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Chapter 5
Different Perspectives in Public Sector Accounting Harmonisation: IFRS, IPSAS and GFS

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Summary
In order to compare financial information across companies, organisations, and public sector entities, accounting standards and accounting practices have to be harmonised. For this purpose, first, the International Financial Reporting Standards (IFRS) have been developed for the preparation of general purpose financial statements (GPFS) of profit-oriented entities. Some governments also have based their national public sector accounting standards on IFRS. Furthermore, public sector accounting could be harmonised at the global level by adopting the International Public Sector Accounting Standards (IPSAS). Finally, Government Finance Statistics (GFS) provide a set of macroeconomic statistics on financial operations, financial and liquidity positions, especially of the general government sector, and support fiscal analysis. This chapter describes these

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different perspectives and refers to challenges associated with accounting harmonisation.

Keywords
Public sector accounting, accounting harmonisation, IFRS, IPSAS, GFS.

1. Introduction

In general, accounting harmonisation is associated with greater international comparability of financial information. However, different historical developments in accounting systems in countries, on the basis of the different styles of management and culture, may hamper such harmonisation.[1] When accounting practices are harmonised, there are multiple potential benefits across the private and public sectors. For example, multinational companies are able to prepare and consolidate financial statements without considering different national accounting practices, and the financial situations of governments can be compared. Next to transparency and usability, accounting harmonisation is advantageous for the use of decision-making instruments, such as investment appraisal or performance management, due to ease of use and comparability. Advantages may be also observed in efficiencies for professional training, using a harmonised conceptual framework and standards.

Having these benefits of accounting harmonisation in mind, this chapter aims to describe different perspectives of accounting harmonisation and related challenges. International accounting harmonisation is realised by applying international accounting

[1] Dabbicco and Mattei (2021).

standards and regulations, such as the **International Financial Reporting Standards** (IFRS), and the **International Public Sector Accounting Standards** (IPSAS). **Government Finance Statistics** (GFS) facilitate macro measurement, allowing the monitoring and assessment of the impact of a government's economic policies and other activities, on the economy, and to assess the financial soundness of the general government and public sectors in ways commonly applied to other sectors of the economy.

In particular, this chapter has the following objectives:

- Describing different perspectives of accounting harmonisation (namely related to IFRS, IPSAS and GFS) and linking them to their significance in PSA.
- Discussing reasons why accounting harmonisation is important.
- Outlining challenges associated with PSA harmonisation.

The chapter is structured as follows: **Section 2** illustrates harmonisation efforts of the private sector accounting system and describes the IFRS in more detail. **Section 3** gives an overview of harmonisation in PSA, refers to the IPSAS and briefly introduces the EPSAS project (Chapter 13 covers this in more detail). **Section 4** concentrates on GFS, explaining the purposes of GFS and the differences between GFS and IPSAS. **Section 5** concludes by summarising the different perspectives on PSA harmonisation.

2. Harmonisation of the private sector accounting system

The emergence of IFRS began with the establishment of the International Accounting Standards Committee (IASC) in 1973. At that time, there were major differences in national accounting laws and standards between the founding member states of the IASC (Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the United Kingdom and Ireland, and the United States of America), so that financial information was not fully comparable for international investors and other user groups. Therefore, the IASC Agreement and Constitution aimed to develop and publish basic accounting standards and to promote their worldwide acceptance.[2] Even though the IASC (which later became the International Accounting Standards Board (IASB) in 2001) was restructured several times and confronted with conflicting national interests throughout its history, its original mission of advancing private sector accounting harmonisation remains unchanged. The current IFRS Foundation Constitution specifies the objectives of developing a single set of principle-based, high-quality, understandable, enforceable and globally accepted financial reporting standards, and to promote the worldwide use and rigorous application of those standards.[3]

The IASC published International Accounting Standards (IAS; which were later complemented by International Financial Reporting Standards (IFRS)), interpretations and a conceptual framework.

An important step with regards to the support for IFRS was the agreement reached with the International Organization of Securities Commission (IOSCO):

> *In 1995, an agreement was reached between the IASC (the predecessor of the IASB) and the International Organization of Securities Commission (IOSCO) whereby IASC agreed to develop a core set of accounting standards, and IOSCO in turn agreed to recommend that these standards be allowed for use in global capital*

[2] Camfferman and Zeff (2015), pp. 8-9.

