**Introduction to a Symposium on**

**NEW CHALLENGES FOR PUBLIC SECTOR ACCOUNTING:**

**IPSAS, BUDGETARY REPORTING AND NATIONAL ACCOUNTS**

Francesca Manes Rossi

*Department of Management and Information Technology, University of Salerno, Italy*

Susana Jorge

*Faculty of Economics, University of Coimbra, Portugal*

*CICP – Research Centre in Political Science, University of Minho, Portugal*

Maria Antónia Jesus

*BRU-UNIDE, Lisbon University Institute, Portugal*

Eugenio Caperchione

*Department of Economics, University of Modena and Reggio Emilia, Italy*

This special issue of the *International Journal of Public Administration* gathers a symposium of papers selected from those presented at the «European Group of Public Administration (EGPA)» Permanent Study Group XII Spring Workshop, happened in Lisbon in May 2014.

The broad theme of the workshop – ‘New challenges for public sector accounting: IPSASs, Budgetary Reporting and National Accounts’ – was chosen to promote the discussion on topics that are currently at the very heart of the worldwide debate concerning public sector accounting (PSA) reforms, namely: Fiscal Policy and Budgetary Reporting, IPSASs and Harmonization in PSA, Governmental Accounting and National Accounts, EPSASs and PSA in Europe, Accountability and Consolidation.

Indeed, nowadays an important debate exists within the EU about the adoption or adaptation of IPSASs (namely through European Public Sector Accounting Standards – EPSASs) by member States in order to get high-quality financial reporting by governments (European Commission, 2013; Manes Rossi et al., 2014). Given that the macro accounting information (National Accounts – NA), whose outputs are used to control and assess the Maastricht Treaty criteria, is derived from micro accounting (Governmental Accounting – GA), good quality reporting systems for accounting at micro level are demanded to assure debt and deficit data, among other, at accrual-based macro-accounting level (Jesus & Jorge, 2015).

This debate also calls for a harmonized micro-accounting system, including consolidated and whole-of-government accounts, to obtain more transparency and improved quality in GA across the EU member States, so that governmental accounts become more reliable and trustable both to governmental decision-makers (namely politicians) and to investors in capital markets, and macroeconomic aggregates reported by these countries may be accurate and comparable (Dasí *et al.*, 2013). Nevertheless, one remaining question is whether the IPSASs approach, covering essentially financial reporting systems, is the most suitable to avoid problems of governmental deficit and debt reporting (Benito *et al.*, 2007), considering that information to NA is obtained from the micro budgetary accounting systems, mainly cash-based, hence requiring adjustments when translating data from micro into macro accounting (Jones, 2003; Jesus & Jorge, 2015). Therefore, comparability and accuracy problems remain regarding reporting within NA framework.

This is particularly relevant, in the current context of financial crisis, when a government does not accomplish the deficit and debt levels under the EU fiscal surveillance requirements, questioning the quality of those ratios reported based on NA data.

The suitability of accounting information provided by public entities has also been discussed from the perspective of financial markets: assuming that public entities can potentially issue financial instruments, they are required to provide a wide and faithful disclosure of their financial situation, and financial markets prefer accrual accounting. Nevertheless, it has already been underlined that accrual reports do not to satisfy this information needs and further information should be added to complement financial reporting (Caperchione & Salvatori, 2012).

The relationship between governmental accounting, budgetary reporting and NA is also an important concern outside the EU context, given that supranational communities and entities (e.g. OECD and IMF), as well as donor agencies, often assess governments’ performance on the basis of their National Accounts, prepared under the SNA2008 framework and following an accrual basis regime. Adding to this issue is the fact that many developing countries apply the cash-based IPSAS, so again adjustments when translating data from micro into macro accounting are required, raising questions about the reliability of the information finally reported.

Therefore, these issues are certainly demanding for attention from researchers, who should also consider that a new stage of public sector accounting reforms is happening worldwide, this time not specifically addressing a movement from cash into accrual basis accounting and reporting, but towards international cross-country harmonization and further approximation to business models.

The papers gathered in this issue are a good contribution to some enlightenment on the questions that have been raised here.

**Josette Caruana and Rowan Jones** analyze the EPSASs decision, particularly discussing the efficacy of the proposed solution. Since EPSASs have been claimed to the EU to improve budgetary surveillance of its member States through more reliable statistics, the authors question their need, given that governmental reporting to assess fiscal discipline is already harmonized among EU member States by the European System of National and Regional Accounts (ESA). The reasons for the EPSASs project are widely discussed in a critical manner, grounding on documentary analysis and results discussion and raising doubts on the possibility to reconcile deficit obtained under micro and macro reporting systems.

Therefore, the authors argue that the EU Commission may be ‘worrying the wrong end of the stick’ when identifying governmental accounting systems as the target to improve budgetary surveillance of its member States. Adopting IPSAS-based EPSASs may not be a guarantee of sound financial management and accountability of member States.

**Giovanna Dabbicco** discusses the impact of accrual-based public sector accounting harmonization on EU macro-economic surveillance within the scope of Excessive Deficit Procedure (EDP) reporting. Additionally, she also addresses the usefulness of accrual accounting from the perspective of national government‘s decision making.

