

C

Comparative Public Sector Accounting Standards



Natalia Aversano¹, Johan Christiaens² and Tine Van Thielen²

¹Department of Mathematics, Computer Science and Economics, University of Basilicata, Potenza, Italy

²Ghent University, Ghent, Belgium

Synonyms

[European countries' comparative study](#); [IPSAS 17 comparative analysis](#)

Definition

Comparative public sector accounting is a research area in which public sector accounting systems are investigated and compared among different countries in order to detect, with quantitative and qualitative methods, similarities and/or differences and the relative reasons.

Introduction

European public sector accounting systems are affected by changes converged toward the search for a uniform accounting behavior in order to homogenize – both at national and international

levels – the language of the financial statements of public entities (Adam et al. 2011). The convergence process in accounting practices aims to satisfy the information needs of different kinds of stakeholders as well as making financial statements comparable, transparent, and useful (Benito et al. 2007). An important element in providing useful information is the accounting treatment and reporting of “heritage assets” (HA).

Contrary to businesslike assets, heritage assets (e.g., historical buildings, collections, monuments, archaeological sites, landscapes, etc.) are special and unique, not only for societal reasons but also to be preserved for the following generations. The users of governmental financial reporting, particularly the ruling politicians who set our their policies in the area in which they are authorized, are socially, culturally, and emotionally interested in these assets rather than in their functional use only.

However, studies have shown how financial reports often result in a gap between what is reported in the governmental financial statements and what information is needed by the users (Liguori et al. 2012). In order to streamline the different accounting practices in governments, the IPSASB has been established to harmonize the governmental accounting standards. Established in 2000, the IPSASB remains the only worldwide standard setter for governments and has developed 40 accrual accounting standards based on the IFRS for business enterprises. For the financial reporting of property, plant, and equipment that

includes heritage assets, the IPSAS 17 was issued in 2007. However, even if in April 2017 IPSASB published a consultation paper (CP) on financial reporting for heritage in the public sector, the question whether this IPSAS 17 results in financial reporting that meets the heritage assets' user needs has not sufficiently been answered yet.

The concept of cultural and artistic heritage has been defined by some supranational organizations and standard setters, resulting in multiple definitions. Heritage assets can be conceptualized with the definition of IPSAS 17 "property, plant, and equipment." IPSAS 17 states that *some assets are described as heritage assets because of their cultural, environmental or historical significance* while also providing some specific examples and characteristics. The uniqueness of heritage assets is the difficulty to identify a book value that reflects the cultural, environmental, educational, and historical value of these assets (Carnegie and Wolnizer 1995). Their value may increase over time (even if their physical condition deteriorates); therefore it is difficult to estimate the useful life that may be indefinite (Aversano and Christiaens 2014). These issues have created an important debate on the best way of representing heritage assets in a financial statement. In concern of the accounting treatment, scholars suggested a *holistic approach* for heritage assets; more specifically, the status of the capital goods, assigned by the authorized government, should determine its accounting treatment. If the capital goods have the status of businesslike assets, the assets should be included on the balance sheet. If they have a societal status (such as merit or collective public goods), these goods should not be included on the balance sheet, but should be disclosed and documented in the off-balance sheet.

Regarding the value to indicate in the balance sheet, international accounting standards look favorably upon a valuation at historical cost or fair value. However, in many cases heritage assets cannot be reliably valued in financial terms. Some authors even claim that giving a value to heritage assets can have profound negative consequences on the accountability and decision-making process since the decisions are based on wrong or incomplete values (Aversano and Christiaens

2014). Therefore, it has been suggested that the information system should provide more descriptive information, e.g., the nature and characteristics of the heritage assets owned, their physical condition, etc. (Carnegie and Wolnizer 1995). These studies reveal the controversial subject of the financial reporting on heritage assets, and thus one can question the appropriateness of the accounting standard IPSAS 17 regulating the financial reporting of heritage assets.