[3] IFRS Foundation (2018a), para 2.

> *markets. This agreement confirms that one of the primary reasons for international harmonisation was to facilitate the operations of worldwide capital markets.*[4]

IAS/IFRS are designed for the preparation of GPFS of profit-oriented entities (namely entities engaged in commercial, industrial, financial and similar activities). To this goal, IFRS set out the main requirements with regard to recognition, measurement, presentation and related disclosures dealing with specific transactions and events relevant for private sector entities' GPFS. The overall objective of IFRS is to provide financial information about the reporting entity that is useful for the economic decision making, primarily for investors and creditors. To achieve this objective, the fair presentation principle from the preparers' point of view and true and fair view from the auditors' point of view, require that the financial statements shall present fairly the financial position, financial performance and cash flows of the reporting entity.[5] The Board presumes that full compliance with IFRS will usually result in a fair presentation.

The term IFRS has to be interpreted broadly and is used to indicate the whole body of literature published by the IASB, including:

- Still effective **IAS**;
- The **Conceptual Framework** (CF) for Financial Reporting, which describes the objectives and general principles for the preparation of GPFS.

[4] Caruana (2018).

[5] Caruana (2018); IFRS Foundation (2018b). In recent times, the scope of work has been enlarged to non-financial (sustainability) issues. On 3 November 2021, the IFRS Foundation Trustees announced the creation of a new standard-setting board—the International Sustainability Standards Board (ISSB)—to help meet this demand. This brother board of the IASB shall develop IFRS-Sustainability Disclosure Standards (IFRS-SDS) (IFRS Foundation (2018b).

- Interpretations by the interpretation committee[6], which give authoritative guidance on reporting issues that would otherwise likely lead to divergent practices or unacceptable treatments for a large number of addressees[7] and which must be approved by the IASB.

In fulfilling its objective of creating a single set of globally accepted financial reporting standards, the IFRS Foundation identified the need to develop a governance **framework** that ensures transparency in developing and maintaining accounting regulations as well as establishing structures for effective communication and involvement of its constituency. Therefore, the IFRS Foundation Constitution[8] sets out a governance framework of different institutions involved in developing and maintaining IFRS (see Figure 5.1).

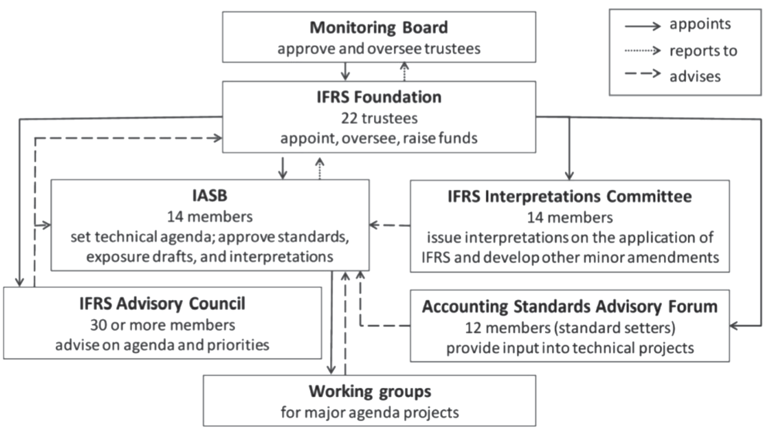

Figure 5.1: Governance framework of the IFRS Foundation and related institutions (Source: IFRS Foundation, 2018a)

[6] The Committee's name has changed over time: the IFRS Interpretations Committee (IFRIC) and its predecessor the Standing Interpretations Committee (SIC).

[7] In some point in time, the IFRIC refused to care about early retirement programs because they were deemed to be a local (German) issue, only.

[8] IFRS Foundation (2018a).

As the IASB is an international sector standard-setter, it has no legal authority to prescribe the mandatory use of IFRS in any jurisdiction. Therefore, countries that want to adopt IFRS have to implement an **endorsement mechanism** that mandates or allows the use of IFRS. Throughout the history of the IASB, different countries made different commitments regarding international financial reporting, from a full adoption of IFRS as issued by the Board, to adopting a modified version of IFRS, or developing national accounting standards that are substantially converged with IFRS.[9] As of April 2018, 144 out of 166 profiled jurisdictions worldwide allowed the use of IFRS for at least a subset of their domestic listed companies[10]. However, there is still a lack of acceptance in important jurisdictions.

