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Consolidated financial statements – a new challenge for the public sector administration

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Abstract

Purpose – Considering the worldwide importance granted to this topic, the purpose of this paper is to analyze, through a detailed pyramidal analysis, the intention of International Public Sector Accounting Standards (IPSAS) to respond better to the public sector characteristics.

Design/methodology/approach – The research methodology combines content analysis with the comparative and interpretive method, and also some statistical methods such as residual analysis, association coefficients, that come to bring added value to the public sector literature.

Findings – The main findings of the research concern the appreciation of consolidation approach in the public sphere under a dual aspect. The first one is theoretical, by presenting the evolution of the concept in literature, and the second one is empirical, by analyzing how IPSAS correlates with International Financial Reporting Standards (IFRS), how the Exposure Draft 49 (ED 49) respondents perceive its content and implications, along with the extent to which the publication of IPSAS 35 took into account the exposure draft stage. In the authors' opinion, the study manages to capture, theoretically and empirically, the evolution and the stage of consolidation in the public sector. The main results of the study lie in the combination in the empirical sphere of the content analysis with the mathematical and statistical methods, in order to assess the correlation IPSAS/IFRS, the responses to ED 49, but also the influences on the final version of IPSAS 35.

Research limitations/implications – The main limitations of the study are: the diversity of the received responses to ED and the number of comment letters submitted by the respondents.

Practical implications – The study addresses to a broad range of users: theoreticians, practitioners or professional bodies/legislators who will have a basis for analyzing what the acceptance and inclusion of IPSAS 35 in the national accounting rules would mean.

Social implications – The paper offers the possibility to understand the evolution of the concept of public sector consolidation.

Originality/value – The first originality aspect is revealed by the theoretical documentation and the second one lies in the combination of the empirical sphere of the content analysis with the mathematical and statistical methods.

Keywords Public sector, Consolidated financial statements, IPSAS, Longitudinal quantitative-qualitative analysis

Paper type Research paper

1. Introduction

The increased organizational complexity, its myriad of objectives and the overriding requirement for public accountability has multiple implications. Reported to the degree of complexity, the traditional public sector annual reports show only a partial picture of their economic and financial activities (Tagesson, 2009), resulting in the threat of true and fair picture of the public sphere (Bundred, 2006). Being in the middle of these changes, most internal and external users of financial information cannot substantiate their decisions based on relevant and reliable information regarding the financial position, financial performance and cash flow of public entities. Some researchers sustain that the overcoming

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of these obstacles would imply two major accounting developments, parts of new public management and new public financial management (Hood, 1995): the accrual accounting (Ter Bogt and Van Helden, 2000; Ryan *et al.*, 2007) and the consolidation of accruals at a whole of government level (Grossi, 2009; Wise, 2010).

Placing the accrual concept in the public sphere creates multiple views. Some governments still consider the options for cash-based accounting as being more suitable for the governmental type of activities that are sometimes extremely heterogeneous (Grossi and Soverchia, 2011). Barton (1999) doubts the introduction of accrual accounting in the public sector because of the significant differences between the two sectors, such as the objectives and resource allocation systems. Benito *et al.* (2007) emphasize the necessity of taking into consideration the peculiarities of the public sector, although Chan (2003) is wondering about why governments imitate the private sector practices without a critical sense. Therefore, in the previous literature, we can notice that researchers are quite apprehensive on the application of accrual accounting and the imitation of private sector practices.

However, the benefit of accrual accounting in the public sphere is heavily supported by the possibility of sustaining much better principles like efficiency, effectiveness, transparency and accountability (Lapsley and Oldfield, 2001). Public sector entities can effectively and efficiently achieve accountability by disclosing relevant and useful information to all interested parties for preventing corruption and wasting of public resources but also for building a trustful relationship between citizens and their governments (Lourenço *et al.*, 2010). Transparency and accountability stimulate a “culture of openness” (Ștefănescu *et al.*, 2016) within organizations (Hood, 2006). These are key elements for enhancing good governance in the public sector and for creating a positive political and social environment (Abu Bakar and Saleh, 2015). The European Commission (2013) fully supports the use of accrual-based accounting by public sector organizations, as it increases the accountability and transparency of their financial reports and provides better information for planning and management purposes.

In this context, there are some problems with implementing and using consolidated financial statements (CFS) in the public sector. First of all, there is the difficulty of comparing CFS across different levels of government (Heald and Georgiou, 2000; Robb and Newberry, 2007; Grossi and Pepe, 2009). Then, the way in which are defined the boundaries of consolidation based on control concept and/or based on the presence of financial accountability (Grossi and Soverchia, 2011). All the debates about the strong points and the weak points of CFS have recently increased the importance of CFS both for the practitioner and the academic debates (IFAC, 2000, 2005, 2013; Walker, 2011). Therefore, we sustain that accrual CFS represent a useful tool for a clear picture of the current economic status and government, as a whole (Wise, 2010; Grossi and Gardini, 2012). They are a real support in making decisions and in ensuring the public accountability (International Public Sector Accounting Board, 2014).

CFS have come to represent an important topic for the International Public Sector Accounting Standards Board (hereinafter, IPSASB), as well. In January 2015, the IPSASB published a series of five standards on accounting for interest in other entities, having as reference the package of five standards on consolidation issued by the International Accounting Standards Board (hereinafter IASB) in May 2011. The consolidation standards published by the IPSASB (IPSAS 34-38) comprise amendments to the IASB standards, meant to tailor them for the public sector. This approach is in line with the IPSASB objective to maintain the alignment of its standards (International Public Sector Accounting Standards, hereinafter IPSAS) with the International Financial Reporting Standards (hereinafter IFRS). In the meantime, the particularities of public sector are also considered, in order to ensure that public sector arrangements involving interests in other entities are appropriately accounted for.

In this context, our first research question is:

RQ1. Is there a detectable difference between the CFS public and private international standards evolution?

Our study focuses on the public sector consolidation approach recognized in the literature as a necessary step in the evolution of accounting and reporting system (Wise, 2010; Grossi and Soverchia, 2011). For the investigation, IPSAS 35 was selected, being considered the most important and the most used standard in practice. The study aims to the public sector regulation concerning the consolidation in a longitudinal manner, based on the IPSASB position, supplemented by the stakeholders' opinion, stated through Comment letters for the Exposure Draft 49 (hereinafter ED 49).

To achieve this goal, the study shows a high degree of complexity, succeeding to submit/present the issue of consolidation in the public sector through a detailed pyramidal analysis. The starting point, the documental analysis of academic literature (books and articles) and practitioners' materials (rules, regulations, standards) has allowed us to define the state of the consolidation in the public sector.

