

European Research Studies Journal
Volume XXI, Special Issue 3, 2018

pp. 154-165

Institutional Methodology of the Formation of the Public Sector Reporting Concept in Accordance with IPSAS

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Abstract:

The author explores the essence of Russian statement of financial position of state sector entities. The approach to the features of the balance sheet is based on analyzing the classification of legal entities in the norms of the Civil Law of the Russian Federation.

The objective of the article is determination of public sector reporting entity as well as a development of draft report on the financial position of the public sector entities.

The author applies the institutional methodology in evolving perceptions of financial statements the reporting public sector entities have developed in the context of transition to international public sector accounting standards (hereinafter - IPSAS). The methodology is based on a detailed analysis of the legal framework of various related institutions: law, budget accounting, international financial reporting standards (hereinafter - IFRS) and other institutions.

The results of the study justify and develop a new concept of public sector reporting entities. Given the new concept, the draft statement of financial position for Russian public sector entities was developed, which is universal for both state-owned (budgetary) and autonomous institutions.

Keywords: *Public sector financial reporting entities, commercial organizations, institutional methodology, non-profit organizations, non-current assets, current assets, financial result, financial assets, non-financial assets.*

JEL Classification: *H80, L32, M40, K20.*

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1. Introduction

From the standpoint of transition to international financial reporting standards in public sectors of the economy, there is a direct need to generate accounting reports that would meet all the requirements of international public sector accounting standards (hereinafter - IPSAS), as well as the Russian accounting and reporting regulatory framework for public sector organizations based on federal accounting standards for public sector organizations (hereinafter - FAS), as well as their conceptual foundations (Conceptual Framework for Financial Reporting, 2010). In the context of the adoption of a new classification of the institutional structure of legal entities in the Civil Code of the Russian Federation, the formation of a modern concept of reporting public sector entities has become most relevant.

2. Literature review

The main signs of the globalization of economic processes are revealed in the investigations of such economists as Ermakova, Vaitsekhovskaya, Malitskaya and Prodanova (2016). Problems of business in the conditions of integration are studied in the works by Kazakova, Gendon and Khlevnaya (2016), who examine holdings development from the point of view of an individual, the mining and chemical industries. Kapitonov, Taspnova, Meshkov and Shulus (2017) dedicate their paper to the issue of the energy sector integration. A group of scientists such as Danko, Panova, Kazaryan, Kazaryan and Sekerin (2017) have considered the role of individual articles in financial statements, intangible assets in order to evaluate the market position. Zabelina, Nikishkin, Arefyeva, Mudrova and Cherednichenko (2017) have developed theoretical approaches to identifying social roles of financial reporting, and Chibisov, Chibisov and Kazantseva (2017) research the value of corporate Finance in the process of business management.

Many scientists in their works have touched upon the subject of financial reporting transition to IPSAS. The financial statements of the public sector are considered by several scholars not only as an indicator of the budget institution efficiency, but also as a means of control over the budget process (Filippova, 2015). Malinovskaya (2017), and several other economists dedicate their scientific writings to development trends of public sector entities reporting. Many foreign scientists have also touched upon the subject of financial reporting transition to IPSAS. Nevertheless, some important issues of improving the financial reporting of the public sector to date have not received enough attention. However, the transition of budget reporting to IPSAS is impossible without creating a conceptual framework for financial reporting.

3. Methodology

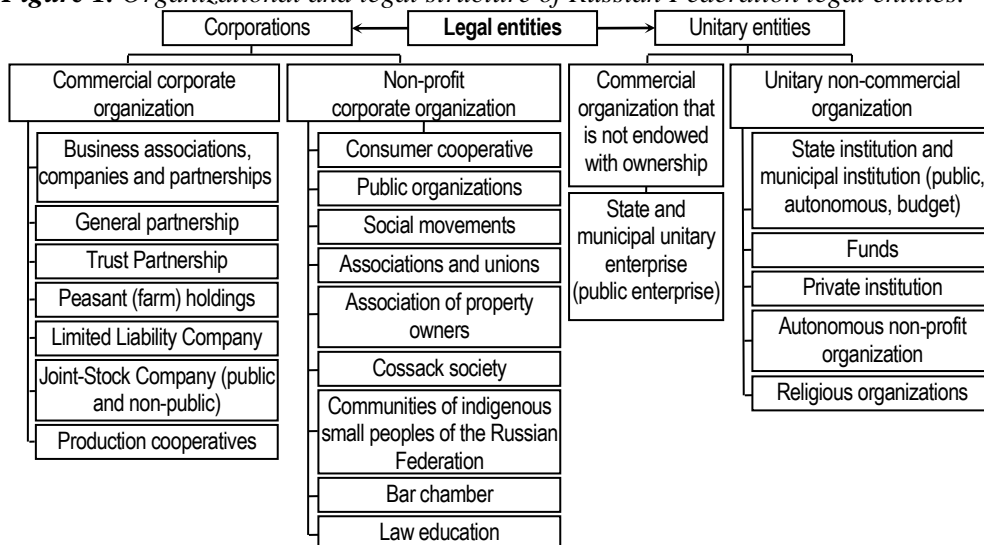
When forming the conceptual framework of financial reporting of public sector organizations, we apply the method of institutional analysis of budget accounting