The paper particularly examines the benefits and the critical aspects associated with the availability of new accrual accounting information (IPSASs, EPSASs or any accrual-based national GAAP) in sensitive public policy areas, such as unfunded pension liabilities, taxes, management of fixed assets and of payables and receivables, and governments’ contingent liabilities.

Moreover, the possibility of cash and accrual accounting co-existence as a combined (not merely complementary) approach is discussed.

**Patrícia Gomes, Maria José Fernandes and João Carvalho** assess the perspectives of different stakeholders, namely professionals, regulators and independent auditors, concerning the harmonization process in public sector accounting reforms towards IPSASs in Portugal. Using interviews to the chair-representatives of professional, standard-setters and supreme auditing bodies, they focus on three issues of the reform process: the reform stimuli and the main reasons towards the adoption of the IPSASs, the content of the reform (goals/desired outcomes, means and strategies), and the level of cohesion in the perspectives of the different stakeholders.

The authors discuss broadly the cohesion on the stakeholders’ perspective about the reform stimuli and content as well as on the obstacles and warnings concerning the specific Portuguese context. Finally, the authors underline that, given the high influence of different groups of stakeholders on the accounting policymakers, it is likely that this level of cohesion will have positive impact on the success of the reform.

**Nils Soguel and Cécile Ecabert** address the explanatory factors of the difference between the expenditure reported in governmental end-of-the-year budgets and the amounts previously forecasted in the approved beginning-of-the-year budgets. They develop an econometric analysis, using panel models with data from the 26 Swiss cantons covering the period of 1980-2011, expecting to make a contribution to the scarce literature on re-budgeting. Factors affecting the spending drift as well as IPSAS 24 requirements regarding the comparison between budget and actual amounts in the year-end reporting are discussed to investigate the impact of tax revenue under- or overestimation on the drift from the expenditure allowed in the budget.

Results suggest that stringent fiscal rules discourage budget overruns, whereas underestimating tax revenue—i.e. a budgetary “pleasant surprise”—offers the opportunity for some overspending.

**Alessandro Giosi, Sandro Brunelli and Andrea Bellisario**, using a quantitative approach with panel data models, assess the relationship between accrual accounting numbers and the interest rate on sovereign bonds across the EU, attempting to answer on how accrual numbers affect the financial markets. The paper makes a contribution to the literature, which lacks in efforts to highlight whether some role is played by accrual accounting on the interest rate, and consequently on the level of spread, of sovereign bonds. They adapt Ohlson’s model to the EU member States central governments GFS data and discuss the possible integration of the transaction approach adopted in the GFS framework with the balance sheet approach adopted by the IPSASs. A governmental reporting systems suitable to address – among the others - informational needs of investors in financial markets is coherent with capital providers’ informational needs, which are gaining a growing influence in the contemporary economy.

In a context where several IPSASs concerning consolidation issues are under revision, **Marco Bisogno, Serena Santis and Aurelio Tommasetti** analyze (using a deep qualitative and quantitative content analysis) the comment letters submitted to IPSASB’s ED 49, which will replace the current IPSAS 6, focusing on issues related to the assessment of control. In particular they focus on the key criteria for control assessment, so as to investigate whether the “control approach” is appropriate within the public sector.

The authors highlight that the main problematic issue in consolidated accounts is the definition of appropriate criteria concerning the consolidation area, hence calling for a need to clarify the approaches that can be adopted in drafting consolidated financial statements (CFS), in order to understand the underlying accountability as well as decision-making reasons in the public sector. Subsequently, they discuss two contrasting approaches, due to their diffusion: the “control approach” and the “budgetary perspective”.

Some incisive adjustments and clarifications seem necessary for the ED 49, in order to better take into account the typical features of public sector entities.

**Giuseppe Grossi and Ileana Steccolini**, aiming at contributing to the debate about using business-like accounting practices and principles where public and private sectors intersect, show that IFRS-based IPSASs might not assure the expected disclosure in public sector in what regards consolidated financial statements (CFS).

The paper discusses how the corporatization trend in the public sector has raised concerns regarding accountability issues. The authors especially refer to the “reporting entity” concept and use multiple case studies, namely the first four cases of voluntary consolidation in Italian municipalities between 2005 and 2011.

They question the supposed increase in accountability for public services under the IPSASs control criterion, namely in the Italian case, where fragmented ownership, contractual relationships and use of significant municipal subsidies would require a different and wider approach.

Coming to a conclusion, there are nowadays pressures and external forces, leading to further changes in public sector accounting systems worldwide, which deserve further attention by scholars. In this respect, the EGPA XII PSG meetings can provide a proper forum to host a large debate about these issues, allowing a fruitful exchange of views between academics and practitioners.

In Europe the changes in public sector accounting are linked to the need of controlling public sector expenditure and deficits, to the request of financial markets, and to the increasing demand for transparency and accountability of public sector accounts. A possible answer to these forces may be found in the adoption of one set of international or European accounting standards - also in order to make it easier to compare countries (at least, this is what is being claimed). This also calls for new attention to the relation between two aims of National Accounting: producing statistics and governing public expenditure. Better tuned accounting systems, finally, could also allow a smoother definition of taxation level.

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