 1990, p. 144). The board proceeded to work closely with the Accounting Standards Board (AcSB) and, between 1984 and 1988, examined the relevance and applicability of individual accounting standards to government business undertakings. It spent considerable time on the conceptual framework project (Shand 1990, p. 145). By 1987 the PSASB and the AcSB had jointly produced a series of exposure drafts which were to constitute a conceptual framework for financial reporting in both public and private sectors.

The PSASB was criticised for its lack of early output, some of this criticism emanating from other regulatory space participants. While the board was engaged in the process of evaluating private-sector standards and determining a conceptual base for financial reporting, commonwealth and state agencies were legislating for new forms of accounting reports, and thereby vying for authoritative positions in regulatory space.

The commonwealth government continued its push for enhanced accountability in the mid-1980s by embarking on major reforms aimed at increasing the efficiency, effectiveness and accountability of the Australian public service. Accrual reporting was noted to be an important element of the various commercial reforms introduced (JCPA 1995, pp. 7, 8). The prime minister also introduced new guidelines for the preparation of departmental annual reports and during 1989 inquiries were conducted by the Senate Standing Committee on Finance and Public Administration (SSCFPA) and the JCPA into aspects of departmental annual reports.

NSW initiatives to improve accountability in the mid-1980s included the revitalisation of the NSW PAC and annual reports legislation for both statutory bodies and government departments (although accrual accounting was not prescribed for the latter). A 1987 task force which undertook a review of annual reporting in the NSW public sector examined the methodology required to implement full accrual accounting in government and suggested that consolidated financial statements be prepared for both government departments and statutory authorities (NSW PAC 1992a, 1992b).

Reforms in NSW escalated following the 1988 election and subsequent change of government (NSW PAC 1992a, Allan 1992, NSW PAC 1994). The new premier and treasurer, Nick Greiner, established the NSW Commission of Audit which recommended the preparation of whole-of-government reports. The consolidated statement prepared by the Commission of Audit was the forerunner of separate departmental and statutory authority consolidated statements prepared in 1988 and 1989. A whole-of-government report covering the entire NSW public sector was prepared in 1990 and in subsequent years.

The PSASB, responding to criticism about its activities, shifted focus to specific public-sector issues and in 1988 issued its first tailored public-sector document (Discussion Paper No. 12 *Financial Reporting by Local Government*). The board subsequently developed and released AAS 27 *Financial Reporting by Local Governments*. While the board's activities were now consistent with the expectations and activities of other actors in regulatory space, the outcomes were delayed because of the time constraints imposed by the due process of standard-setting. For example, following a report to the 1992 Premiers' Conference by a joint

federal/state working party on accrual accounting, the then finance minister announced that commonwealth departments would be required to produce annual financial statements on an accrual basis. It was not until the end of 1993 that the PSASB issued AAS 29 *Financial Reporting by Government Departments*.

Parliamentary committees continued to lead the way in terms of trying to resolve issues arising in the context of financial reporting in the public sector. NSW had been at the forefront of reforms in financial management of the public sector and continued to

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take the lead by producing consolidated financial statements regularly and introducing accrual accounting to the inner budget sector.

The professional accounting bodies, through the PSASB, succeeded in occupying a primary position in regulatory space alongside government agencies including the DoF and commonwealth and state PACs. To maintain this position, the board, after some initial criticism, engaged in "appropriate" activities consistent with the expectations and activities of the other regulatory space participants. Legislative guidelines preceded professional accounting body pronouncements and in the context of public-sector reform, the overall role of the board in initiating the transfer of accrual accounting to the public sector was relatively minor and its contribution late. However, with the release of AAS 31 *Financial Reporting by Governments*, the board achieved one its major objectives, the preparation of accounting standards for all tiers of government. In doing so, it not only fulfilled the obligations of its position in regulatory space, it operationalised the transfer of accrual accounting methodologies across jurisdictional boundaries to facilitate the harmonisation of financial reporting in all levels of the public sector.

The period 1983-96 was characterised by significant developments in legislative guidelines and accounting pronouncements for public-sector financial reporting.

CONCLUSION

The PSASB emerged from, and operated in, a complex social, economic and political environment. By the mid-1970s the public sector was under scrutiny in terms of the growth, performance and public accountability of government agencies. The 1976 RCAGA report was considered to be a major landmark in Australian public administration and "highly influential in thinking about public sector reform in Australia" (Halligan and Power 1992, p. 120). Government accountants began systematically approaching the AARF as early as 1979 to discuss the development of public-sector accounting standards (Chua and Sinclair 1994); however, it was the release of the JCPA 1982 report that prompted an escalation in developments in financial reporting in the public sector.

The 1980s was a decade of great increase in political, public and professional interest in government financial management and accountability issues, as well as a significant rate of change in government practices in this area. In the late 1980s and early 1990s, significant changes occurred in public-sector accounting and management and a noticeable upsurge of government, public-sector management and professional-body interest in the topic was evident. The extension of accrual accounting from the private sector to the public sector was one of a number of significant financial reforms.

Although the transfer of accrual accounting was achieved largely through impetus provided from within the public sector, the organised accounting profes-

sion claimed and retained a position in regulatory space which enabled it to effectively harmonise, through standardisation across various jurisdictions, the implementation of accrual accounting methods in the public sector. The PSASB, formally founded by the accounting profession in 1983, had by 1996 released the three accounting standards that were to be developed specifically for the public sector. Although legislative guidelines in a number of jurisdictions preceded the prescriptive PSASB pronouncements, the three public-sector standards gave effect to the transfer of accrual accounting methodologies across jurisdictional boundaries and facilitated implementation at all levels of the public sector.

A proposed merger of the PSASB and the AASB was foreshadowed in 1988 when the AcSB merged with the ASRB. The 1990 Peirson Report also recommended a merger. It was however ultimately a lack of consensus on a number of other unresolved issues (including funding and the extent of adoption of standards) that resulted in the merger proposal not progressing at that time.

In 1997, the commonwealth treasury commenced a review of accounting standard-setting in Australia as part of the Corporate Law Economic Reform Program (CLERP). By then the PSASB had achieved its major objective in promulgating accounting standards for all tiers of government and in transferring accrual accounting to all jurisdictions in the Australian public sector. That task complete, the board had only to review and modify those standards as appropriate. From this relatively secure position, having achieved credibility as a standard-setter for government, the accounting profession, through the PSASB, offered strong efficiency arguments for a merged PSASB/AASB on the presumption that adequate public-sector representation and resources would be provided for specific public-sector projects. A merger was finally achieved with the passage of the CLERP legislation in October 1999.

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