Afterwards, based on the previous knowledge, the study takes into consideration the whole period of issuing IPSAS 35 "CFS" (hereinafter IPSAS 35) with its steps (2011-2015), the most important regulation in consolidation field. The bases are the comparisons of IPSAS 6 (2006) "consolidated and separate financial statements" (hereinafter IPSAS 6)/IAS 27 (2008) "consolidated and separate financial statements," of IPSAS 6/IFRS 10 "CFS" (hereinafter IFRS 10) (issued in May 2011), and of IPSAS 35/IFRS 10 analyses that reveal if and how the public sector adopted the existing private references.

Subsequently, throughout the content analysis of ED 49 "CFS" and the responses formulated, the elements subject to change for increasing the adaptability to the characteristics of the public sector are determined. The respondents were considered representative stakeholders. This idea is also sustained by Mack and Ryan (2006) who believe that the connection with stakeholders is mandatory in the case of the public sector. The literature underlines that the respondents' opinions are significant due to the increasing relevance of the international IPSASB scenario and its standards issuance process (Bisogno *et al.*, 2015). Moreover, this analysis can offer us a detailed understanding of the preferences of different categories of stakeholders related to some aspects of high sensitivity.

The top of the analysis consists in determining the degree in which IPSAS 35 is based on the previous stage. This result brings new inputs in the specialized literature, reflecting on how the IPSASB, i.e. the IPSAS' issuer, succeeds in tailoring the public sector standards according to the public sector characteristics and the informational needs of its stakeholders.

Our second research question is:

RQ2. Are the particularities of public sector in the view of respondents to ED 49, significant enough to support the issue of IPSAS 35?

This study makes several contributions to the literature. In contrast to other studies, the subject of public sector consolidation regulation is presented in a longitudinal manner. It starts with the public-private parallel, and it is adjusted afterwards by the public sector stakeholders' feedback. All this has added value to the study, placing the consolidation topic in the middle of different perspectives: public, private, multiple stakeholders (professional organizations, governmental representatives and academic environment).

Through a positivist research, the study aims to achieve a quantitative and qualitative analysis of the evolution and content of the concept of public sector CFS in the light of the relevant international regulations (IAS 27, IFRS 10, IPSAS 6, ED 49 and IPSAS 35). The novelty of the theme is demonstrated by the research subject, namely the public sector

consolidation, but also by the extremely recent publication of the documenting funds (ED 49/2013-2014; IPSAS 35/2015). The originality of the study is given by at least the following aspects. The first one is revealed by the theoretical documentation requested by an actual and crucial research topic, i.e. the public sector CFS, in a context in which the improvement and modernization of the public accounting system has received international support (Grossi and Soverchia, 2011). The second reason lies in the combination of the empirical sphere of the content analysis with the mathematical and statistical methods, in order to assess the IPSAS/IFRS correlation, the responses to ED 49, but also the influences on the final version of IPSAS 35. In brief, using the longitudinal approach and the consolidation topic, we succeed in exemplifying the process of individualization of the public sector by the private one.

The main findings of our research concern the assessment of the way in which the issue of consolidation is approached in the public sphere under a dual aspect: theoretical and empirical. The theoretical aspect refers to the analysis of the concept evolution in literature. The empirical aspect researches how IPSAS correlates with the IFRS, how the ED 49 respondents perceive its content and implications, along with the extent to which the publication of IPSAS 35 took into account the exposure draft stage.

The research methodology combines content analysis with the comparative and interpretive method, and also some statistical methods such as residual analysis, association coefficients, which come to bring added value to the public sector literature.

The study addresses to a broad range of users: theoreticians who wish to understand the evolution of the concept of public sector consolidation, practitioners who have a chance to familiarize themselves with the implications of the notion analyzed through the eyes of specialists (ED respondents) and with the final form of IPSAS 35, or professional bodies/legislators who will have a concrete and precise basis for analyzing what the acceptance and inclusion of the provisions of IPSAS 35 in the national accounting rules would mean.

The remainder of the paper is structured as follows: the first section achieves a theoretical approach to the issue of consolidation in the public sector; the second section looks at the empirical deepening of correlations analyzed between IPSAS and IFRS in different stages, associated with respondents' opinions on changes perspective. The third section captures the results of the conducted analysis, followed by the final interpretation synthesized in the debate and conclusion part.

2. CFS – public sector-specific approach

The role of the CFS in the sphere of public institutions

The CFS in the public sector have gradually become a matter of interest, of current debate both for academics and practitioners. Considering that these practices are highly developed in the private sector, one can notice (Christiaens, 2002) that private sector methods and practices were taken as a model and implemented in the public sector without a detailed analysis of the objectives and characteristics of the public sector. In this context, Johnsen and Lapsley (2005) demonstrated the need to introduce something new to the public sector accounting (“reinventing public sector accounting”) by bringing into use innovative approaches that allow us to go beyond an imitation of the private sector. Thus, the preparation, presentation and use of consolidated financial reports can meet the needs of responsibility, both internal and external. At the same time, the consolidation of public sector annual accounts represents a remarkable feedback in the decision-making process concerning public policies (Chow *et al.*, 2007; Benito *et al.*, 2007).

While the reasons for the CFS implementation are different (macro-economic and micro-economic perspectives, harmonization of financial accounting with financial statistics), the topic is gaining importance, representing the cornerstone of modern financial management (Grossi *et al.*, 2013) on condition it is strictly customized to the specifics of public institutions.

The preparation of public sector CFS provides a summary of the financial performance of the government as a whole. Notably, CFS are commonly perceived as relevant to improve public accountability and fiscal transparency, though many accountants would not consider a consolidated entity to cover the entire government or public sector (Dabbicco, 2015). At this level, in order to reveal the complete picture of the entire government economy, the accounting data is supplemented by fiscal and financial data provided by the Government Finance Statistics (hereinafter GFS) or by the European System of Accounts (hereinafter ESA) for EU governments.

A possible harmonization between CFS and GFS is debated in the literature (Ryan *et al.*, 2007) and also in the IPSASB agenda. GFS reports have different uses than CFS reports, as the first ones have a focus on government policy and evaluating the impact of government on economy. There are significant differences concerning the reporting entity (Newberry and Pont-Newby, 2009), such as: financial information, assets, liabilities, revenues and expenses of governments, information about cash flows. In this manner, the opportunity of performance indicators accompanying these consolidated reports (Walker, 2011) would give stakeholders a more complete and informative picture of the performance of governments in providing services.

