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Editorial: A finger firmly on the pulse

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The timing of this Editorial coincided with the receipt of the *IPSASB eNews* for June 2023. The topics covered by the articles in this third PMM CIGAR Annual Issue overlap with those in the pipeline for the international public sector accounting standard-setter. In this Editorial, we shall showcase this link. This connection, which happened purely by coincidence, demonstrates that CIGAR researchers have their finger firmly on the pulse of public sector accounting developments, and highlights the importance and relevance of our publications. The articles in this issue should prove valuable for the IPSASB since they are based on empirical research.

Bridging the gap between theoretical research and practice

The articles in this issue show how scholars are anticipating practical challenges and issues, and thus effectively closing the gap between theoretical research and practice. In particular, Sforza et al. (2023), in this issue, carry out a structured literature review to explore how the IPSAS/EPSAS literature has developed and its focus. The authors stress that researchers need to enlarge their theoretical lenses to explore the impact of accounting practices.

Qualitative characteristics

The IPSASB is currently finalizing its work on updating its Conceptual Framework, namely Chapter 3, which deals with qualitative characteristics. This is a very important chapter because it is pervasive throughout standard-setting and the applications of the standards. What are the qualities that the information included in financial statements should have in order for the financial statements to achieve the objectives of accountability and decision-making? For example, the recognition criteria of non-current assets in financial statements are two-pronged: besides meeting the asset definition, the results of any measurement basis are required to satisfy the six qualitative characteristics specified in Chapter 3 of the Conceptual Framework. The IPSASB's revisions to Chapter 3 will focus on the role of prudence in public sector financial reporting, and update its guidelines on materiality. These two topics have been the subject of prior research by CIGAR scholars (for example Glöckner, 2016; Lorson & Haustein, 2019; Adam et al., 2022).

In this issue, Ferri et al. (2023) focus on the characteristic of ‘understandability’. They identify the readability of written text as a key element that helps to assess the difficulty of understanding a report. The authors remind us that, while understandability is ‘reader-centred’ and depends on the know-how and skills of the readers, readability is ‘text-centred’ and is dependent on the qualities of the text itself. The qualitative characteristic of understandability is multidimensional (Langella et al., 2021) and clearly needs to be revisited. Ferri et al. (2023) show that, in certain circumstances, the readability of anticorruption plans can be manipulated to obfuscate the anticorruption actions taken by the reporting entity to the detriment of the citizens. Poor readability, therefore, facilitates obfuscation, leading to ‘earnings management’ (Bisogno & Donatella, 2022), ‘creative accounting’ (Cardoso & Fajardo, 2014), ‘accounting information distortion’ (Birnberg et al., 1983), and ‘impression management through accounting numbers’ (Brennan et al., 2009). Van Helden et al. (2023), in this issue, explore the ethical issues of such manipulation of accounting information in the political arena. The authors highlight the types of tensions that trigger such manipulation. Importantly, they conclude that manipulation of accounting data is a form of ‘cheating’. Such activities can be reduced by emphasizing the need of readable financial information.

Ferri et al. and Van Helden et al.’s articles should be useful for the IPSASB when updating its Chapter 3, and may also convince the IPSASB to reconsider the qualitative characteristics of understandability and readability.

Differential reporting

Differential reporting is an enigma for standard-setters because, in a sense, it goes at a tangent to the scope of standardization. If exceptions are made for certain types of reporting entities, mainly based on the size factor, the extent of standardization and uniformity will be affected. And, in the public sector context, the differential factors may also vary depending on the nature and objectives of the reporting entity—for example, depending on the sector, which may be health, education or civil protection. The variety inherent in public sector entities may also make it desirable to have specific financial reporting standards, which are tailor-made to their particular circumstances and their users’ needs. In a study about the accounting frameworks for medium-sized public sector entities in a number of OECD countries, Adam & Heiling (2023) concluded that there is no clear picture regarding the definition of these entities—even within a given country.

Thus, it is not surprising that the IPSASB has agreed to provide further guidance on differential reporting, rather than try to find a solution in standard-setting. **The IPSASB considers that this approach will better address the needs of public interest.**

In this issue, Cordery (2023) urges the IPSASB to implement its proposal for 'IPSAS-lite'. Cordery (2023) points out that such differential reporting would involve extra costs for both the standard-setter and the reporting entity that complies with them (for preparation and audit challenges, see Pilcher & Gilchrist, 2018). However, Cordery (2023) still acknowledges that simplifications of the full accrual IPSAS would be strongly beneficial for the preparers of public sector financial reports.

Presentation of financial statements

The issue of simplification (highlighted by Cordery, 2023) and readability as a qualitative characteristic (highlighted by Ferri et al., 2023) are factors that would prove fundamental for the IPSASB's planned project on *IPSAS 1—Presentation of financial statements*. We anticipate that these two issues will feature in the imminent consultation paper.

However, financial reporting may not reveal the whole truth regarding the financial and non-financial performance and activities of organizations. An alternative solution can be offered by counter accounts, as Stafford (2023) proposes in her contribution to this issue. Counter accounting is a response from critical accounting scholars to fight fake news and obfuscation or manipulation of information. Counter accounts are especially used to contrast official reporting on social and environmental factors. Stafford (2023) suggests expanding the use of counter accounts to the public sector as a way of enhancing public accountability.

Sustainability reporting and the UN's Sustainable Development Goals (SDGs)

Kobayashi & Omori (2023), in this issue, emphasise that sustainability issues have financial implications in the public sector. In times of crises—be it a pandemic or the effects of climate change—governments are expected to take action. Actions mean money and spending; hence, the relevance of accounting and financial reporting by governments during times of crises in pursuit of sustainability.

