# 8 Social Accounting and the Public Sector

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## Introduction

In modern societies, the public sector is at the heart of democracy as it illustrates the sovereignty of citizens who transfer their power to sovereign governments (Jones and Pendlebury, 2010). The social nature of the public sector is undeniable as it displays fundamental difference when compared to the private sector. The main target of the public sector is not profit maximization but the creation of social value. The definition of assets differs in public sector accounting as they are not expected to bring economic benefits, but they are expected to provide services and goods to the citizens. However, defining social value is problematic. Within the public sector there is a complex framework of interests which derive from differing perspectives. In this context, the role of accounting is very important as it must ensure democratic control over the use of funds (Pallot, 1992).

After the end of WWII, governments in many parts of Europe undertook the responsibility for providing a wide range of services to their citizens focusing on health, education and social insurance. These efforts were labelled as the development of the Welfare State and they illustrated the humanistic direction of Europe. Especially for the period 1945-1975, it constituted a major part of the political agenda and the increase in public expenses reflected this priority (Pierson, 1998). At the beginning of the 1980s, because of the financial crisis which occurred during the late 1970s, the rise of neoliberalism and the globalization of capital markets, the social achievements of these governments, and the UK government in particular, were questioned. There were calls for the reduction of social expenditure, arguing that the cost of social policy was so high, and on occasion wasteful, that it was putting the fiscal sustainability of the public sector in danger. There were also some voices claiming that public sectors should be reformed in a way that could offer a balance between markets, competitiveness and social justice. In response to these calls, a new initiative for the management of public services was put forward in the form of New Public Management (NPM) first coined by Hood in 1985 (Sitala, 2013). NPM has been the main initiative for public sector management reform, although there have been other later initiatives that have tried to rebalance the neo-liberalistic attitude of NPM.

The global financial crisis of 2008 brought to the surface new and strident calls for the restructuring of the public sector. In Europe, the crisis in the countries of the south and the implementation of austerity measures not only forced the reduction of social expenditure, but also had a huge impact on the lives of citizens. Poverty and unemployment increased, inequalities widened, and social achievements were questioned. This then led to greater attention being paid to the role that accounting and improved financial management could play in addressing some of these issues. The call of Hopwood and Tompkins (1984) for researchers to explore the organisational, institutional and social nature of accounting practice thus became more relevant than ever. The rest of this chapter will provide some details regarding the fundamental characteristics of public sector accounting. The debate will be grounded in the examination of the environment in which public sector accounting operates. For this reason, there will be an exploration of the causes of and responsibilities for the public sector crisis, the initiatives that have been undertaken, the heterogeneous challenges that the public sector faces, and how these issues could be addressed.

# The nature of public sector accounting

According to Bandy (2011), the traditional techniques of accounting such as recording, measuring and communicating, are the basis for the success of the accounting profession, but within the public sector, they are not sufficient even if they are necessary. The accounting profession has less influence in government than it has in the private sector. Sometimes, in political debates, politicians will observe that they are not accountants, in order to promote their socially responsible image. A key fundamental difference with the private sector is that accounting is much more important for investors and shareholders than it is for voters. Further, accounting information might be very complex for someone who does not have specific knowledge. It is, therefore, a challenge for accounting to provide both comprehensive and comprehensible information to the citizens in a form by which they can evaluate the performance of their government.

Hopwood and Tompkins (1984) argue for the social role of public sector accounting as the public sector is a complex entity which cannot operate in isolation from the wider social, economic, and political environment. They define the three main pillars of public sector accounting: external reporting and accountability, financial planning and control, value for money and performance review. External reporting and accountability information are essential in any decision making and accounting constitutes the basis of that information. Additionally, accounting standards are influenced by organisational and political factors because of the importance that they have. Frequently, institutions within public sectors have conflicting interests regarding standardisation and comparability. With regard to financial planning and control there is a significant interdependency between technical accounting practices and the wider environment of public sector organisations.

The political context of the public sector creates complexities in financial decision making. For example, any change in the political or economic environment will affect cash planning and spending policy. However, periods of uncertainty can be the ideal point of time for technical innovations. With value for money and performance review there must be emphasis on the role of accounting regarding emerging interests in the political rhetoric, as there might be a gap between the accounting mission and the actual accounting practices. In the pursuit of efficiency, the will and commitment of the responsible bodies, as well as the auditing of operations, are highlighted as the most important factors. However, conducting audits within public sector organisations could meet resistance from the political environment. Hopwood and Tompkins (1984) conclude that public sector accounting should not be separated from those social processes, which give rise to the significance of the accounting issues and shape the consequences that accounting developments can have. There are many studies of public sector accounting that do not focus on its technical aspects, but rather examine the wider environment in which the public sector operates. The reason for this is that it is crucial to understand the environment to be able to effectively examine the technical aspects of public sector accounting.



## Who is responsible for public sector crisis?

Since 2008, there has been a huge social debate regarding the responsibility for the current public sector crisis. Austerity measures and political changes created a challenging force for existing social institutions and generally for capitalism. Notably in the countries of the European South, there is an intense debate over the reforms that should be made because of the fiscal problems that these countries face. This debate is global. There are extreme voices of neoliberalism that put the blame on governments and citizens, and voices of populism that put the blame on governments and corporations. Are all of them responsible for the crisis?

In capitalism, the banking sector has a crucial role in the function of societies. The great recession of 2008, the greatest since the 1930s, hugely affected the banking sector, especially after the collapse of Lehmann Brothers. Toxic assets emerged, as result of creative accounting, and governments started taking initiatives to rescue failing banks (McDonald and Robinson, 2009). These initiatives included recapitalization, government guarantees to the financial sector and quantitative easing. A total failure of the banking sector would have been disastrous for any national economy and the crisis would inevitably spread to the