

The role of public sector accounting standards (IPSAS) in supporting management and performance indicators

Prof. dr. Johan Christiaens

Ghent University, Belgium

Accounting Research Public Sector UGent – Ernst & Young

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Agenda

1. Introduction
2. Accounting reform
3. IPSAS: standards, reporting, evaluation
4. IPSAS and user needs
5. Results
6. Usefulness for management
7. Critical perspectives
8. Conclusions

1. Introduction

- Since years mid '80: worldwide governmental reforms (Hood, 1991 and 1995):

→ New Public Management (NPM)

- Outputoriented instead of input- or processingoriented
- Management techniques from enterprises
- Quantifying service providing and performance measurement
- Transparency
- Efficiency and value-for-money audit

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1. Introduction (2)

- Cornerstone of New Public Management:
→ Reform of the accounting system and financial reporting
- Adoption of **businesslike accrual accounting** next to existing, traditional **budgetary accounting** (*often wrongly named 'cash accounting'; budgetary accounting is a system of authorizing budgets and recording encumbrances and finally receipts and disbursements to control the public purse whereas cash accounting is only recording receipts and disbursements*)

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2. Accounting reform

- Budgetary accounting:
 - Used to be the mainstream accounting and financial reporting system in the public sector
 - Still actively used in different governments / jurisdictions: recording of different phases: approval of budgets, appropriations, encumbrances, disbursements
 - Few information concerning liabilities and the future potential benefits of assets
 - Need for better accounting information

→ Need for accrual accounting

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2. Accounting reform (2)

- Accrual accounting:
 - Better suited for planning, financial management and decision-making;
 - Provides a greater (internal and external) accountability of the public resources;
 - Improves cost awareness (efficiency);
 - Facilitates asset & cash management;
 - Facilitates the recognition of risks and opportunities;
 - Supports the calculation of governmental fees and charges;
 - Better view on the (financial) impact of public policies;
 - ...

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3. IPSAS: standards

- International trend to adoption and implementation of accrual accounting in governments
- Since 2000: International Public Sector Accounting Standards (IPSAS)
 - Developed by IPSASBoard belonging to the International Federation of Accountants (IFAC)
 - Based on accrual accounting enterprises (IAS/IFRS)

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3. IPSAS: standards (2)

- Not enforceable, but:
 - Widely adopted in international organisations (OECD, NATO, UN, European Commission, Interpol,...)
 - Different jurisdictions/countries apply IPSAS
- 31 accrual standards / 1 cash standard
 - IPSAS 1 and 2: Standards on Presentation of financial statements and accounting policies
 - IPSAS 3 to 31: Standards on Specific transactions and items (e.g. 12 Inventories; 17 Plant, property; ...)

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3. IPSAS: Reporting

- Statement of Financial Position (= balance sheet)
- Statement of Financial performance (= Profit and Loss Account)
- Statement of Changes in Net Assets
- Cashflow statement
- Notes

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3. IPSAS: Evaluation

- | | |
|--|--|
| <ul style="list-style-type: none"> • + Worldwide accounting rules • + In relationship with IAS/IFRS • + Recognition two perspectives <ul style="list-style-type: none"> – Accrual accounting – Cash accounting | <ul style="list-style-type: none"> • - Lack of conceptual framework • - Copied from IAS/IFRS assuming that accrual accounting is supreme • - Denying budgetary accounting |
|--|--|

3. IPSAS: evaluation (2)

- + Respecting specific governmental characteristics
- + Not compulsory
- - Underestimation governmental context
- - Lack of enforcement power IPSASB
- - Lack of attention to 1st balance sheet
- - No definition of the entity
- - Non-exchange transactions

4. IPSAS and user needs

- Remarkable efforts of the IPSASB to promote accrual accounting in the public sector
- Much attention to reformed accounting rules, practices and reporting → **BOTTOM UP**
- However, less attention for the user needs financial reporting and applying accrual accounting in management perspective → **TOP DOWN**
- → *“One is constantly paying attention to the kitchen of the restaurant without looking at the guests and their wishes”*

4. IPSAS and user needs (2)

- What is the opinion of users (officials) and experts (practitioners, academics) regarding the usefulness of IPSAS?
- Field study in 17 European countries (IRAS 2010):
 - EU 15 - Luxembourg
 - + Lithuania (Eastern Europe)
 - + Norway (Scandinavia)
 - + Switzerland (leading roles of the *Cantons*)
 - In some countries: different jurisdictions (*Bundesländer, Cantons,...*)

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4. IPSAS and user needs (3)

- Period: March 2008 – November 2008
- Response rate: 52.4% (academics 66.7% - officials 42.9% - consultants 47.6%)
- Completed questionnaire in 19 jurisdictions

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Public sector accounting standards



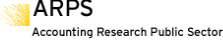
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5. Results: why IPSAS?

Reasons to link the accrual accounting legislation to IPSAS	A	B
Useless to reinvent the wheel, more efficient to use IPSAS	3	4
To enhance (inter)national comparability of financial information	2	2
To be in accordance with international organizations	1	2
To facilitate the consolidation of financial statements	1	2
To improve public/private comparability	0	2
The IPSAS are developed by qualified persons	0	0
For financing purposes	0	0

▶ A = local governments
 ▶ B = central governments




Public sector accounting standards

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5. Results: why not IPSAS?