In 2002, the EU required IFRS for the preparation of consolidated financial statements of listed companies within all member states, starting from 2005. The **EU endorsement mechanism** starts with the publication of a new IFRS/IFRIC (or amendment) by the IASB. The new standard is then assessed by technical experts within the European Financial Reporting Advisory Group (EFRAG). EFRAG is a private association that is tasked with providing advice to the European Commission (EC) on whether a new IFRS/IFRIC should be endorsed.[11] (see Figure 5.2)

Although by applying these endorsement procedures the EU can adopt a modified version of IFRS, in practice, these modifications

[9] For an overview of different endorsement mechanisms in different jurisdictions refer to Pacter (2017).

[10] IFRS Foundation 2018b

[11] EFRAG has to consider the three main endorsement criteria: Does the new standard fulfil the "true and fair view" principle? Is the standard conducive to the European public good? Does the standard meet the four qualitative criteria of understandability, relevance, reliability and comparability? Recently, the scope of work of EFRAG enlarged to drafting European Sustainability Reporting Standards (ESRS). 12 draft ESRS have been submitted to the EC on the mid-November 2022 (EFRAG, 2022).

will be limited to rare cases, as otherwise IFRS as adopted by the EU would not be comparable to full IFRS.[12]

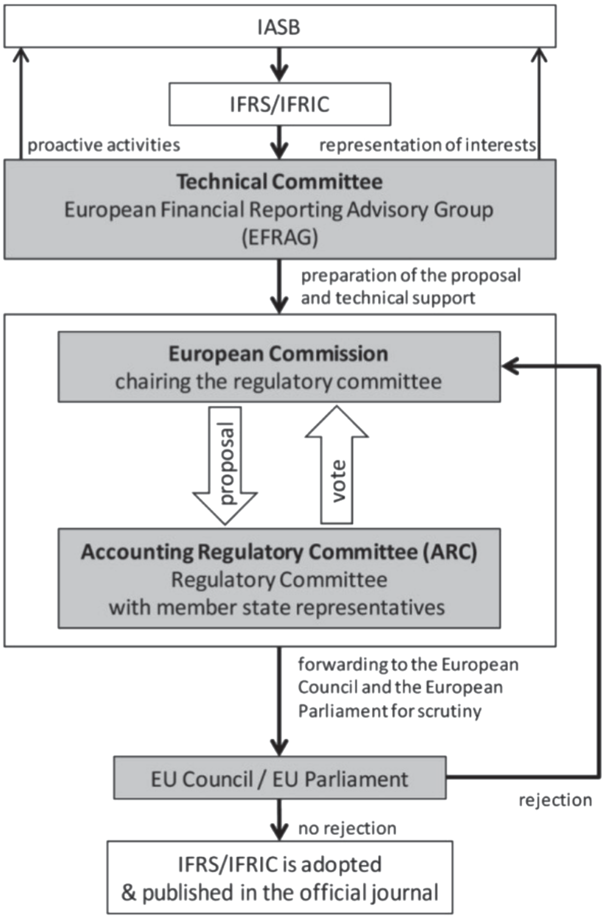

Figure 5.2: EU endorsement mechanism
(Based on Oversberg (2007), p. 1599f.; Pellens et al. (2017), p. 83)

[12] During the financial crisis, the EC made use of this option, which was followed by amendments to IAS 39 and IFRS 7, allowing the reclassification of some financial assets. The amendments were issued on 13 October 2008 without due process and became retrospectively effective by 1 July 2008; as a consequence, both IAS 39 and IFRS 7 were eventually accepted by the EU in 2010 ..https://www.ifrs.org/projects/completed-projects/2008/reclassification-of-financial-assets-amendments--to-ias-39-and-ifrs-7/.