The IPSASB has decided to proceed with the project to develop a public sector specific climate-related disclosures standard. Such disclosures would be linked to the United Nation's Sustainable Development Goals (SDGs), particularly *SDG 13: Take urgent action to combat climate change and its impacts*. However, the literature has shown that SDGs are interrelated (Le Blanc, 2015), and it is quite difficult to report on one goal without affecting others. That said, it is acknowledged that climate action is at the forefront of all governments' concerns, and it is a global problem that is affecting everyone. Furthermore, limiting the role of accounting to disclosures is a missed opportunity because 'Management accounting and budgeting have the potential to push finance in the required direction—particularly in the public sector, where budget policies would have ripple effects across the economy' (Caruana & Dabbicco, 2022).

The SDGs are quantitative but not financial in nature. This limits the extent of the input that accounting systems can provide towards SDG reporting because accounting systems basically store and process financial data. In this issue, Cohen et al. (2023) explore the extent that SDGs are being translated into accounting terms. They do this by analysing a sample of Voluntary Local Reviews (VLRs) published by European cities on the UN website. They find that only one city from their sample actually discloses accounting information that relates to the use of financial resources in order to achieve SDGs. Thus, the accounting dimension of SDGs is possible but it is rather limited. In their study, the authors provide suggestions on how this can be done, which should prove very useful for the IPSASB's project. For example, Cohen et al. point out that, for *SDG 5: Achieve gender equality and empower all women and girls*, the accounting system could be used to find out budget allocations relating to gender programmes.

Linked to this, Aversano et al. (2023), in this issue, examine the role that gender diversity has in affecting financial and non-financial performance. These authors focus on the gender membership of management boards of Italian universities. They find that board gender diversity supports sound management of financial resources due to a better governance structure (Mazzotta et al., 2020). These findings have practical implications for policy-makers and regulators, and also point to the fact that the achievement of SDGs has benefits as well, and not just costs. Benefits—whether financial or not—should be considered by the standard-setter to be included as part of disclosures.

Public sector specific lease-type arrangements

The *IPSASB eNews* referred to the ongoing review on *Concessionary leases and right-of-use assets in-kind* in ED 84. In this issue, the article by Brusca (2023) on this topic is perhaps the only one that is intentionally based on one of the IPSASB's ongoing projects. 'Concessionary leases and right-of-use assets in-kind' are transactions that can only happen in a public sector context. Thus, the author points out that attempting to apply concepts from private sector accounting to them would lead to distortions that would affect the quality of financial reports. Distortions are created by attempting to recognize non-exchange transactions—leading to subjective and fictitious values. Brusca (2023) concludes that, while accrual accounting is desirable for the sake of completeness of financial reporting, there are challenges to applying the concept in situations where economic benefits are missing.

Experience with accrual accounting

These conceptions on accrual accounting and the limitations of applying business accounting in the public sector context are also held by the research participants of the study by Kowalczyk & Caruana (2023), in this issue. These authors voice the opinion of government accounting practitioners with hands-on experience on public sector accounting systems that have been subjected to changes over an extended period of 15 years—namely, accounting practitioners in Polish local governments. The study shows that accrual accounting is the default in private sector accounting; and, therefore, it is taken for granted as being acceptable. However, the study reveals a degree of scepticism concerning the utility of such financial reporting practices—a scepticism that increased with work experience.

Kowalczyk & Caruana (2023) also highlight the importance and value of involving experienced local government officials in discussions that include changes in accounting practices. The IPSASB should consider such involvement in its attempt to update and improve IPSAS 33.

The way forward

The scholars contributing to the PMM CIGAR Annual Issues tap into contemporary accounting topics that are relevant to public administrators, policy-makers and standard-setters. The nexus between the academia and the profession, the private and the public sector, and the intentions of the reforms vis-à-vis actual results have been addressed in the articles included in all three PMM CIGAR Annual Issues. However, although full coverage of topical issues cannot be sought, there are challenges that deserve more academic scrutiny. For example, Sforza et al. (2023) encourage further research on practical issues relating to disclosure, recognition and measurement criteria, given that accounting

discretion can endanger the quality of accounting data. Cohen et al. (2023) encourage the use of accounting information to keep track of the resources consumed for the achievement of the SDGs as a means to prioritize policies and projects. Stafford (2023) highlights publicity measures that may make critical accounting research more effective. These suggestions are important for both researchers and standard-setters.

Other subjects that merit attention include:

- The development of alternative reporting formats to serve citizen needs also in the realm of dialogic accounting.
- The inclusion of accounting into an interdisciplinary framework to fight against climate change.
- The recent advances in digitalization and artificial intelligence (AI) and their uncharted impact on public sector financial management. AI is a prominent feature in the mini theme *Public sector accounting—educating for reform challenges* that is linked with this issue. Artificial intelligence is a very important tool that needs to be exploited in order to enhance the quality of Public Sector Accounting Education. Furthermore, new technical developments are very relevant if the intention is to educate younger generations, because, as pointed by Heiling et al. (2023) in this issue, youngsters are ‘born and bred’ in a high-tech environment. The mini theme editorial emphasises that the success of implementation of public sector reforms is affected by the level of education of public sector managers. After all, quoting Nelson Mandela: ‘Education is the most powerful weapon which you can use to change the world’. In the public sector, education is instrumental for changes that enhance accountability and transparency across the board.

All the above topics create a fruitful landscape for further studies, which, as Jorge (2023) emphasizes in this issue, calls for input from the CIGAR community. We trust that the next PMM CIGAR Annual Issue will include empirical studies shedding light on relevant topics, continuing the legacy that the collaboration between CIGAR and PMM has built during the last three years.

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