

EURO PEAN

PUBLIC SECTOR ACCOUNTING

2ª EDIÇÃO

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INTRODUCTION

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Public sector accounting (PSA) and reporting is a theme of high relevance for both academia and practitioners in the European Union (EU). The reasons do not only lie in the considerable national reforms of PSA during the last decades,² but can be traced back to a project run by the European Commission (EC) aiming to harmonize the heterogeneous accounting systems of its member states by the adoption of European Public Sector Accounting Standards (EPSAS), initiated in 2013 and still to be developed.

The EPSAS project arose primarily as a response to the financial and economic crises beginning in 2008 and the reliability issues that became apparent, especially with the public debt and deficit data delivered to the EC by some EU member states, as data from PSA is the input for governmental financial statistics in the National Accounts. The EU plans

² See, for example, Manning and Lau (2016) pp. 39 ff.

to develop EPSAS with International Public Sector Accounting Standards (IPSAS) as a reference, and until 2020 provided financial support to public sector entities as well as jurisdictions that opted for a voluntary use of IPSAS. Initially, the period of 2020-2025 was defined as a transition to EPSAS by the EC, leading to a homogeneous EU-landscape of PSA and reporting. However, this would have implied that the EPSAS development and implementation project would have been completed and a legal basis for the adoption in the EU member states would have been found, which did not happen so far. Since the first edition of this book, a screening of all IPSAS standards has been started to assess their fit to the EPSAS Conceptual Framework draft (for 24 IPSAS this is completed already and for 12 IPSAS the process is ongoing (as of April 2023)). Most of the 24 already screened double-entry IPSAS did not pose any major conceptual problems and were assessed as compliant with the EPSAS Conceptual Framework draft. Still, some IPSAS may require additional guidance on specific accounting issues or to eliminate choices in order to ensure consistent application in the EU context (e.g., IPSAS 5, 17, 19, 23 and 41). Also, the screening reports showed that discretionary decisions and estimates are somewhat unavoidable and occasionally may have an impact on comparability.³ An impact assessment is ongoing but further decisions are pending.⁴ Against the backdrop of the Covid-19 pandemic and the war going on in Ukraine, the decision about EPSAS was postponed to the next EC which is to be elected in 2024 for the 2025-2029 election period.

As PSA in Europe is currently still very heterogeneous,⁵ professionals and academics in Europe face tremendous challenges. In particular, there will be a large need for university graduates that are knowledge-

³ See EC (2020) and the related screening reports.

⁴ See EC (2019), p.6 and also the Conclusion of this book.

⁵ See Brusca et al. (2015) and, Vašiček and Roje (2019) and Polzer et al. (2022) for such an overview of PSA in single European countries.

able in PSA and that are aware of the differing PSA standards and PSA systems across Europe. The first edition of this book contributed to this kind of capacity building, and was one intellectual output of an EU funded Erasmus+ project (“Developing and implementing European Public Sector Accounting modules” (DiEPSAm)), which aimed to develop teaching materials concentrated on existing methods and systems of PSA in Europe. The objectives of the DiEPSAm project were to support the development of academic modules for Bachelor’s or Master’s degree programmes by offering online lectures, slides, additional materials and this complementing textbook.

The DiEPSAm project was a cooperation between the Johannes Kepler University Linz (Austria), the Tampere University (Finland), the University of Rostock (Germany), the University of Coimbra (Portugal) and the University of Leicester (United Kingdom; UK). These partner countries (Austria, Finland, Germany, Portugal, and the UK) represent diverse national PSA traditions, thereby enriching the textbook by diverse views (at times contradicting) and leading to the discussion of alternative approaches. They are also the focus of some comparative studies across the book; this second edition is now further enriched by additional country perspectives, for example Italy.

Accordingly, it must be underlined that this book is not about EPSAS, but tackles PSA in Europe. Thus, the aim is to provide different views not taking position of one or the other approach to PSA. Still, of course, each of the chapters represents not necessarily the view of all authors of the book. On the contrary, the DiEPSAm project and the textbook concept were driven by the idea to present an overarching European perspective and to integrate different views,⁶ which continued in this second edition.

⁶ The lecture materials which correspond to the first edition of the book are accessible at no cost (open access) here: <https://www.uni-rostock.de/weiterbildung/offene-uni-rostock/onlinekurse/european-public-sector-accounting/>

In each chapter, additional readings are offered and topics for discussion are presented, in order to critically reflect on the themes presented. These topics might also serve for essays or seminal papers. At the end of the book, assessment questions (both multiple-choice and open questions) are listed, per chapter, so that the reader can assess the knowledge gained. The solutions for the multiple-choice questions are also provided, whereas the open questions can be derived from the text or additional readings. The main part of the book is structured as follows.

Chapter 1, authored by *Ellen Haustein* and *Peter Lorson*, provides an **introduction to PSA** and offers a map through the book by explaining important terms with respect to European PSA and by highlighting which concepts this book will focus on. In **Chapter 2**, *Yuri Biondi* addresses the long and varied history of PSA, sketches the **key developments, and explains the specificities of public sector accounting**. He draws on the financial economy of the government to show why there are differences in the accounting representation between public sector entities and those in the private sector.