The influence of the "Big 4" consulting firms, the move from national standards toward harmonisation and comparability, and the power struggles in the evolution of standard setting at a supranational level are all issues to which accounting literature for the private sector has devoted a significant degree of attention.[13]

In this context, even though IFRS can be seen as an important and successful tool for achieving the objective of private sector accounting harmonisation, there are still several challenges to be dealt with (not without difficulties) in the future:

- Several requirements in the standards are not in line with aspects of the CF and with other standards, leading to **inconsistencies in financial reporting**. For example, alignment of the accounting for Financial Instruments with characteristics of Equity with the accounting for other obligations that are conditional on events or choices that are beyond the entity's control; guidance to improve an entity's disclosures about its exploration and evaluation expenditure and activities under IFRS 6; and the prudence principle as an implicit notion of the faithful representation principle conflicting with impairment provisions in different standards.[14]
- Complexity and extensive disclosure requirements make financial reports based on IFRS **more error prone** as compared to national accounting guidelines.
- IFRS often include estimates based on the judgement of financial statement preparers. Accountants' professional judgment appears an important and controversial topic seen as

[13] For example, Durocher et al. (2007); Jorissen et al. (2012); Pelger (2016); Richardson and Eberlain (2010).

[14] Lorson and Haustein (2019).

leading to considerable **management discretion** and reduces the reliability of financial reports, for example requiring fair value approaches[15]. The level of subjectivity linked to other various issues, such as depreciation, provisions and impairment policies, usually associated with companies' earnings management, is also controversial. However, this a general issue, which can be referred to accrual-based accounting systems and not (only) to IFRS.

- IFRS still **lack global acceptance**. IFRS are still not fully applied in some notable economies (such as Japan and the United States), or not adopted at all. Furthermore, several countries only apply modified versions of IFRS, which decrease international comparability and, therefore, limit the objective of international accounting harmonisation.
- Major problems are observed in the implementation and compliance of application, which limit in practise IFRS adoption. IFRS implementation requires to set the institutional environment to ensure the standards would not conflict or overlap with other existing national laws and standards, as well as to define the role and responsibilities of the bodies regulating the standards. Implementation also requires considering the constraints on capacity building, to staff and for funding the regulatory bodies. IT infrastructure development, including the difficulties in implementing digital systems and capturing necessary data for disclosure, are only a few examples of challenges in implementation. Implementation of IFRS also requires amendments to audit arrangements, and to specifically consider how to deal with complexities for small and medium-sized enterprises and microenterprises.

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[15] Heidhues and Patel (2011).

3. Harmonisation of the public sector accounting system

IPSAS is a prominent means for international harmonisation in public sector accounting. IPSAS are designed for public sector entities (for example, central governments, municipalities and other local authorities, hospitals, universities, schools, etc.) whose main objectives are to provide goods and services for collective benefit and to redistribute income and wealth, but also applicable for international organisations (e.g. NATO). These public sector entities are primarily financed by taxation, not profit.

The public sector is reforming its accounting system due to several reasons. The first aim is to provide a fair view and control of public finances. This is related to assessing the full costs of government operations. A new accounting style is associated with enhanced transparency and accountability, strategic resource management, and improved awareness and management of costs. The New Public Management trend at a global level extended the adoption of private sector practices in the public sector, explaining current reform processes in line with the overall objective of financial reporting by public sector to provide information about the entity that is useful for both accountability and decision-making purposes.[16]

In general, public management could be modernised by introducing a performance culture. Beside the importance of accounting for performance, financial crises and high levels of public debt underline the importance of harmonised accounting standards to provide timely and reliable financial and fiscal data and enable complete and comparable financial reporting, facilitating monitoring. Financial reporting harmonisation may provide for improved conditions to obtain financing and good practice for the preparation of GFS.

[16] IPSASB Conceptual Framework, para. 2.1.

The progressive adoption of **accrual-based accounting standards** should provide an improved “true and fair view” of government finances at country level and a public sector accounting harmonisation will improve comparability (both at national and international levels). Accrual-based accounting means that transactions are budgeted or recognised in the financial reports at the time at which the underlying economic event occurs, regardless of when the related cash is received or paid. Assets and liabilities are then budgeted and/or reported in a balance sheet.

According to surveys published in 2017/2018, 73 % of OECD countries (national government; central level) and 35% of European countries currently use accrual-based accounting for annual public sector financial reports.[17] The accounting basis for annual financial reports, however, differs from the preparation basis for budgets of national governments.[18] These great differences in accounting bases for annual financial reports and preparation bases for budgets are linked to the status of accrual reforms.[19] Furthermore, there are large differences concerning the type of standards used.