Reasons to not link the (planned) accrual accounting legislation to IPSAS	A	B
The accounting legislation is based on local business accounting rules	8	3
The IPSAS are rather unknown in my jurisdiction	5	3
There is a fear of losing the standard setting authority	4	2
There is few experience in implementing the IPSAS	2	3
The IPSAS do not consider budgetary accounting	2	2
The IPSAS are based on IFRS/IAS	1	1
The IPSAS are mainly inspired by Anglo-Saxon accounting legislation	1	1
The IPSASB has limited legislative power	1	1
Not all relevant accounting issues are covered by the IPSAS	0	1
The IPSAS are not government-specific enough	0	0
The IPSAS are not in harmony with the ESA 95 standards	0	1



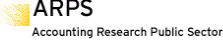




Public sector accounting standards

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5. Results: why accrual accounting?

Reasons to adopt accrual accounting	A	B
To improve cost awareness and efficiency	14	11
To improve external accountability and oversight control	14	7
To support performance management (growing need for accounting information)	10	10
To improve asset and cash management	9	6
To facilitate decision-making	8	4
To support the calculation of governmental fees and charges	7	2
To better see the impact of public policies on public organizations' financial position	6	6
To facilitate the recognition of risks and opportunities	4	4
To measure intergenerational equity	4	0
To be able to give reliable financial information to the capital markets	0	0








Public sector accounting standards

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5. Results: why not accrual accounting?

Reasons to not adopt accrual accounting	A	B
Balance sheets and profit/loss calculations are of less importance in the public sector	1	1
Cash accounting systems complement better with budgetary accounting systems	1	3
An accounting reform will lead to considerable costs	1	4
The current cash accounting system meets all requirements	0	1
A cash based system fits the characteristics of a public sector organization	0	1
The accounting system was only just changed tot a modified cash accounting system	0	0
Local governments resist against an accounting reform	0	0
Some public sector efforts cannot be accounted for	0	0
Former accounting reforms have shown significant implementation problems	0	2
Accrual accounting has limited potential to support political decision making	0	1

6. Usefulness for management

- **Balance sheet**

- 'Facilities' management
- Investments in capital assets
- Accounts receivable and accounts payable administration
- Debt position, financial health (net working capital)
- Management of bank accounts and cash at hand
- ...

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6. Usefulness for management (2)

- **Profit / Loss Account**

- Cost accounting (determining prices, management control)
- Profitability follow-up
- Transfer pricing systems
- Subsidy management
- ...

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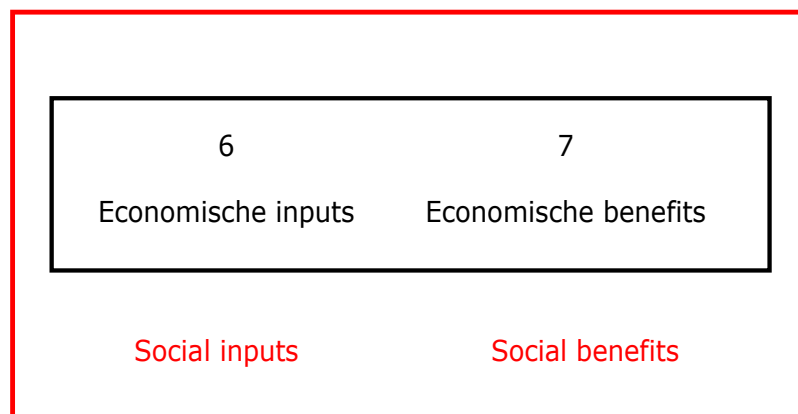
7. Critical perspectives

- 1) **Effectiveness** = “Outcomes” / output → “outcomes” very difficult to measure in governments
- 2) “Output” levels often difficult to measure: eg. cost per km road maintenance, health care cost per patient, ... (GASB, SEA June 2010 p. 5). → Consequences to **Efficiency** = output / input
- 3) **Economy** = Input / cost of the input; mostly easy to measure and to control

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7. Critical perspectives (2)

- 4) P/L Account shows ‘incomplete’ overview (JC, JR FAM 2008)



7. Critical perspectives (3)

5) Definition of the reporting entity: 4 types (CICA 1985)

- - juridical entity
- - controlled entity
- - economic entity
- - 'political accountability' entity

→ Accrual accounting systems (particularly IPSAS) often only consider the juridical entity concept and in addition the consolidation (IPSAS 6 and 22)

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7. Critical perspectives (4)

6) Indicators of financial health ('sustainability, flexibility, vulnerability CICA 1997) often apply **macroeconomic** variables, such as "Debt / National Income", "Foreign Debt / GDP (= gross domestic product)", ... → in this context role of IPSAS is very limited and e.g. disregards potential tax levying

7) Analogously: limited relationship IPSAS with standards such as "European System of Integrated Economic Accounts" (ESA 95), "Government Finance Statistics Manual" (IMF), ...?

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8. Conclusions

- No good-bad story: obviously, IPSAS and other similar accrual accounting systems clearly offer **strengths and opportunities to management**, but...
- They are not alone:
 - Need for harmonisation with budgetary accounting
 - Accrual accounting useful for 'businesslike' entities or segments vs. typical 'governmental' entities or segments where budgetary accounting appropriate (see GASB US)
 - Harmonisation – integration defined by user needs: external stakeholders, 'internal' stakeholders (politicians, managers)

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Questions?

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