Apart from studies that focus on different characteristics and functions of heritage assets, there are some publications dealing with the accounting treatment of heritage assets. A few studies go further and examine certain users being stakeholders and their expectations regarding governmental financial reporting. However, there is lack of research in which accounting standards are tested with respect to user needs, specifically for heritage accounting prescriptions included in the IPSAS 17. It should be pointed out that the presence of that specific standard does not automatically lead to an effective and successful use by policy makers.

Users and Their Information Needs

Within this wide range of user groups (e.g., citizens, financial institutions), a great majority of authors consider politicians to be the most important users group (Liguori et al. 2012).

Politicians are partly external users, because they have no influence on producing financial statements and partly internal because they have an influence on the management that is reported in the financial statements. The ruling politicians (e.g., mayor and aldermen in a local government) represent one of the most concerned users of governmental financial reporting. They use this statement mainly for communicating to the citizens/voters how the monetary resources provided by them have been used (public accountability reasons) as well as any future decisions about the activities (decision-making reasons).

Politicians, to whom citizens have delegated the power to manage the public assets, have a duty to respond to the results of their activities

demonstrating the “value” generated (or possibly destroyed) from the activities carried out (Carnegie and Wolnizer 1995).

Concerning the information needs, a core set of information needs common to the majority of stakeholders can be identified, and, in addition to these common information needs, the management of heritage assets necessitates additional disclosures related to their specific features. In particular, the users are interested also in descriptive information, such as nonfinancial information relating to the objectives of entities holding the assets, the nature and characteristics of the heritage assets owned, their physical condition and maintenance, and measures of performance as the number of visitors.

Comparative Public Sector Accounting

The adequacy and usefulness of IPSAS 17 prescriptions in relation to the reporting of heritage assets to the user needs can be analyzed with a comparative analysis using the Italian and Flemish responsible politicians as a reference.

Flanders is a part of Belgium, and Italy and Belgium are two European countries that can be considered a prototype of the countries with Roman roots rich of history, art, and culture. The importance of heritage assets in both countries is also reflected in their involvement in related policies at the European level. Also, both countries are early birds when ratifications were instituted (e.g., Convention on the Protection of the Underwater Cultural Heritage, Convention for the Safeguarding of the Intangible Cultural Heritage), and they have common initiatives such as Isola Comacina and the Bibliotheca Corviniana Collection. This demonstrates their mutual interest in the topic.

Finally, they also have similar accounting systems, and there is a degree of homogeneity in the way they present financial statements (Benito et al. 2007). These similarities do not imply that both countries are the same. Undoubtedly, there are many organizational and institutional differences, but they are fairly comparable.

IPSAS 17 should satisfy the particular information needs of users and should provide information useful for decision-making and public accountability. Because IPSAS is often used as a benchmark by European governments, it is necessary to examine whether the disclosure requirements of IPSAS 17 are useful, which is questioned by some previous studies in concern of heritage assets.

Since Italy and Flanders have many common characteristics and because IPSAS are supposed to generate the same answer for the same user needs, a comparative analysis can be tested if IPSAS 17 accomplishes Flemish user needs of mayors and councilors regarding heritage assets.

Therefore, a survey on 293 Italian local governments and 308 Flemish local governments was carried out by sending a questionnaire to the mayors and relevant aldermen (i.e. aldermen of culture and heritage who are appointed by the overall council). The analysis focuses on local governments because they have an important role in the management and delivery of public services. All Italian and Flemish municipalities have a mayor (elected directly by the population), a cabinet, a city council, and a professional bureaucracy.

Data were collected through a questionnaire sent to the Italian and Flemish mayors and aldermen. The list of the information needs (items) from the point of view of the mayor and aldermen was created based on various user need research publications and the requirements of IPSAS 17. The questionnaire contained different questions, asking the level of importance of specific issues of reporting of heritage assets as well as the perception to what extent their information needs were met.