The 2021 report of the IFAC/CIPFA shows updated progress in implementing accrual-based reporting. According to this report, at global level, 49 jurisdictions reported on accrual in 2020, and 28 (57%) are using IPSAS – directly or indirectly or as a reference point. The report forecasts positions for European countries reflecting current reform programs, irrespective of a decision on the EPSAS project. The number of countries reporting on accrual is forecast to be 29 in 2025, compared with 19 in 2020.[20] **Chapter 7** of this book refers to IPSAS, and their use in more detail.

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[17] OECD/IFAC (2017) p. 13; IFAC/CIPFA (2018), p. 2; IFAC/CIPFA (2021).

[18] Van Helden and Reichard (2016; 2018).

[19] OECD/IFAC (2017) p.24, p. 27, p. 30.

[20] IFAC/CIPFA (2021).

As in the private sector, there are **numerous challenges of implementing public sector accounting reforms towards accruals, harmonisation and IPSAS**:[21]

- Stakeholder consensus and political support;
- Adapting existing laws and regulations and developing legislation on public sector accounting, considering the time needed for regulatory reforms;
- Adapting the IT systems to the new requirements;
- Identification and valuation of assets and liabilities as part of the opening balance sheet;
- Developing guidance and training; consider the profession qualified for public sector financial accounting and PSA education at higher education level;
- Defining the public sector reporting entities in the national context, alongside the scope for preparing consolidated financial statements;
- Preparing financial statements in a timely manner;
- Preparing for audit requirements and addressing audit qualifications;
- Estimating, monitoring and controlling the costs of the reform;
- Applying principles consistently so that the accounting outcome is the same for comparable transactions.

The different focus of public *versus* private sector indeed matters in the context where accrual accounting and IPSAS should be implemented. The organizational and legislative level, stakeholder consensus and political support, the wider/narrower support of private consultants; the availability of information and professionally

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[21] See for example Brusca and Martinez (2016); PWC (2014).

qualified accountants; and the costs and the type of transactions to be covered, are thus important aspects to consider.[22]

Notwithstanding, the development of IPSAS acknowledges the differences but pursues an alignment between IPSAS and IFRS as a guiding principle, wherever a public sector specific issue is not identified. This is particularly relevant when implementation should be applied to mixed private sector and public sector groups.

In this vein, it may also be observed that development of accounting reforms adopted in some countries involved a so-called 'neutral approach'. For example, New Zealand and Australia harmonised their reporting systems on the basis of a 'neutral' standards approach for both private and public sector, unless a different treatment was specifically required. However, this policy was reversed by New Zealand in 2011, when a differentiated standard approach for profit and non-profit (so called 'public benefit entities') was adopted and a new conceptual framework was adopted starting from 2012. The current standards for non-profit entities in New Zealand are based on IPSAS[23].

Next to harmonising public sector accounting by IPSAS, there are recent public sector reform efforts especially in Europe. The European Commission is working on a project whereby EU member states would use a common set of accrual-based standards, namely the **European Public Sector Accounting Standards (EPSAS).** These would be inspired by IPSAS but more in line with EU needs. Similar to IPSAS, it is expected that EPSAS would strengthen the harmonisation of accounting standards and stimulate transparent, credible and comparable financial statements between and within EU Member States. This will support policy-making, accountability and public budgets management at the macro level and at the entity level.[24] This scenario

[22] Gomes et al. (2022) ; Redmayne (2021).

[23] Dabbicco (2016).

[24] PWC (2014), pp. 4 ff.

was an important stimulus for accounting research, notably the study of the current situation of EU government accounting, which is highly heterogeneous,[25] although an increasing number of countries has adopted accrual accounting and IPSAS since the start of the project. Eurostat is taking forward the EPSAS project work through an EU network of experts representing all levels of government, as well as other key EU and international stakeholders, and is providing technical support and some co-financing to member states' government accounting reforms. **Chapter 13** outlines in more detail the European efforts for PSA, describes EPSAS and also refers to the challenges and risks of EPSAS implementation.