norms and regulations, which is vital for assessing the impact of law, public sector institutions, international institutions, the Ministry of Finance of the Russian Federation and other institutions on the development of modern budget accounting. The norms of the institution of law are established by the Civil Code of the Russian Federation, and it is extremely important to trace the compliance of the legal norms with the requirements of the above related institutions and their interdependence.

4. Institutional analysis of the regulatory framework for accounting and reporting of public sector organizations

The list of organizational and legal forms of the reporting public sector entities is quite broad and complex; nevertheless, the budget reporting type directly depends on the legal form of the entity (Akhmetshin *et al.*, 2018a). In this regard, it is necessary to identify a range of entities that will have to apply Federal accounting standards (FAS) for public sector organizations because of their accounting legal status, and which will apply the requirements of IPSAS subsequently. In May 2014 Chapter 4 of the Civil Code of the Russian Federation, Legal Entity was amended, so the overall approach to the classification of legal entities was changed (Figure 1).

Figure 1. Organizational and legal structure of Russian Federation legal entities.



Source: Compiled by the author based on the 4 chapters of Russian Federation Civil Code.

For the first time in the Civil Code such a thing as Corporation was mentioned. The founders and members of state enterprises, including subsidiary enterprises and institutions had the right of ownership of their property. In the new edition of Russian Federation Civil Code, the subsidiaries were excluded from the list, as well as from the General classification of legal entities. We consider it appropriate: this

innovation, as a group of interrelated organizations, which includes parent and subsidiary companies, can exist without forming a legal entity.

According to the new version of the Civil Code, legal entities are divided into corporate and unitary ones. The main difference between them lies in the fact that the founders of corporations have the right of membership. As for unitary legal entities, the founders become parties to them and do not have the membership right. In their turn, corporations and unitary legal entities are subdivided into commercial and non-profit organizations (Trofimova and Prilepskaya, 2017). Public institutions (state, autonomous and budget ones) keep budget accounting records, but the list of organizations that comprise the financial statements of budgetary institutions can be extended to other legal forms, as it should be considered that the subjects of the public sector include the following groups:

- 1) non-commercial unitary organizations:
 - ✓ state institutions (state, autonomous and budget ones);
 - ✓ the State Academy of Sciences (budgetary institutions);
 - ✓ executive authorities (state institutions), which are the main administrators (managers) of budgetary funds, chief administrators of budget revenues, chief administrators of financing the budget deficit sources, the Treasury, the bodies providing cash services, financial bodies, bodies of the state off-budget funds and territorial state off-budget funds;
- 2) state unitary enterprises, state corporations and other legal forms of organizations, acting participants in the budget process (Kazakova *et al.*, 2013).

In the formation of the consolidated reporting, this list may be expanded to state-owned corporations, public-law companies, and other non-commercial organizations with state participation. The analysis of the new classification of legal entities adopted by the institution of law has led to the conclusion that state (municipal) unitary enterprises, as well as organizations of other legal forms are to be included in the list of legal entities conducting budget accounting.

Public unitary enterprises form the two types of financial statements: for the commercial and public sectors of the economy. Therefore, this provision should be considered when evolving the reporting entities concept. In order to form the modern concept of the public sector reporting entities that would meet the Russia's budget reporting requirements and at the same time be compliant with the IPSAS principles, we cross-reference the concepts contained in the IPSAS with the Russian project concepts for the public sector (Kazakova *et al.*, 2014).

In October 2014 the international Federation of accountants adopted the document called The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (hereinafter – *Concepts*) (2014).

Chapter 4 of this document contains the concept of the reporting entities. Under paragraphs 4.1 - 4.4 of the Concepts the reporting public sector entity is the state or another public sector enterprise that executes government program and forms financial statements in accordance with IPSAS. The entity may include two or more separate legal entities, in this case it prepares financial statements in accordance with IPSAS as one unit. In such case, the report is provided under the name of the reporting entity group. Concepts define the main characteristics (International financial reporting standards the public sector) of the public sector reporting entity as follows: "It is the organization contributing its resources or resources of another organization, or uses resources provided by the other organization to carry out public activities and acting either in their purposes or for the convenience of third parties. In addition, the public sector entities that form financial statements in accordance with IPSAS can act as service recipients or resource providers" (Conceptual Framework for Financial Reporting, 2010). The information contained in the reports is used for economic decision-making (Bergmann, 2006, 2009, 2010; Osadchy *et al.*, 2018).

