

Permanent Study Group “Public Sector Accounting and Financial Management”

The Permanent Study Group “Public Sector Financial Management” wishes to start a research programme about “Public Administration and International Public Sector Accounting Standards”.

The PSG could so be a platform for discussing and disseminating recent trends and experiences in accountability and adoption of IPSAS.

AIMS

The broad aims of this Study Group are:

- To create a network of scholars and practitioners to exchange ideas, opinions and experiences about the possibility of implementing the IPSASB framework;
- To support and encourage theoretical and practical research into the adoption and implementation of IPSAS around the world.
- To explore experiences and tendencies in adopting IPSASB’s standards and reflect on different approach followed;
- To consider the impact of the adoption of the IPSASs inside and outside national, regional and local governments, specifically as a mean to improve governments’ accountability;
- To encourage the comparison between European and non-European countries in the adoption of IPSASs and the preparation of Financial Reports.
- To support and stimulate the publication of research into Public Administration and International Public Sector Accounting Standards

1. CONTEXT AND THEORETICAL FRAMEWORK OF REFERENCE

Governments and other public sector organizations follow accounting methodologies that differ from country to country; general references for accounting standards do not exist (or, if they do, they have a limited application); nevertheless, the theme of a new accountability in public administrations becomes more relevant at the international level in the attempt to harmonize and homogenize different accounting methodologies, in relation to changes that have recently characterized the institutional environment in various countries. Developing empirical user need research in an attempt to test the robustness of prescribed conceptual issues in respect of users’ points of view is becoming a must. Meanwhile, the emanation of accounting standards that must be of guidance and reference for national standard setters and for directly connected organizations is a response to calls for greater government financial accountability and transparency.

At the international level, the main standard setter concerned with public offices and with their auditing is IFAC (the International Federation of Accountants Committee), which established at first a Public Sector Committee, later reconstituted as the IPSASB, International Public Sector Accounting Standards Board.

The objectives of the IPSASB are to serve the public interest by developing high quality public sector financial reporting standards and by facilitating the convergence of international and national standards, thereby enhancing the quality and uniformity of financial reporting throughout the world.

The IPSASB has issued so far 31 international public sector accounting standards, most of them based on the international standards of corporations, the IAS/IFRS (International Accounting Standards/International Financial Reporting Standards) issued by the IASB (International Accounting Standards Board) and a special IPSAS for financial reporting under the cash basis of accounting. The IPSASB chose to use the IAS/IFRS standards as a basis for developing the IPSASs and each standard is the result of an intense standard-setting procedure. It is " *an effort to be consistent, where possible, with the existing international guidance, as well as avoiding the need to 'reinvent the wheel' for the public sector*" (IFAC PSC, 2000). The IPSASB is clearly convinced that the ultimate objective of financial reporting is not the same for the public and private sector. Therefore each IAS/IFRS is reviewed and adapted to develop the IPSASs. For specific public sector topics, with no private counterpart (*such as non-exchange revenues*), new standards are written (*Christiaens and Van den Berghe, 2006; IFAC 2010*).

The connection with IAS/IFRS is highlighted by the absence of a document on the postulates and general rules of conduct, for which private corporations must refer explicitly to the framework. The IPSASs were developed by adapting the IAS/IFRS to a public context, at least in as much as meaningful aspects of the public sector did not require differentiation.

In recent times, IPSASB is considering the relationship between the IPSASs currently on issue and the concepts and definitions in IAS/IFRS and has chosen to create a specific framework for the public sector.

The objective of the IPSASB, as defined by the Conceptual Framework Project, is to " *develop a Public Sector Conceptual Framework which is applicable to the preparation and presentation of general purpose financial reports of public sector entities, including but not necessarily limited to financial statements and notes thereto*" (IPSASB 2006, page 3).

Different authors state that the international trend towards modernizing the financial information system is likely to continue for many years to come (*OECD, 2000; Lüder and Jones, 2003*). Together with the European Commission, other international organizations (such as OECD, NATO, United Nations and Interpol) promote and support those changes in financial management and accountability. Furthermore, they all have adopted an IPSAS compliant accrual accounting system (*Hathorn, 2008*). As the IPSASB has no legitimate power, the adoption of the IPSASs in local and central governments is completely voluntary. Nevertheless, any such example could influence other countries around the world. The European Parliament with a resolution approved 22th June 2011 decided that member states should adopt IPSASs in their financial statements and also the International Organization of Supreme Audit Institutions (INTOSAI) promotes the use of IPSASs (*Algemene Rekenkamer, 2003*).

Public sector reforms have been said to be particularly influenced by specific national traditions and political cultures. In particular, an increasing number of studies deal with the phenomenon of homogeneity and convergence of reforms (for example, *Brunsson, 1989; Pollitt, 2001, 2006; Knill, 2001; Page, 2003; Christensen and Lægreid, 2001, 2003, 2007; Pollitt and Bouckaert, 2004; Schnapp, 2004; Kickert, 2005; Olsen 2006; Bouckaert, 2007; Gualmini, 2008*).

Benito et al. (2007) prove that the IPSAS are an important stimulus for the harmonization of financial information systems in the public sector.

This objective is noteworthy, considering that the accounting model presently pursued by the committee is based on the replacement of cash with accrual accounting . The accounting system change was the object of much attention on the part of the IPSASB, especially in recent years, when, at the national level, the debate has been increasingly lively; several regulations have already substituted accrual-based accounting systems with cash-based systems, e.g. France, Great Britain, Spain and Germany (*Adans 1995;*

Adhèmar, 2003; Benito et al. 2007; Bossert, 2005; Brusca and Condor, 2002; Christiaens and Reyniers 2009; Groot and Budding, 2008), even if every country interprets IPSAS in different way.