4. Harmonisation of Government Finance Statistics

European **Government Finance Statistics** (GFS) are produced in accordance with the European System of Accounts 2010 (ESA 2010) – the European version of the world-wide System of National Accounts (SNA), supplemented by further interpretation and guidance documentation from Eurostat. This ensures that GFS are based on common concepts, definitions, classifications and accounting rules, in order to arrive at a consistent, reliable and comparable quantitative description of government finances. In this respect, GFS are already highly harmonised in Europe.

GFS are part of national accounts describing macroeconomic changes in various ways, for instance through main aggregates including GDP, institutional sectors, supply, use and input-output tables, and deficit and debt of the general government.

The SNA is the core statistical system and serves as an "umbrella" framework by providing definitions and concepts for all other

[25] Brusca et al. (2018).

macroeconomic statistics. GFS and SNA are largely consistent. Since 1970, the Government Finance Statistics Manual has provided guidance to compile GFS. It was lastly updated in 2014 (GFSM 2014) to up-dated SNA 2008 and two specialised systems, namely, the Balance of Payments and International Investment Position Manual (BPM6) and the Monetary and Financial Statistics Manual (MFSM). The ESA is based on the SNA. Contrary to the SNA, the ESA is an EU Regulation, which comprises a methodology and a compulsory transmission programme of data by member states.

The "Manual on Government Deficit and Debt" (MGDD) provides guidance at European level regarding GFS, complementing ESA 2010 to better understand the methodology applied to government finance data, notably in the context of the Excessive Deficit Procedure (EDP).[26]

The sectorisation of the general government sector of the public sector may be illustrated as in Figure 5.3.

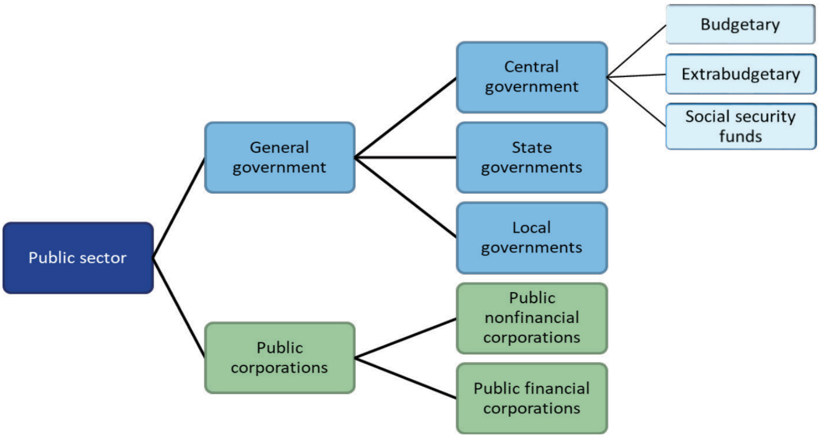

Figure 5.3: Main components of the public sector
Source: GFSM 2014

[26] Council Regulation (EC) No 479/2009, as amended by Council Regulation (EU) No 679/2010 and Commission Regulation (EU) No 220/2014. For more detail on EDP reporting see https://ec.europa.eu/eurostat/web/government-finance-statistics/excessive-deficit-procedure

The **General Government Sector** (GGS) comprises non-market producers creating output for individual and collective consumption. They are financed by compulsory payments from units belonging to other sectors. The sector's main functions consist of satisfying collective needs (e.g., defence) and household's needs (e.g., state health care). In order to finance these needs, it redirects money, goods and services among units (e.g., redistribution of national income). The GGS can be divided into:

- Central government: responsibilities cover the whole economic territory of a country;
- State government: separate institutional units responsible for exercising various government functions;
- Local government: provision of services to local residents;
- Social security funds: Includes all social security units, regardless of the level of government (if not included in Central Government).

Table 5.1 summarises the **differences between GFS and IPSAS**. The statistical reporting unit is an institutional unit, defined as an entity that is *capable of owning goods and assets, of incurring liabilities and of engaging in economic activities and transactions with other units in their own right.*[27] Although the reporting entity is an institutional unit, the focus of GFS is on a group of entities, such as the GGS or a subsector. At the level of consolidated financial statements, the reporting entity represents an economic entity, defined as a group of entities that includes one or more controlled entities and may be extended to the Whole of Government.[28]

[27] ESA (2010); EC (2013) para 1.57 p. 12.