In this framework, the promoting of accrual basis reporting (Carlin, 2005) provides a real picture of the position and performance of the whole public sector, therefore increasing transparency and accountability. These goals demand a reconsideration of the differences between countries regarding their budgeting and accounting systems, which might cause difficulties (Manes-Rossi *et al.*, 2014). At European level, the accrual basis is widely used in the financial accounting system, whereas budgeting/statistical accounting is mostly based on cash principles. Consequently, the fiscal image of the EU member states has been affected by unreliable and misreported ESA data derived from different accounting systems. In this so far miscellaneous mix of budgeting/statistical and accounting systems, there is a real need for a harmonized reporting, accruals accounting being the one that supports both the quality of fiscal data and the reliability and transparency of the financial information (Nistor and Ștefănescu, 2016).

The issue of CFS under international accounting regulations

In May 2000, the IPSASB issued the IPSAS 6, enhancing the quality, consistency and transparency of financial reporting in the public sector worldwide. Although IPSAS 6 was issued later than the standard for the private sector (International Accounting Standard 27, hereinafter IAS 27), the IPSASB tried to be in line, by a constant review process, every time changes occurred in IAS 27. The most meaningful review of IPSAS 6 was in December 2006. Taking into consideration the fact that the IPSASB is striving for a consistent approach between IFRS and IPSAS, the IFRS 10 publication determined a new revision of the IPSAS 6 (2006). To synthesize all these aspects, an analysis of the evolution of the relation between public and private consolidated international accounting regulations was done in Table I.

In the public sphere, IPSAS 6 aims at establishing the provisions for the preparation and presentation of CFS and accounting of controlled entities, jointly controlled entities and

Date	Public	Comparison stages	Private	Date
December 2006	IPSAS 6, "Consolidated and Separate Financial Statement"	Stage 1	IAS 27, "Consolidated and Separate Financial Statements"	January 2008
		Stage 2		
January 2015	IPSAS 35, "Consolidated Financial Statements"	Stage 3	IFRS 10, "Consolidated Financial Statements"	May 2011

Table I.
Stages of comparison

associations in separate financial statements of the controlling entity, venturer or investor. In the private sphere, IFRS 10 contains some issues that are not included in IPSAS 6. This aspect generates the need to issue a new accounting standard for the public sector regarding the CFS, as well as a review of the existing one.

To achieve improvements to IPSAS 6 from the public sector point of view, ED 49 was issued, also addressing an invitation to comment on any proposed aspect. Comment letters are the most common ways to influence the extensive process of developing the accounting standards. Therefore, the literature on the analysis of comment letters related to the projects of development or improvement of accounting standards applicable to the private sector is quite large. The same thing cannot be told about the literature on the analysis of comment letters related to public sector projects. Among the researchers who have contributed in a relevant manner to the development of literature on analyzing comment letters and have, at the same time, brought more value, we can mention: Holder *et al.* (2013); Jorissen *et al.* (2013); Quagli and Paoloni (2012); Chatham *et al.* (2010).

The purpose of all these actions was represented by the issue of IPSAS 35. IPSAS 35 replaces the IPSAS 6 requirements regarding CFS. The amendments to it were influenced by the standards of the private sector, but also by the specificity of the public sector.

3. Research background

3.1 Arguments for selected methods

The international literature provides us a real support to find arguments for the selected methods used in the paper. The research design is based on analysis tools that help us create an overall picture of the relationship between public and private consolidation accounting standards as well as about the feedback of specialists on the changes proposed by IPSASB regarding the consolidation issue.

The paper adds value to the public sector literature concerning the computation of similarity/dissimilarity between accounting standards, using the correlation/association coefficients (Pina and Torres, 2003; Benito *et al.*, 2007). In a context in which IPSAS are sharply criticized in the literature first of all because they have been inspired from private IAS/IFRS, the paper's aim is to research the manner in which, the alignment of CFS IPSAS with IFRS has been maintained after the IFRS 10 release.

The settings of accounting standards are considered more as an influence of the political and economic process, rather than a technical process (Holder *et al.*, 2013). To respond to political and economic informational needs, the individual stakeholders' involvement in the standard setting process by ED comments is imperative. For this reason, participation rates and characteristics of comment letters become empirical questions (Holder *et al.*, 2013). Following this approach, a segmentation of respondents in four categories was done: professional associations, government organizations, academic representatives and accounting/audit firms. By this, the study enriches the group of recent studies that have approached the respondents' options (agree, disagree or neutral) and also the supporting arguments submitted by comment letter writers (Chatham *et al.*, 2010; Yen *et al.*, 2007; Bisogno *et al.*, 2015).

The content analysis of comment letters seems to be the most used method of the studies, taking a quantitative or qualitative approach (Georgiou and Roberts, 2004; Holder *et al.*, 2013). In line with other studies, we have appealed to this analysis and, we have also used statistical tests.

We have chosen content analysis as a methodology for our studies because it is considered a method of codifying text into various categories. It can also be used where a considerable amount of qualitative information needs to be analyzed (Linsley and Shrives, 2006). This analysis helps us identify and create all the databases for our studies. As Holder *et al.* (2013) state, content analysis enables us to examine the similarities in

attitudes and intensity in letter writing methods, and it is the most suitable approach applicable in this type of studies. According to Milne and Adler (1999), the content analysis includes two steps. The first one is to frame the definition of categorization, and the second one is to set a formulation about “what” and “how” the text is coded, measured and classified. If these two steps can be clearly framed and consistently applied in the content analysis procedure, a more reliable conclusion can be inferred from the analysis, which is also sustained by Holder *et al.* (2013). Therefore, content analysis defined by Weber (1990) as a “research method that uses a set of procedures to make valid inferences from a text,” can be considered a research method widely spread in the literature (Bisogno *et al.*, 2015; Holder *et al.*, 2013; Chatham *et al.*, 2010; Yen *et al.*, 2007) in order to emphasize the influence of comment letters in the standard setting process.

The content analysis was used while analyzing the standards subject to the comparisons developed in the paper. The standards were analyzed, and the compared elements were coded using a binary coding system of the analyzed elements.

For the study regarding the analysis of opinions on ED 49, we have developed our coding system after reading the ED 49, the Specific Matters for Comment, the comment letters. First, consistent with prior research on comment letters (Bisogno *et al.*, 2015; Holder *et al.*, 2013; Yen *et al.*, 2007) we coded the letters according to agreement with each Specific Matter for Comment (SMC), affiliation of respondents, some independent variables, such as: accounting system used, the preparation or not of CFS, the geographical affiliation of respondents, the origin of the legal framework and stage of economic development.