Concepts indicate that the government may operate through administrative units such as ministries or agencies. It can also operate through trust organizations, public corporations and other persons operating with independent legal capacity or having legal status of service provision to third parties. Other public sector organizations can derive benefit as persons with independent legal status or endowed with operational autonomy, including international public sector organizations (Biraud, 2010). Paragraph IG4 of guidance on the implementation of IPSAS (Ministry of Finance of the Russian Federation, 2010) identifies that financial statements cover the reporting entity in accordance with the definition given by the relevant legislation of the specific country, and include:

- ✓ central government ministries;
- ✓ government business enterprises.

The list of public sector organizations cited in Concepts and in IPSAS has rather general nature, it does not address the peculiarities of the public sector national institutions of a country. And there is a contradiction in respect of state-owned commercial enterprises between paragraph 3 of the IPSAS Preface and IG4 guide to CF implementation of IPSAS, Presentation of Financial Statements, which makes the process of the entity identification even more complicated (International financial reporting standards the public sector). Thus, according to paragraph IG4, the reporting entity list includes governmental business enterprises, while paragraph 3 of the Preface (IPSASB) states that the IPSAS do not apply to them. It is necessary to give appropriate clarification (Tkachenko, 2013).

Paragraphs BC4.1 BC4.2 of *Concepts* give the general characteristics of reporting entities; however, they are presented as derived objectives of the public sector financial reporting purposes. But then, according to the document, the purpose of

their financial reporting is to provide users with valuable information about the financial position and performance of the organization for economic decision-making. We believe it inadvisable to confound matters related to public sector reporting entities and financial statements when defining these characteristics. In other words, the institution of IPSAS needs improvement.

Consider the features of the concept of entities in the Russian draft Concept of the public sector, adopted by the Institute of the Ministry of Finance of the Russian Federation. Paragraph 5 of this document claims that the accounting subjects include the bodies of state power, local authorities, and a whole list of different kinds of organizations outlined in article 1 of Order No. 157n (Ministry of Finance of the Russian Federation, 2010).

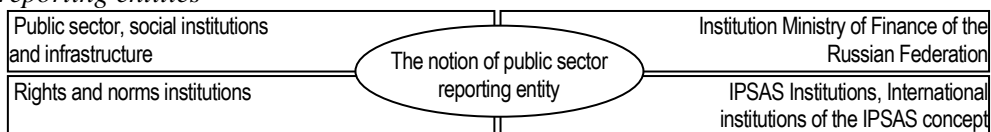
Paragraph 2 of the public sector *Concepts* draft indicates that the Russian Federation public sector and the reporting entities exclude state unitary enterprises and commercial organizations with state participation and public corporations. At the same time, Paragraph 3 provides the list of public corporations, which are covered by public sector draft *Concepts*. Unfortunately, the Russian project has the same style in relation to the list of organizations belonging to the public sector subjects as the international CF *Concepts*. *Concepts* draft of the public sector should contain explicit wording regarding the specifics of the public corporations reporting and indicate in which cases state corporations have to provide budget reporting.

Paragraph 6 of the public sector draft *Concepts* contains an ambiguity concerning the individual and consolidated financial statements. Thus, in the public sector *Concepts*, the individual reporting is designated for the accounting (financial) statements category, and consolidated statements are referred to as fiscal reporting. In the first case, it should be clarified that the statements are also provided for the public sector. In the interpretation of the second sentence of paragraph 6 of the public sector draft *Concepts*, the question also arises whether the budgetary funds and other listed entities form individual reporting. Paragraph 9 of the public sector *Concepts* specifies consolidated reporting as if one reporting subject has prepared it. While the Russian *Concepts* specify consolidation technique as similar indicators summation and exception of interrelated activities. We believe that *Concepts* should not contain the description of techniques of consolidation, for the following reasons:

- ✓ the issue isn't conceptual;
- ✓ in addition to these procedures the technique of consolidation contains the features that should be reflected in the Federal consolidated reporting standard.

The public sector *Concepts* draft lacks the basic characteristics of public sector entity, which should be established under the influence of various institutions (Figure 2).