[28] Caruana et al. (2019), p. 153. See Chapter 11 of this book for further information on Whole of Government Reporting.

Issue	*IPSAS*	*GFS*
PERSPECTIVE	Micro	Macro
REPORTING BOUNDARY	Reporting entity ranges from an individual entity to the public sector as a whole	Institutional Unit / Institutional sectors GGS /public sector
INCOME PERSPECTIVE	Comprehensive	Other economic flows separated from revenues and expenses
USERS	Governments, international organisations, taxpayers, members of the legislature, creditors, suppliers, *media*, employees and the general public	European Community institutions, governments, analysts and decision-makers of fiscal policies and other social and economic agents
USERS' NEEDS	Information about the financial position, financial performance and cash flows of an entity, useful for decision making and evaluating about the allocation of resources	Aggregated data for economic analysis, decision making and policy making
GOALS	Management Analysis Financial reporting	Economic analysis Fiscal policies-related decision making
OBJECTIVES	Accountability Decision making	Analysis and evaluation Providing information for preparing, implementing and monitoring the economic policies of the European Monetary Union
RECOGNITION	Financial accounting accrual basis	Full accrual basis for all transactions (monetary and non-monetary), except for taxes and social contributions
MEASUREMENT	Historical cost – purchase price or production cost Market prices exceptionally admitted	Market prices as main reference

Table 5.1: GFS versus IPSAS
Source: Adapted from Caruana et al. (2019)

Harmonising GFS also involves numerous **challenges** that restrain from comparing data across countries in an economic and monetary union, such as the EU.[29] In Europe, the mission of the Eurostat is to contribute to methodological developments in public finance leading to more harmonised public finance statistics. In this respect, additional guidelines may be provided for regional arrangements such as "rulings" or "fiscal policy rules" on specific transactions, aggregates, or balancing items (e.g., MGDD of the EU). Existing guidelines on concepts and definitions may be clarified in order to provide the appropriate treatment of statistical issues raised in the EU regarding government finance statistics and to help to better understand the methodology applied to government finance data for the EDP.

Statistics also frequently face challenges to delineate units for sector classification and in many cases borderline cases need to be addressed to ensure full comparability across the EU. Furthermore, it should be transparent which units are included and which are not part of GFS. Accordingly, European GFS requires the publication of the list of the entities included in the GGS of each member state. It also recommends – on a voluntary basis – to publish a list for Public Corporations. This helps in understanding the delineation of the public sector and of the GGS as part of it.

Moreover, GFS harmonisation is challenged by recording economic events across countries. Whereas some countries apply the cash basis of accounting, others adopt the accrual basis of accounting. Although there is a trend towards accrual accounting,[30] there are various mixed accounting systems. This implies that, the starting point to calculate the government deficit is different, requiring different adjustments. Finally, the measurement of gross and net debt has to be comparable across all countries of an economic and

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[29] IMF (2014), p. 339.

[30] IFAC/CIPFA (2018, 2021).

monetary union, so that national definitions have to be adapted to international agreed definitions of debt[31].

5. The link between accruals accounting/IPSAS and statistics

Besides the IPASB's policy of alignment between private (IFRS) and Public sector (IPSAS), harmonisation in PSA also requires the consideration of the relationships and linkage between the different reporting systems and the main issues that can be addressed for an increased harmonization between them. As mentioned earlier in this chapter, macroeconomic statistics under ESA 2010 are based on the accounts of single entities and governments as basic data sources. The ESA 2010 contains recording rules which cover the whole economy, but also contains specific rules for recording government entities and certain transactions. The same ESA transaction categories are used in the compilation of GFS.

GFS and public sector accounts share some common terminology, such as 'assets and liabilities', and 'expense and revenue'. However, the definition may be different, as well as recognition and measurement criteria. For EU fiscal surveillance purposes, a set of reconciliation tables with data from underlying public sector accounts is provided in the biannual notification of EDP statistics, alongside related questionnaire tables and several supplementary tables.