Despite the focus of the EPSAS project on financial reporting, budgeting and budgetary accounting and reporting take a centre stage in PSA. **Chapter 3**, authored by *Lasse Oulasvirta*, is thus devoted to explaining approaches to **budgeting**, also addressing the roles and functions of the budget as well as budget planning and budget-linked accounting. A more theoretical lens on PSA is applied also by *Lasse Oulasvirta* in **Chapter 4** while describing **theoretical accounting foundations and principles for PSA**, which may influence and interact with financial accounting standards and practices.

Accounting harmonization in PSA bears several challenges because there may be frictions between the accounting standards of the private sector and of the public sector, on the one hand, and the statistical data requirements on the other hand. This topic is addressed by *Giovanna Dabbicco* in **Chapter 5**. She takes a closer

look at **PSA harmonisation between IFRS, Government Finance Statistics (GFS) and IPSAS**.

Due to their high relevance and international dissemination, IPSAS plays an important role in this book, which is also reflected in the Chapters 6 to 12. *Caroline Aggestam Pontoppidan* starts these chapters by addressing **IPSAS in Chapter 6**, introducing their **history, spread and use**. *Susana Jorge* and *Josette Caruana* continue in **Chapter 7** to explain conceptual frameworks (CFs) in PSA, particularly addressing the IPSASB's CF. The chapter also offers brief views on selected national CFs from a group of European countries. **Chapter 8**, also authored by *Susana Jorge* and *Josette Caruana*, is devoted to **reporting components**, namely the financial statements, primarily building on IPSAS 1 and 2, also briefly addressing **reliability issues**, tackling transparency and auditing. In order to provide an **overview of IPSAS on public sector specific topics**, *Ellen Haustein*, *Peter Lorson*, *Johan Christiaens* and *Christophe Vanbee* draw on selected IPSASs in their **Chapter 9** and present an **IPSAS case study in Chapter 10**. The general accounting treatment of property, plant and equipment (IPSAS 17, 21 and 26), revenue from non-exchange transactions (IPSAS 23) and service concessions from the perspective of the grantor (IPSAS 32) are explained in Chapter 9. It was now expanded by accounting for social benefits according to IPSAS 42. The same IPSASs are then applied in Chapter 10 to present an IPSAS case study by developing accounting records and illustrating the consequences on the financial statements.

Up to Chapter 10, primarily individual financial statements are addressed, which are financial statements for a single public sector entity only. However, when public sector entities run different (public sector) entities to provide public services, individual financial statements fail to provide a true and fair view of the whole economic entity because of the financial interactions between these separate entities. Thus, some public sector entities are required to prepare

consolidated financial statements that combine all entities under control of a public entity. This topic is addressed by *Ellen Haustein, Peter Lorson* and *Eugenio Anessi Pessina* in **Chapter 11**, where they explain the basic ideas and theories of consolidation and how to aggregate the transactions of the parent (i.e. controlling) entity and its controlled entities by using consolidation techniques. The topic is continued by the same three authors in **Chapter 12**, addressing **consolidation methods and reporting** with a stronger focus on applying IPSAS.

In **Chapter 13**, *Francesca Manes Rossi, Isabel Brusca* and *Sandra Cohen* look at the EPSAS project again and describe **PSA future challenges** by giving an **EPSAS outlook**.

In **Chapter 14**, a new topic was added to this second edition of the textbook, since **alternative reporting and non-financial accounting formats** are increasingly important in public sector accounting and reporting. *Francesca Manes Rossi, Isabel Brusca Sandra Cohen* and *Peter Lorson* discuss widespread formats, including popular reporting, sustainability reporting, the most recent Sustainable Development Goals (SDGs) reporting and integrated reporting, which are finally compared in a synopsis.

This second edition of the book received no more financial support by an external funding body. We would therefore like to express our huge gratitude to all remaining and new authors that contributed with their time and knowledge to this open access publication without any additional funding. A big **THANK YOU** goes to *Caroline Aggestam Pontoppidan, Eugenio Anessi Pessina, Yuri Biondi, Isabel Brusca, Josette Caruana, Sandra Cohen, Johan Christiaens, Giovanna Dabbicco, Francesca Manes Rossi, Lasse Oulasvirta, and Christophe Vanhee*. Moreover, renowned experts offered their support in reviewing selected chapters of this textbook for which they also deserve highest recognition: *Marco Bisogno* (University of Salerno, Italy), *Eugenio Caperchione* (University of Modena and Reggio Emilia, Italy), *Jens*

Heiling (EY Stuttgart, Germany), *Christoph Reichard* (University of Potsdam, Germany) and *Mariafrancesca Sicilia* (University of Bergamo, Italy). Likewise, we would like to thank *Coimbra University Press* for helping us again to publish the second edition of this book. Last but not least, the project team was supported by *Silke Große*, *Alicia Schlünß*, *Moritz Muhtz* and *Theodora van der Beek* at University of Rostock. Thank you to all!

Any mistakes and misunderstandings in the book, as expected, clearly remain within the chapter author(s) responsibility. Usual disclaimer applies.

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SÉRIE ENSINO
IMPrensa DA UNIVERSIDADE DE COIMBRA
COIMBRA UNIVERSITY PRESS
2023