Figure 2. *The Institutions that affect the concept formation of the public sector reporting entities*



Source: *Compiled by the author.*

Such Institutions as law, public sector, infrastructures, the Ministry of Finance of the Russian Federation public institutions, international institutions and IPSAS affect the formation of the public sector entities concept (Korableva et al., 2017). Thus, the Budget Code of the Russian Federation defines the concepts of the main budgetary funds' executor, budgetary funds executor and budgetary funds recipient, as well as the chief administrator of budget revenues, chief administrator sources of financing the budget deficit and state institutions.

The principles of the budget system were adopted in the Budget Code. According to them, business continuity principles govern entities' reporting. Financial information about the economic activities of the entity should be useful in order to provide decision-making related to resources supply. The subject needs to carry out activities in the interests and on behalf of the person supplying the resources, although the subject's functions must be separated from operations undertaken by other organizations. The qualitative characteristics of public sector reporting entity should be based on the above-mentioned normative documents, their basic principles and contents.

5. Results

The institutional analysis of Russian Civil Code and international *Concepts* has resulted in the following concept of reporting entity in the public sector: «The public sector reporting entities that provide financial statements (hereinafter - public sector subjects) are economic public sector entities whose general purpose financial statements contain useful information for external users». Authors have also developed quality characteristics for them. Public sector subjects must meet the following assumptions and characteristics:

- ✓ a subject has been, is and will be carrying out economic activities;
- ✓ the activity of a subject should be delimited from the activities of other organizations;
- ✓ a subject carries out activities in the interests and on behalf of the person supplying the resources;
- ✓ financial information on the economic activities of a subject may be useful in making decisions about supplying resources to it.

The provision that the general-purpose financial statements of public sector subjects

should contain information useful for external users was taken as the main feature of the proposed definition.

6. Discussion

The authors have formulated a new concept of reporting entity, as well as the corresponding qualitative characteristics for the project concepts. We explore modern foreign scientific works related to the development of IPSAS and their concepts. Ellwood and Newberry (2016) have noted that the conceptual background of accounting standards is potentially very important for the future of international public sector accounting. The authors explain why and comment on the implications for public sector accounting.

Dabbicco (2015) examines the differences between Italy's national accounting system and IPSAS. Mnif Sellami and Gafsi (2019), Eckerd and Eckerd (2017), Lech and Kamieniecka (2014) have pointed out the importance of institutional and economic factors affecting the adoption of international public sector accounting standards. The international organization financial management and accountability practices have been more transparent than their budget process or budget disclosures.

Spanish scientists Nistor and Stefanescu (2018), Italians Dasi Gonzalez, Montesinos Julve and Vela Bagues (2018), Sforza, Mechelli and Cimini (2018) Estonians Argento, Peda and Grossi (2018) in their scientific papers have also highlighted the importance of generating transparent accountability in the public sector.

The Conceptual Framework for General Purpose Financial Reporting by the Public Sector Entities is under development, so the International Federation of Accountants (IFAC) site is reviewing conceptual proposals (IPSASB).

7. Implementation and Conclusion

The institutional approach applied has enabled us to form the concept of public sector constituent entities with the requirements to the regulatory framework of various institutions and to identify inconsistencies between Russian civil legislation and IPSAS. In terms of conversion of commercial and public sector entities to IPSAS, there is a strong necessity of forming accounting statements that would meet requirements of international public sector accounting standards, as well as the Russian regulatory framework.

The proposed notion of a public sector subject is based on the classification of all forms of legal entities contained in the Civil Code of the Russian Federation. The use of this classification has allowed us to determine the range of persons who form reports in accordance with the rules for drawing up budget reports for state and municipal institutions (state, autonomous and budget ones). At the same time, state

and municipal unitary enterprises in certain cases can simultaneously form general financial statements for commercial organizations, as well as budget reports for the public sector.

The proposed concept of public sector entities considers the list of legal entities contained in The Unified Chart of Accounts for public authorities. The comparison of the Russian draft Concepts of the public sector with the international Concepts has revealed the absence of the completeness of the requirements for the public sector entities in the Russian project. The formation of the Concepts should be based on the necessity of quality characteristics of a reporting entity, as mentioned in the international document. A comprehensive list of principles of the budget system contained in the BC of the Russian Federation allows the use of a number of qualitative characteristics for public sector entities relating to the principles of financial reporting.

In the proposed definition, the main characteristic is the provision that the financial statements of public sector entities of general purpose contain information that is useful to external users. The institutional approach used in the formation of the concept of public sector entities has allowed to consider the requirements contained in the regulatory framework of various institutions and to identify inconsistencies between Russian civil legislation and IPSAS. Proposals for the draft State Sector Concepts, developed through the application of the institutional methodology, will allow to not only develop the basic rules and approaches that are easily applicable to Russian peculiarities of budget reporting, but also eliminate several inconsistencies existing between related institutions.

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