In addition, in order to get a relevant picture of the answers given by specialists to the amendments of standards on the issue of consolidation, we have also resorted to residual analysis. It is therefore emphasized the difference between the expected distribution of the responses and the existing one. As such, a residual value beyond the one associated with an established confidence level indicates an existing relationship between the two variables.

For a detailed analysis of the responses, we have considered some independent variables, which help us to get information about the existence/non-existence of a connection between these variables and the answers given by specialists. The independent variables refer to the accounting system used: cash vs accrual accounting, to the preparation or non-preparation of CFS, to the regional-continental affiliation of respondents (European vs non-European), to a range of national indicators: (*d1*) the origin of the legal framework (English, others – like French, German or Scandinavian) and (*d2*) the stage of economic development, using the typology proposed by the Global Competitiveness Report (innovation-driven economy and others, such as factor-driven, efficiency driven). The motivation for choosing such independent variables was born from a literature review on the issue of comment letters.

In studies carried out in the public or the private sector, a number of researchers (Jorissen *et al.*, 2013) have focused on several independent variables (*ex ante* legal protection, the rule of law, distance with English language, familiarity with private standard setting, conservatism, professionalism, secrecy, adoption status) that have brought information about the impact of these variables on respondents’ participation in the entire process of development of standards. Therefore, the differences among countries theorized by international accounting literature (Nobes, 1983) are also confirmed by the analysis of Quagli and Paoloni (2012). According to their analysis, the accounting culture and the economic environment seem very relevant in differentiating the answers with German-speaking and Latin countries, on the one hand, and the Anglo-Nordic, on the other hand. Likewise, there are also significant differences between preparers and opinions users regarding the IFRS for SMEs. All these differences regarding the answers offered by different types of respondents, discovered by Quagli and Paoloni (2012), highlight that particular characteristics (geographical affiliation, the accounting system used, the classes of constituents parties) can influence the opinions of respondents. Another study

(Holder *et al.*, 2013) examined how responses to IASB ED1 are affected by whether or not the use of IFRS is mandated or permitted by the respondent's country. Also, Holder *et al.* (2013), in line with other studies (Chatham *et al.*, 2010), proved that European countries provided the majority of responses to IASB ED1 while developing countries provided relatively few letters.

At the same time, the impact the reforms had on public sector lately (Grossi, 2009) opened our interest toward an empirical research, which gives us information about a possible relationship/association between these reforms and the answers provided by respondents. Therefore, the transition to accrual-based accounting (Guthrie, 1998), the central reform of the accounting system in the public sector, as well as the consequence of this change, namely, the introduction and presentation of a set of CFS in the public sector, can have a significant influence on the answers provided by specialists, an issue that we had in our mind in the research below. In addition, a very much examined point in the studies on the comment letter analysis is the geographical affiliation (Chatham *et al.*, 2010; Holder *et al.*, 2013). This is an aspect that we have also highlighted in our study, along with two other independent variables (the legal origin and the economic development stage) that we considered relevant and which can bring value to our study.

More specifically, we have tried to find out if there is a strong link between the arguments and the answers submitted and the categories to which the respondents belong. We consider that some aspects (those mentioned in the independent variables) specific to each country have a significant influence on the comments submitted, aspects tested with some statistical tests.

In order to validate our analysis and results, we applied the Kruskal-Wallis test of robustness. The Kruskal-Wallis non-parametric test can be used to compare two or more independent samples that are equal or of different sizes. The test reveals if the differences between the groups are so large that they unlikely to have occurred by chance.

3.2 Methodological framework and data

Longitudinal approach of IPSAS vs IAS/IFRS. First of all, the study focuses on a comparative analysis between IPSAS 6 and IAS 27, IPSAS 6 and IFRS 10, IPSAS 35 and IFRS 10, with the aim to examine the level of closeness between the public and the private sector in an evolutionary approach. The analysis of the degree of comparability was realized by computing the degree of similarity between the analyzed accounting standards. As such, the first step consists of identifying the relevant elements for the two standards, followed by the codification of these elements subject to the comparison. The elements taken into account for comparison are those presented in the IPSAS structure defined by IPSASB: scope of the standard, terminology/definitions, presentation of CFS, conditions for preparation of CFS, consolidation policies and procedures, accounting for controlled entities, jointly controlled entities and associates in separate financial statements, aspects regarding disclosure. To achieve significant results, we have detailed all the elements in more sub-elements that brought us additional information on the codification of items. For the accuracy of the research we disclose an example from our database (Table II). The codification of items consists in granting value "1" to those elements that fit entirely and value "0" to those elements which substantially differ.

To achieve the comparisons between the two above mentioned sets of standards, we have considered that the most suitable empirical analysis is represented by non-parametric correlation and the association degree between two (or more than two) considered variables. Therefore, we have decided to use a series of correlation/association coefficients, often found in literature, in studies that have as central theme the formal (de jure) accounting harmonization in private or public sector (Garrido *et al.*, 2002; Pina and Torres, 2003; Fontes *et al.*, 2005; Benito *et al.*, 2007; Ding *et al.*, 2007). Among these coefficients, the most

Table II.
Exemplification of the
used elements and
sub-elements

Element	Sub-elements	IPSAS 6/ IAS 27 ^a	IPSAS 6/ IFRS 10 ^a	IPSAS 35/ IFRS 10 ^a
Scope of consolidated financial statements	Exemptions/excluded from consolidation	21-25/0	21-25/31-33	56-58/31-33
	Included in consolidation	20, 26, 27/ 12,16,17	20, 26, 27/5-18	57-58/32-33
	Establishing control of another entity	28-29/0	28-29/5-18	18-37/5-18
	Control for financial reporting purposes	30-36/14-15	30-36/10-16	23-34/10-16
	Regulatory and purchase power	37/0	37/0	0/0
	Determining whether control exists for financial reporting purposes	38-42/13	38-42/5-9, 17-18	18-22, 35-37/ 5-9, 17-18

Note: ^aAll paragraphs are indicated according to the IPSAS references' official version published on www.ipsasb.org/

used are the Jaccard coefficients, with the advantage of quantifying both the degree of similarity and the degree of dissimilarity between two accounting systems analyzed regarding harmonization. For raising the quality of the research, we have also used other correlation/association coefficients regarding the similarity degree.