The individual averages of all the items are compared to understand which items significantly contribute to the usefulness for politicians. The items with an average importance of at least 3.5 were considered useful because these values express the highest degree of importance (Aversano and Christiaens 2014). Focusing on the items of at least 3.5, the percentages of satisfaction and dissatisfaction of the user needs by IPSAS 17 were calculated and compared. The

percentage of satisfaction stands for the number of items required by IPSAS 17 in relation to the total items. The ratio of items not required by IPSAS 17 highlights the percentage of dissatisfaction.

The Percentage of Satisfaction of the User Needs by IPSAS 17

After listing the specific information about heritage assets (items) according to the degree of importance by the Italian municipalities, the items with an average importance of at least 3.5 are the first 21 items shown in following Table. Next to these results, the average importance of the items given by the Flemish councils is listed:

No	Items	IPSAS 17	Average importance Italian councils	Average importance Flemish councils
1	Cost of the preservation, conservation, restoration, maintenance of the Has	–	4.6	4.2
2	Identification of the funding sources for acquisitions (e.g., government grants, cash donations, donated assets, and utilization of existing cash resources)	–	4.4	4.1
3	Information about allocation and uses of financial resources	–	4.3	3.9
4	Description of the heritage assets	–	4.2	3.8
5	Policies for the preservation, conservation, restoration, and maintenance of the heritage assets	–	4.2	3.8
6	Custody costs	–	4.2	4.0
7	Physical condition of the heritage assets	–	4.1	3.5
8	Comparison between the current results and those of the previous years	–	4.0	4.0
9	Performance indicators	–	4.0	3.6
10	Budget vs actual information	–	4.0	4.2
11	A 5-year financial summary of activity (including acquisitions and disposals of Has)	–	4.0	3.7
12	Financial value	X	3.9	3.3
13	Overview of entity operations (acquisitions through entity combinations, contract commitment for the acquisition of the heritage assets)	X	3.9	3.9
14	Useful lives of assets	X	3.8	3.0
15	The estimated costs of dismantling, removing, or restoring items of HAs	X	3.7	4.3
16	Restrictions on the heritage assets	X	3.7	3.7
17	Measurement based on financial value	X	3.6	3.3
18	Event after financial statement date	–	3.6	3.9
19	Depreciation method used	X	3.6	3.0
20	The temporarily idle heritage assets	X	3.5	4.0
21	Date of the revaluation	X	3.5	3.3
22	Depreciation value	X	3.4	3.0
23	Revaluation method used	X	3.4	3.0
24	Changes in valuation criteria	X	3.3	3.3
25	The value of the heritage asset retired from active use and held for disposal	X	3.3	3.9

Class	No of items		Percentage of satisfaction		Percentage of dissatisfaction	
	Italy	Flanders	Italy	Flanders	Italy	Flanders
Items preferred by responders and requested by IPSAS 17	9	5	42.9%	29.4%		
Items preferred by responders and not requested by IPSAS 17	12	12			57.1%	70.6%
Total	21	17	42.9%	29.4%	57.1%	70.6%

The Table reveals how both the Italian and the Flemish councils prefer many items which are not required by IPSAS 17. In addition, the Flemish results are similar to the Italian ones and can be regarded as a confirmation despite certain cultural and administrative differences.

Based on the outcomes, the following table summarizes the results regarding the percentage of (dis)satisfaction for Italy and Flanders divided. The empirical results assert that the user needs information of governmental financial statements are satisfied by IPSAS 17 less in Flanders than Italy; in fact the percentage of satisfaction is 42.9% for Italy and 29.4% for Flanders. Consequently, the IPSAS percentage of dissatisfaction is 57.1% for Italy and 70.6% for Flanders. This means that the majority of the items considered important for the Italian and Flemish politicians are not required by IPSAS 17. In other words, the adoption of IPSAS 17 would not satisfy an important number of user needs.