The IPSAS Board highlights different benefits deriving from the development and maintenance of the IPSASs : the establishment of appropriate financial reporting practices; consistency in application of those practices and potential harmonization of financial reporting between economic and accounting bases.

Some scholars, following those considerations, pointed out how the adoption of the IPSASs will also provide for greater efficiency and effectiveness in the audit and analysis of governmental financial reports, as common rules are adopted around the world to report similar transactions and events (*Christiaens, 2006; Sanderson & Van Schaik, 2008*).

Despite the advantages related to IPSASs implementation, several studies have shown that few local governments adopt the IPSASs and only a few more adopted accrual accounting (*Anessi-Pessina and Steccolini, 2007; Benito et al. 2007; Bossert, 2005; Brusca and Condor, 2002; Buccoliero L., F. De Nardi, G. Nasi, Steccolini 2005; Christiaens and Reyniers 2009; Groot and Budding, 2008*).

IPSASs are not applied in many jurisdictions for a different reasons. First of all, an important weakness is the fact that the advantages of the IPSASs are still relatively unknown, especially in comparison with the ones of accrual accounting. The second reason is the predominance of business accounting rules. Even though IPSASs are based on IFRS/IAS (business accounting rules), the power of the country specific business accounting rules slows down the IPSAS compliance process. The accounting legislation in European central governments is still strongly dominated by local business accounting rules. Although the IPSAS are based on (international) business accounting rules, local business accounting rules still play an important role in the central governmental accounting legislation. Other crucial factors not to apply IPSAS are the unfamiliarity with IPSAS and the fear of losing a country's standard setting authority.

Also important is the fact that the IPSASs are still relatively new and unknown. Therefore there is little experience in implementing them. It is clear that the IPSASB will need to continue its efforts to make central and local governments more familiar with IPSASs.

It has also to be considered that apart from accrual accounting and IPSAS, the budgetary accounting rules and practices remain an indispensable issue in most democratic countries: parliaments are not discussing or making decisions regarding balance sheet items or income statement amounts: they are discussing around the budget of the government. Therefore, a very important and interesting domain in IPSAS research is the link with budgetary accounting and more precisely with the ESR 95 regulations)

2. OVERALL OBJECTIVES AND SUB-THEMES

The overall objective of the Study Group is to provide a forum whereby scholars and practitioners can present, discuss and debate their research, findings and thinking about the relevance and the usefulness of international accounting standard in the context of Public Administration, as well as to highlight and compare experiences between European and non-European countries in adopting IPSASs.

On the basis of the context described in the previous paragraph, the Study Group intends to critically explore the changing process and to forecast future development of IPSASB's standards and Framework in order to define both its theoretical structure and practical implementation, according with the information accounting system.

This kind of orientation gives room both for scholars and practitioners.

The theoretical results of the Study Group will be very important for practitioners mainly for two reasons. Firstly, by discussing and theorizing on the consequence of IPSASs' application, the Study Group intends to generate new knowledge able to enlighten practitioners' activities. Secondly, by comparing experiences in a theoretical framework it could be possible to extrapolate sets of "practices" suitable for practitioners to effectively operate in the new complex structure of the IPSASs.

According to the above mentioned reform process, during the three-year period 2011-13, the Study Group on Public Sector Accounting and Financial Management will first try to define "Public Administration and International Public Sector Accounting Standards" as a field of research and then will particularly focus its research activities on some aspects of IPSASs' application in a critical perspective.

We will try to answer questions concerning the foreseen impact of the adoption of those standards on budgeting process, auditing and performance measurement and reporting.

We also want to discuss the influence of IASs-IFRSs, and consequently the extent to which IPSASs are really suitable for public administrations.

All these particular aspects will have to be studied from an accounting and managerial point of view. Furthermore, these issues have to be explored from a theoretical as well as an empirical standpoint.

In particular, three broad areas of research could be defined:

- a) the implication of the adoption of IPSASs on accounting practices and financial reporting both inside public administrations and outside, in their relation with financial markets;
- b) a critical approach to the Framework and specific IPSASs, discussing their appropriateness at different government levels and inside the different countries;
- c) more generally, international comparative studies on accounting systems adopted on the wave of IPSASs' implementation (cash-based, accrual-based, etc.).

3. MEETING STRATEGY

The Study Group intends to organize at least two meetings per year. The first and most important meeting should be the annual conference of the EGPA. In this conference particular aspects of the above outlined sub-themes of research will be included in the conference call for papers. The intention is to invite to submit papers that will be anonymously reviewed. Accepted papers will be discussed in the conference sessions. The purpose of the discussion is to provide constructive and helpful feedback and advice to authors so that they can improve their work.

The second annual meeting will be organized as a workshop in order to concentrate the Study Group research activity on topics internationally discussed at that moment or topics identified by the Study Group, deserving further discussion within the group. While for the annual conference speakers will be singled out by a review process of submitted paper, workshop locations and speakers will be decided by a commission established for each specific topic discussed in the workshop.

4. PUBLICATION STRATEGY

The Study Group on Financial Management in Public Sector aims to support and stimulate the publication of high-quality papers in the topic. There are different vehicles for doing this:

- helping members, through discussion, to improve their papers before the submission to journals;
- editing one or two books on very specific and interesting topics discussed during our meetings;
- activating special issues of international journals.

In order to facilitate the dissemination of publications, the Study Group will engage in establishing contacts with public sector organizations to promote the activities carried out on some specific topics and to understand issues that need to be investigated more in depth.