Analysis of opinions on ED 49. ED 49 contains the following topics, which have been subject to public debate and are presented in Table III.

The first step taken was to analyze in detail each received a comment letter encoding the responses for each SMC in four categories, namely: strongly agree, partly agree, partly disagree and strongly disagree. Also, noticing that there are cases where respondents did not give an answer to some questions, we considered it necessary to introduce a fifth category, namely the non-response. This encoding opened our horizons toward an overview on the respondents' opinions, being governmental organizations, professional organizations, academic institutions, accounting or audit firms. Thus, the situation of the agreements and disagreements can be seen in Figure 1. As it can be noticed there is a total agreement regarding all the analyzed items. The main conclusion drawn is that the majority of respondents agree with the IPSASB proposals.

For adding more value to the research, we tried to create an overview of the agreement/disagreement of the respondents according to their affiliation. Figure 2 shows whether there are differences in the level of support for ED 49 of different types of respondents,

Table III.
Questions for
comment ED 49

SMC 1	Do you agree with the proposed definition of control?
SMC 2	Do you agree that a controlling entity should consolidate all controlled entities (except in the circumstances proposed in this Exposure Draft)?
SMC 3	Do you agree with the proposal to withdraw the exemption in IPSAS 6, Consolidated and Separate Financial Statements (December 2006) for temporarily controlled entities?
SMC 4	Do you agree that a controlling entity that meets the definition of an investment entity should be required to account for its investments at fair value through surplus or deficit?
SMC 5A	Do you agree that a controlling entity, that is not itself an investment entity, but which controls an investment entity should be required to present consolidated financial statements in which it (i) measures the investments of the controlled investment entity at fair value through surplus or deficit in accordance with IPSAS 29, Financial Instruments: Recognition and Measurement, and (ii) consolidates the other assets and liabilities and revenue and expenses of the controlled investment entity in accordance with this Standard?
SMC 5B	Do you agree that the proposed approach is appropriate and practicable?
SMC 6	The IPSASB has aligned the principles in this Standard with the Government Finance Statistics Manual 2013 (GFSM, 2013) where feasible. Can you identify any further opportunities for alignment?

such as: governmental organizations, professional organizations, academic institutions, accounting or audit firms. The graphical representation highlights the fact that respondents from the academic field fully agree with the IPSASB's proposals, while only 50 percent of accounting or audit firms agree with these proposals. Even if there is a general support for the project's proposals, a number of unfavorable opinions on the proposed project have been also expressed, especially by the governmental organizations. The unfavorable opinions of respondents refer to the definition of control. Also, the approach of issuing EDs based on IASB projects is not considered as being successful. Furthermore, the project should have considered the objectives and the meaning of CFS in the context of the public sector, but also the scope of consolidation in various jurisdictions. The control criterion is inappropriate for preparing CFS for the public sector as a whole, because, for example, some levels of government are not controlled by other levels of government. Also, a high rate of non-response of accounting or auditing firms can be seen compared to the other three categories. Thus, we find that there is a segment of specialists who may not have an exhaustive view over all the proposed changes. This is due to either lack of interest for some proposed aspects or the impossibility of issuing an opinion about that subject.

As a descriptive item, SMC 6 reflects the alignment of IPSAS to the requirements of Governmental Financial Statistics Manual (GFSM, 2013). For this reason, it was excluded from our quantitative study.

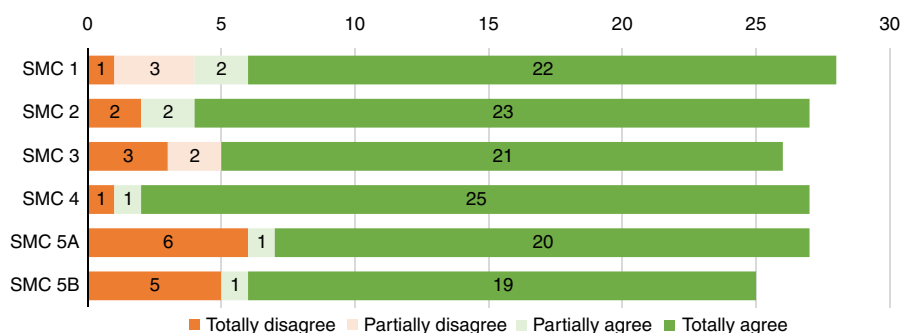


Figure 1. Distribution of responses of SMC 1, 2, 3, 4, 5A, 5B

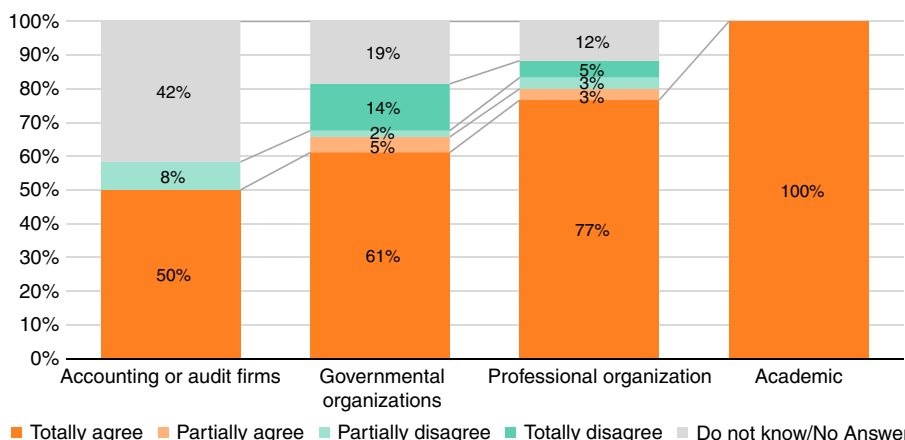


Figure 2. Scale of responses

ED 49 vs IPSAS 35 approach. After analyzing the proposed amendments to the standard related to CFS in the public sector, we found it necessary to continue our research in order to determine the degree to which IPSAS 35 is based on the previous stage, the one of the modification of standards in the public sector. As such, the steps followed coincide with those of the comparison between IPSAS 6 and IAS 27, IPSAS 6 and IFRS 10, IPSAS 35 and IFRS 10, the empirical analysis being developed using the similarity coefficients. The first stage was marked by establishing the elements which are subject to the comparisons carried out, in the same manner as previously explained (i.e. definition of used terms, conditions for not preparing CFS, government business enterprises, control, power, benefits, consolidation procedure, uniform accounting policies, measurement, potential voting rights, reporting dates, non-controlling interest, loss of control, investment entities: fair value requirement, transitional provisions, date of entry into force, application guidance, amendments to other IPSASs, basis of conclusions, implementation guideline, illustrative examples).

