Laying one's cards on the table in Europe – financial reporting by European governments
By Hans Hoogervorst and Frans van Schaik

Time and again we are surprised by European member states needing emergency loans. The financial statements published by European governments provide too little information for a proper assessment of their financial position and performance. Comparability of the European governments' financial statements is limited because governments are free to prepare their financial statements following their own country-specific policies. So, high time to improve their transparency and comparability by requiring all European member states to prepare their financial statements in compliance with international accounting standards for the public sector.
By providing loans to governments of Greece, Portugal and Ireland the European member states now have debtors without having a clear picture of their financial position. Lenders have an interest in obtaining a debtor's financial statements that show assets, liabilities, revenues and expenses. Many of the financial statements of governments within the European Union currently show little more than cash inflows and outflows and the government debt; other liabilities – e.g., the civil servants' pension liabilities and financial derivatives – are blank spots on the map.
European member states as yet only know each other's statistical information according to the European system of national and regional accounts 1995 (ESA95). This information fails to provide a comprehensive picture of assets, liabilities, revenues and expenses. It also offers many opportunities for manipulation and, as these figures lack an auditor's opinion, their reliability is limited. Financial statements have the advantage of completeness and reliability as they do have an auditor's opinion, usually issued by the country's court of auditors.
Financial statements prepared in accordance with international accounting standards would have immediately flagged Greece's derivatives. For its own financial statements, the European Commission also applies the International Public Sector Accounting Standards, IPSAS, the 'IFRS for the public sector'. The IMF and the World Bank propagate the use of international standards for public sector accounting. Therefore, the European ministers of finance would do well to agree on uniform international standards (IPSAS) for preparing the financial statements of the member states' central governments, similar to the European requirement for all listed corporations to report in accordance with international standards (IFRS).
Any corporation publishing reports as incomplete as those of governments would face tough sanctions. Governments should set standards for themselves that would at least equal those for corporations. The driving forces, in both cases, are international comparability, quality improvement and transparency of the financial statements.
Various governments within the European Union, including the United Kingdom and France, have already taken the initiative to upgrade their financial statements and they now broadly comply with the international accounting standards.
Preparing the financial statements according to international standards requires no adjustment to the budget and the budget execution statement. The European Commission did not change its budget execution statement either, when it first issued its financial statements in accordance with international standards in 2005. Hence, each member states can continue preparing its budget and budget execution statement following its country-specific policies. We propose increasing transparency of the governments' assets, liabilities, revenues, expenses, in addition to cash flows (financial statements), not changing the way governments control their payments (budget).
When all European governments publish their financial statements based on the same accounting standards and provide them with an auditor's opinion, this would improve understanding of each other's financial position, avoiding future surprises. It would greatly contribute to enhancing financial stability within Europe and retaining confidence in the euro.

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