Technically speaking, **a micro-macro linkage of underlying public sector accounts under the ESA is used to compile consistent and comparable statistics**. Transparent linking is obviously crucial for GFS quality as well as their comparability, but this is only possible with a consistent set of concepts. Standardised and aligned chart of accounts are needed where public sector accounts and financial reports show a lack of uniformity of the structures,

[31] See: Public Sector Debt Statistics : Guide for compilers and users 2011 (PSDSG-2011)

definitions and principles (for example, cash *versus* accrual basis) in public sector entities' accounts. Statisticians use data sources from these not harmonised public sector accounting systems and make appropriate adjustments to reach harmonised statistical measures. The reconciliation of inconsistencies in the information from primary accounting data is developed through linkage tables and charts of accounts, and bridge tables for the different classifications used (i.e. financial and non-financial transactions versus current and non-current transactions, type of activities, boundary of reporting entity).[32]

But the two sets of reporting, from accounting and statistics, remain different as shown in Table 5.1. In addition, the reconciliation of GFS to public sector accounting is challenged by non-harmonised public sector accounting sources (i.e., the lack of a consistent system).

The EPSAS project on harmonisation of accrual-based public sector accounting standards for all EU member states at all levels of government, proposes a new approach for the link between public sector accounting and statistics, using accrual-based IPSAS as the starting point for development and with consideration of public sector specificities, as well as IFRS, ESA and other relevant standards, such as national GAAP, in compiling public sector accounts.

Major issues being considered in EPSAS development have included:

- the definition of the public sector "reporting entity";
- the definition of the reporting boundary;
- the recognition criteria, and the various implementations of accrual accounting in the public sector;
- the notion of control, as a delineation criterion for the public *versus* private boundary and consolidation; and
- valuation differences with different criteria of measurement underpinning the systems.

[32] Dabbicco (2018).

Using harmonised accrual-based EPSAS in public sector accounting in the EU would improve the transparency of government finances and allow improvements in the reliability of GFS.

6. Conclusion

The increasing use of IFRS illustrates efforts toward standardisation of accounting over the last two decades. The extent to which this development results in harmonisation and improved comparability of financial statements across firms will depend on the actual implementation of the standards .and on the various factors of applicability in jurisdictions and entities

With this backdrop, investors and capital markets have demanded supplementary standardised non-financial (sustainability) information, in order to base their decisions on a holistic picture of companies.[33] This is a 'new frontier' of harmonisation of standards.

The public sector is following the reform path of the private sector in implementing accrual accounting practices into public sector accounting regimes. At the global level, harmonisation of public sector accounting should be realised by adopting the IPSAS, a well-developed set of accounting standards for use by public sector entities. Despite a number of drawbacks and deficiencies, IPSAS and IFRS are important references for reforming public sector accounting system in countries.

Standardisation and harmonisation are important steps for accounting comparability. Harmonisation can be pursued in different ways, covering both vertical and horizontal aspects. In this vein, it may be in the same sector or in different sector. (i.e. private and

[33] Also refer to Chapter 14 in this book.

public).[34] Harmonisation efforts should consider the diversity of situations at entity level, and find a good balance between the benefits of comparability and the costs of a 'one size fits all' approach (for example with respect to small and medium sized entities).

In Europe, the EPSAS are currently being developed in order to harmonise public sector accounting in EU member states and create a uniform accrual-based accounting system for use by all public entities in the EU. However, the EPSAS project focuses on financial reporting and – following IPSAS – does not take a position on the accounting basis for budgeting, which may result in the coexistence in some member states of two different accounting systems for budgeting and financial reporting.

Harmonisation between the public sector accounting and GFS is increasingly seen as an important step towards the harmonisation of public sector accounting approaches across EU countries, but the analysis above has highlighted their differences, besides their linkages and areas of convergence. IPSAS and EPSAS developments have taken into consideration that conceptual differences between public sector accounting and national accounts are likely to remain, and that this should be reconciled when translating the data between the two reporting systems.[35]

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This chapter benefited from work in the previous edition, and preserved the connection with it. Different perspectives in public sector accounting harmonisation: IFRS, GFS and IPSAS by Lisa SCHMIDTHUBER, Dennis HILGERS, Hannes HOFBAUER (2019).

[34] Caruana (2018), ESA (2010); EC (2013) para 1.57 p. 12.

[35] Caruana et al. (2019).

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Discussion topics

– Why is public sector accounting harmonisation important?

– Discuss how the member states of the European Union can achieve accounting harmonisation.

– Discuss the conceptual differences between IFRS and IPSAS.

– Discuss the relationship between accrual accounting and GFS.

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