4. Results

The results section follows the same structure as in Section 2.2 “Methodological framework and data”, responding to the research questions stated in the beginning of the study.

Longitudinal approach of IPSAS vs IAS/IFRS

In order to reflect the similarity degree, we have also used five other coefficients, such as: Sokal and Michener coefficient, Sokal and Sneath coefficient, Rogers and Tanimoto coefficient, Russel and Rao coefficient, Sorensen-Dice coefficient. The evolution of the degree of similarity in the studied period for three of the coefficients calculated is displayed in Figure 3.

In the case of IPSAS 6 vs IAS 27, the level of similarity is high, a result that was expected because at that time IPSAS were developed based on IAS. Then, due to the release of the new IFRS 10 consolidation standard, the similarity degree is decreasing. This may be due to the whole process of amendment of the standards in the private sector. First, the standards of the public sector were based on the standards of the private sector; however, after the changes made in the private sector, the standards have moved away from each other. There is a big difference between the two sets of standards regarding the CFS. In the same manner, for IPSAS 35 vs IFRS 10, there is a higher degree of similarities than in the previous case – a result of the IPSAS revision process – but the similarity is not so great between IPSAS

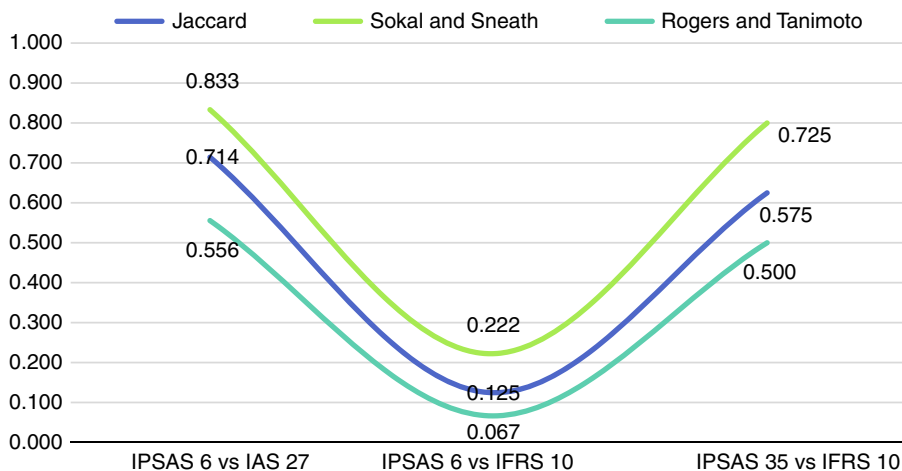


Figure 3.
Comparative analysis
based on similarity
coefficients

35 and IFRS 10 like in the starting point of this analysis (IPSAS 6 vs IAS 27). This result indicates the fact that in the elaboration of the new IPSAS 35 the public sector specific characteristics, aspects highlighted in the standard were taken into consideration, which individualized it by IFRS 10.

Regarding RQ1 based on the previous analysis, we can conclude that initially there was a significant similarity between the consolidation reference in both sectors (IPSAS 6/IAS 27), diluted by the private standards revision. This last element reshapes the scope of private sector consolidation standards, with a negative impact on the IFRS/IPSAS convergence, in our case IPSAS 6/IFRS 10. The two pillars of the IPSAS evolution: “convergence with IFRS” and “tailored to public sector characteristics” represent the incentives of IPSAS revisions, and the boundaries between IPSAS 35 and IFRS 10, favorable to shedding light on the public sector particularities.

Analysis of opinions on ED 49

In this stage, in Table IV, there is a detailed analysis of the SMC 1-6 respondents. Quantitative-qualitative analyses were conducted for the first five, and the last one was excluded for the arguments mentioned before.

Therefore, with regard to the SMC 1, according to the residual analysis, having in the forefront the independent variables mentioned above, we have noticed that a significantly higher percentage/proportion among European organizations, respectively among the organizations that do not prepare consolidated statements, manifest disagreement to the proposed definition of control. Furthermore, we have found that a significantly higher proportion of organizations coming from countries with an English legislative framework manifest agreement to the proposed definition of control. On the other hand, the organizations coming from countries with another legislative framework see things differently.

Regarding the SMC 2, our analysis highlights that a significantly greater proportion of European organizations, respectively the organizations that do not prepare consolidated statements, manifest disagreement to the fact that the controlling entity should consolidate all controlled entities (except in the circumstances proposed in the ED). Also, a significantly higher proportion of organizations coming from countries with other legal framework disagree with the fact that the controlling entity should consolidate all controlled entities. A significantly higher proportion of organizations coming from countries with an English legal framework manifest the agreement.

As regards the SMC 3 on the proposal to withdraw the exemption in IPSAS 6, for temporarily controlled entities, we have noticed that although residues do not exceed the limit of 2, the values of the agreement are higher for the European countries. However, the levels of disagreement are higher in the case of countries with an English legal framework. The situation changes for the independent variable related to the development stage. Because residues exceed the limit of 2, the levels of agreement are significantly higher for those in the innovation-driven stage of development.

Even if the residues do not exceed the value 2, a greater leaning for agreement could be observed regarding the SMC 4 among the states with an English legal framework, and higher disagreement in those with other legal structures.

According to our analysis, we could not remark any major differences in SMC 5A and SMC 5B at the level of all the analyzed categories, being able to conclude that the answers were not influenced by any of the independent variables considered. As we can notice from the table resulted for SMC 5A and SMC 5B, the values are not very representative. Therefore, we find that the results raise the idea according to which the respondents have given greater importance to the first SMC, questions which differentiate the respondents' answers according to their geographical area and their experience in preparing a CFS.