Conclusion

In concern of the usefulness and ease of use of IPSASs for governments, the comparative analysis highlights that IPSAS 17 does not sufficiently correspond to the needs of the politicians. Moreover, IPSAS 17 responds to the user needs about heritage assets for a less important part of Italian and Flemish local governments. Hence, if IPSAS 17 is used as a benchmark when changing the financial reports, this will not be in line with the needs of the main user group, e.g., politicians, regarding heritage assets.

The findings also highlight how the politicians are interested in finding adequate information

about heritage assets in the governmental financial reports. These information needs are oriented toward achieving and maintaining the popular consensus, interpreting the needs of the community, and trying to satisfy them.

Even if the Flemish politicians' evaluation is less enthusiastic, the findings confirm that Italian and Flemish politicians present similar results both in terms of information requested and reasons for these information needs. In fact, both Italian and Flemish politicians are mainly interested in the cost of preserving heritage assets, identifying the funding sources to buy them as well as information about the allocation and uses of financial resources. The reasons why financial reports are used in relation to heritage assets is for financial and public accountability reasons. This can be explained by the fact that the aldermen are not the direct supervisors of these public organizations.

Moreover, these information needs often clash with the accounting problems of heritage assets. In relation to this gap, the analysis confirms that narrative information is appreciated by politicians, such as the identification of the funding sources for acquisitions, a description of heritage assets or the policies for preservation conservation restoration, and maintenance of the heritage assets. However, also numeric accounting information is considered interesting, such as the costs of the preservation, the allocation and uses of financial resources, or the custody costs. Remarkably, performance information is considered useful, but not that significant as some other forms of narrative or disclosure information. The case on heritage assets represents an extreme case of accounting difficulty. Typical for heritage assets, the rules and behaviors, with particular reference

to the evaluation aspects, do not comply with the features of uniqueness and non-repeatability; therefore, the inclusion of more narrative information is considered useful (Aversano and Christiaens 2014). A careful consideration of which information is worth the effort in concern of heritage assets is shown to be necessary (Liguori et al. 2012). When looking at an explanation why IPSAS 17 lacks a number of regulations and prescriptions that are expected by the users, one could argue that their businesslike accounting background is the main reason. The IPSAS Board mainly consists of accountants used to business accounting, and they are not familiar with politicians' needs not with heritage assets being a specific governmental issue.

Up to now, the IPSAS 17 has been neither amended nor has a new standard been issued. If municipalities voluntarily contribute to the IPSAS 17 regarding heritage assets, they will be obliged to collect useless information relating to heritage assets, which is not without costs. However, the implementation of the IPSAS 17 in the Italian and Flemish governments should take into consideration the more general problem that IPSASs are based on accrual accounting, while in the two countries analyzed, the cash-based budgetary accounting system still has an important role.

Cross-References

- ▶ [Accountability](#)
- ▶ [Comparative Studies](#)
- ▶ [Evolution of Government Accounting](#)
- ▶ [Harmonization](#)
- ▶ [Heritage Assets](#)
- ▶ [International Public Sector Accounting Standards \(IPSAS\)](#)
- ▶ [Public Sector Accounting](#)

References

- Adam B, Mussari R, Jones R (2011) The diversity of accrual policies in local government financial reporting: an examination of infrastructure, art and heritage assets in Germany, Italy and the UK. *Financ Accountability Manag* 27(2):107–133
- Aversano N, Christiaens J (2014) Governmental financial reporting of heritage assets from a user needs perspective. *Financ Accountability Manag* 30(2):150–175
- Benito B, Brusca I, Montesinos V (2007) The harmonization of government financial information systems: the role of IPSASs. *Int Rev Adm Sci* 3(2):293–317
- Carnegie GD, Wolnizer PW (1995) The financial value of cultural, heritage and scientific collections: an accounting fiction. *Aust Account Rev* 5(1):31–47
- Liguori M, Sicilia M, Steccolini I (2012) Some like it non-financial... politicians' and managers' views on the importance of performance information. *Public Manag Rev* 14(7):903–922