	Continent		Prepare of CFS		Accounting system		Legal origin framework		Stage of development		Total
	Europa	Other	No	Yes	Accrual	Cash	English	Other	Innovation driven	Other	Total
<i>SCM1</i>											
With agreement											
%	63.6	100.0	70.0	94.4	81.8	100.0	94.7	66.7	81.8	100.0	85.7
Adjusted residual	-2.7	2.7	-1.8	1.8	-1.1	1.1	2.0	-2.0	-1.1	1.1	
Without agreement											
%	36.4	0.0	30.0	5.6	18.2	0.0	5.3	33.3	18.2	0.0	14.3
Adjusted residual	2.7	-2.7	1.8	-1.8	1.1	-1.1	-2.0	2.0	1.1	-1.1	
<i>SMC 2</i>											
With agreement											
%	80.0	100.0	80.0	100.0	90.5	100.0	100.0	77.8	90.5	100.0	92.6
Adjusted residual	-1.9	1.9	-1.9	1.9	-0.8	0.8	2.1	-2.1	-0.8	0.8	
Without agreement											
%	20.0	0.0	20.0	0.0	9.5	0.0	0.0	22.2	9.5	0.0	7.4
Adjusted residual	1.9	-1.9	1.9	-1.9	0.8	-0.8	-2.1	2.1	0.8	-0.8	
<i>SMC 3</i>											
With agreement											
%	100.0	70.6	75.0	83.3	85.7	60.0	72.2	100.0	90.5	40.0	80.8
Adjusted residual	1.8	-1.8	-0.5	0.5	1.3	-1.3	-1.7	1.7	2.6	-2.6	
Without agreement											
%	0.0	29.4	25.0	16.7	14.3	40.0	27.8	0.0	9.5	60.0	19.2
Adjusted residual	-1.8	1.8	0.5	-0.5	-1.3	1.3	1.7	-1.7	-2.6	2.6	
<i>SMC 4</i>											
With agreement											
%	88.9	100.0	88.9	100.0	95.2	100.0	100.0	87.5	95.2	100.0	96.3
Adjusted residual	-1.4	1.4	-1.4	1.4	-0.5	0.5	1.6	-1.6	-0.5	0.5	
Without agreement											
%	11.1	0.0	11.1	0.0	4.8	0.0	0.0	12.5	4.8	0.0	3.7
Adjusted residual	1.4	-1.4	1.4	-1.4	0.5	-0.5	-1.6	1.6	0.5	-0.5	
<i>SMC 5A</i>											
With agreement											
%	88.9	72.2	88.9	72.2	71.4	100.0	73.7	87.5	71.4	100.0	77.8
Adjusted residual	1.0	-1.0	1.0	-1.0	-1.5	1.5	-0.8	0.8	-1.5	1.5	-
Without agreement											
%	11.1	27.8	11.1	27.8	28.6	0.0	26.3	12.5	28.6	0.0	22.2
Adjusted residual	-1.0	1.0	-1.0	1.0	1.5	-1.5	0.8	-0.8	1.5	-1.5	
<i>SMC 5B</i>											
With agreement											
%	88.9	75.0	88.9	75.0	73.7	100.0	76.5	87.5	73.7	100.0	80.0
Adjusted residual	0.8	-0.8	0.8	-0.8	-1.4	1.4	-0.6	0.6	-1.4	1.4	
Without agreement											
%	11.1	25.0	11.1	25.0	26.3	0.0	23.5	12.5	26.3	0.0	20.0
Adjusted residual	-0.8	0.8	-0.8	0.8	1.4	-1.4	0.6	-0.6	1.4	-1.4	

Table IV.
SMC × variable
cross-tabulation

The affiliation analysis is significant, and often used in literature and in studies based on comment letters (Bisogno *et al.*, 2015; Holder *et al.*, 2013; Chatham *et al.*, 2010; Jorissen *et al.*, 2013) because it brings new data concerning different stakeholder interest groups, stakeholders involved in the process of setting international accounting standards. Moreover, the manner in which these categories of respondents perceive the proposed amendments is valuable. Our study brings to light the fact that the respondents mostly agree with provisions of ED 49. Indeed, governmental organizations have granted a higher importance to this topic, submitting the majority of comment letters, and also expressing most of the disagreements.

In order to increase the accuracy of the analysis we conducted an additional analysis to validate the results obtained through the residual analysis. Thus, to test the robustness of the differences between groups, for SMC 1, SMC 2 and SMC 3, we applied a non-parametric test, namely Kruskal-Wallis test. The Kruskal-Wallis test brings an additional robustness to the residual analysis due to its versatility and due to the fact that there are no so susceptible to outlier values, as parametric tests. After applying the Kruskal-Wallis test, we noticed that, for all cases in which the residual values were higher than 1.9, the statistical values obtained in the Kruskal-Wallis test were below the significance threshold (sig. = 0.050), thereby confirming our analysis (Table V).

ED 49/IPSAS 35

Subsequently, the similarity coefficients indicated high values between the ED proposed for comments and the final standard approved by the IPSASB regarding the CFS (Table VI). The answers provided by those interested in this issue did nothing but help the regulatory body to improve the aspects that were not fully understood by respondents. The differences between the standard proposal and the final accepted standard consisted in adding more clarifications, the improvement of definitions or proposing additional illustrative examples that come to better understand this approved standard.

The international current stage demonstrates that the issue of public sector consolidation is highly dynamic and actual. Although the private sector model is considered more efficient, the public sector requires a different approach through its features and complexity. Our study manages to capture, theoretically and empirically, the evolution and the stage of consolidation in the public sector.

Kruskal-Wallis test	Continent		Prepare of CFS		Legal origin framework		Stage of development	
	Statistical test	Sig.	Statistical test	Sig.	Statistical test	Sig.	Statistical test	Sig.
SMC 1	6.955	0.008			3.945	0.044		
SMC 2	3.836	0.049	3.836	0.049	4.160	0.041		
SMC 3							6.370	0.012

Table V.
Kruskal-Wallis test values

Coefficient	Value
Jaccard	0.6190
Sokal and Michener	0.6190
Sokal and Sneath	0.7647
Rogers and Tanimoto	0.4483
Russel and Rao	0.6190
Sorensen-Dice	0.7647
Lance and Williams	–

Table VI.
Analysis based on similarity coefficients (ED 49/IPSAS 35)

Regarding RQ2, we demonstrate the fact that, in the respondents' justification, a series of influences generated by the tested variables (accounting system used, the preparation or not of CFS, the geographical affiliation of respondents, the origin of the legal framework and stage of economic development) appears. This aspect puts a higher accent on the inclusion and recognition of public sector particularities in the new reference IPSAS 35.

5. Debates and conclusions

Among the reasons underlying the transformation of the public sector, Wood and Gray (1991) notice the interdependence of resources, social accountability, strategic improvement, environmental impact, operational efficiency and domain/area influence. The aim of reforms in the public sector is to overcome the bureaucratic obstacles, so that managers have the opportunity to use limited resources more efficiently (Pina and Torres, 2003).

One possible response to these requirements is represented by the CFS, which can ensure an increasing transparency and accountability, principles that are essentials in the public sector. Through multiple comparisons we have managed to show that, at least in the case of CFS, the public sector regulation becomes more aware of the informational need of the public sector.

IPSASs on CFS are issued with the aim to improve the quality of general purpose financial reporting by public sector entities, public system organizations, governments and other non-profit organizations, including quangos.

For CFS purpose, the single criterion took into consideration for inclusions is control, as defined by IPSASB. Being aware of the huge variety of characteristics and categories of public entities, CFS guideline is focused on explaining the control criteria considered most covering, broader from the reporting entity's point of view. There is a control, when the reporting entity is exposed, or has rights, to variable benefits from its involvement with the other entity and has the ability to affect the nature or amount of those benefits through its power over the other entity. Then each element of the definition is explained. Power consists of existing rights that give the current ability to direct the relevant activities of another entity. The guideline underlines the fact that an entity shall consider all facts and circumstances when assessing whether it controls another entity.

The complexity of the study is found in the novelty of the subject – CFS in public sector, the large basis of longitudinal analysis (IAS 27, IFRS 10, IPSAS 6, ED 49 and IPSAS 35), and research methodology based on quantitative and qualitative approaches. The results demonstrate that the paper has reached its objectives by designing the evolution of public sector consolidation regulations, as well as its correlation with private sector regulations, which in time become weaker and focused on more public sector characteristics.

The similarity between the public and the private referential on the consolidation issue is the point of departure in identifying the IPSASB trend in line with its objective. Although, initially, the private sector had influenced the public sector referential, the latter has mobilized in identifying its own values and needs. Public sector accrual basis CFSs, represent a piece with a significant role in the whole interconnected set of governments financial statements, that add value to budget information and individual financial statements, helping to understand the whole financial performance and position of the government (assets, liabilities, performance) by providing reliable information.

In the IPSASB attitude, we can notice through the CFS ED development, its intention of developing some significant changes that would ensure that the final standards will be appropriate for application in the public sector. These changes refer to existing IPSAS changes as well as to IFRS-generated changes. For example, we can mention: the new definitions of control and joint control, the elimination of exemption from consolidating controlled entities that are under temporary control or the fact that the possibility for preparing separate financial statements are still permitted to account for investments in

controlled entities, joint ventures and associates using the equity method, the cost method. These changes were based upon the particularities of the public sector, recognized and promoted by public stakeholders as ED 49 respondents. The result is a referential oriented to the public sector, which is a major step in delimiting the two sectors (IPSAS 35).

IPSAS 35 supersedes the IPSAS 6 requirements regarding CFS. This standard still requires that control be assessed with regard to benefits and power, but the definition of control has changed and the standard now provides considerably more guidance on assessing control. In addition, it introduces the concept of investment entities, which may be applicable to some sovereign wealth funds. In contrast with IPSAS 6 – consolidated and separate financial statements, IPSAS 35 no longer permits an exemption from consolidation for temporarily controlled entities. Another major action would be to reduce the unnecessary differences between the IPSASs and the GFS, in order to respond to the requirement of harmonization with the GFS reporting guidelines.

In order to highlight the relevance of the subject debated, at macroeconomical level, the pillars of CFRs are accountability, financial/fiscal sustainability and decision-making purposes (IPSASB, 2014).

The lack of accountability is a risk factor for the global financial stability and long-term sustainability. In fact, accountability ensures that all actions and decisions taken by public officials are subject to oversight so that government initiatives meet their stated objectives and respond to the needs of the community, thereby contributing to better governance (Goddard, 2005). Providing information for accountability purposes is an objective of financial reporting (McGregor, 1999).

Moreover, CFRs development contribute to the enhancement of public finances transparency, presenting a more real, accurate and comprehensive image on the financial position and performance of the whole public sector, as a single entity (Montesinos and Brusca, 2008).

Also, a specific interest in fiscal/financial sustainability of public finance is manifested by supreme audit institutions, especially in countries where a legislation concerning the mandatory status of this reports exists.

Publication of audit reports in accordance with internationally accepted standards highlight weaknesses in government financial control or accounting practices requiring also CFS preparation for assessment of the whole government activities. Pressure for greater disclosure of fiscal and financial information come also from: national institutions such as parliaments, national statistics bodies, independent fiscal agencies, professional and civic organizations and regional institutions such as regional unions, monetary arrangements and statistics (International Monetary Fund, 2012).

The potential misinterpretations can have multiple causes. On a theoretical background, the issue of consolidation of financial statements in the public sector is extremely topical. The dominance of studies and research conducted in the private sector suggests that an association between the notions and concept content with the characteristics of the private sector leads to creating confusion in approaching the interpretation of the public sector. This influence can manifest itself on researchers and practitioners alike, both categories being involved in the study. The questions raised to the participants refer to the components/information reported in the CFS. At the same time, the study does not provide in its methodology the testing of respondents' knowledge on the accounting discipline. This raises a question mark on the actual knowledge of governmental organizations, professional organizations, accounting or audit firms regarding the financial and accounting information.

On the empirical level, the subjectivity may represent another limit. In this study, the comparisons are made between the values received by the dimensions/variables established for the standards by calculating correlation coefficients. Each dimension is composed of

several items of comparison (sub-items/nominal variables). These items are actually provisions of international referentials. The method by which the provisions of standards are examined is content analysis. This is applied to each item of each dimension in order to establish the existing similarities and differences. The researcher's subjectivity is present in establishing the research design. Furthermore, the content analysis method applied to the standards is also affected by subjectivity.

One of the limits of our research is the fact that, in developing its pronouncements, the IPSASB considers all the comments received on consultation papers and exposure drafts in developing an IPSAS. It, equally seeks an input from its consultative group, and considers and makes use of pronouncements issued by IASB, to the extent in which they are applicable to the public sector, to national standard-setters, to regulatory authorities and other authoritative bodies, to professional accounting bodies and other organizations interested in financial reporting in the public sector. Another limit may be the quite reduced number of comment letters submitted by the respondents to ED 49.

In our future research, we want to analyze the impact of IPSAS 35 on legislative system/practitioners in the EU member countries. CFS should become more relevant to users and more useful for decision makers, by incorporating budgeting and performance reporting (COFOG) and converging with the statistics framework (ESA) at European level.

We consider that in the globalization process, the public sector can no longer be seen as isolated, the national aspect involvement being important. Knowledge of those particularities specific to the public sector places the research in the sphere of interest of the theoreticians interested in analyzing the European countries, as parts of the European Union, and of practitioners who manage to find justifications and solutions to similar issues they face in their own national systems.

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