From Cash to Accrual and Domestic to International: Government Accounting Standard Setting in the Last 30 Years

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ABSTRACT

The 1980s were a decade of public sector reform whereby governments were called upon to be efficient, effective and accountable. An outcome of this reform was a general move to accrual-based financial statements with New Zealand being the first country to provide national financial statements on an accrual basis in 1992.

As well, national financial statements have been influenced by the establishment of international standard setting bodies: IASB (International Accounting Standards Board) for for-profit entities and IPSASB (International Public Sector Accounting Standards Board) for public sector entities.

This paper will look at key changes that have taken place in financial reporting in the public sector over the last 30 years. Emphasis will be placed on developments in Canada as compared to New Zealand, Australia, the US and the UK. In doing so, an attempt will be made to answer the question whether these changes reflect creeping managerialism or good stewardship?

Key words: accrual accounting, government accounting,

In recent decades government accounting standard setters in five Anglo-American countries - Australia, Canada, New Zealand, the United Kingdom and the United States – have moved from a cash basis of accounting to accrual. At the same time, an international government accounting standard setting body, the International Public Sector Accounting Standards Board (IPSASB), was established. This paper looks at these developments as well the motivations spurring the process. Given the number of countries and the range of issues covered, this paper will necessarily be of an overview nature.

In order to provide context for the paper, the first section provides a description of how governments are different from for-profit entities. The question is posed as to whether these differences require a different set of accounting standards than those employed by business. The next section outlines the current status of government accounting standard setting in the five countries. Then, the timeline of adoption for accrual accounting for each of them will be provided. Key motivations and milestones in this timeline will be included. Most notable is the establishment of a government accounting standard setting authority and a drive for government accountability. A discussion of the cash basis of accounting and the emphasis on New Public Management will also be mentioned. Following this, the paper will turn to the establishment of IPSASB and its mandate for international government accounting standards. This section will include a brief commentary on how the countries in question have related to the standards produced by IPSASB. From here, the paper returns to a brief discussion and some summary comments on whether or not the differences between government and for-profit entities require different accounting standards. Finally, the paper closes with some speculations for the future.

Governments are different from for-profit entities

Governments are different from business. The Public Sector Accounting Board in Canada explores these differences in the *Public Sector Accounting Handbook* section on financial statement objectives (PS 1100.A). Nine unique characteristics of government are identified, explained and discussed as to their reporting implications. These are summarized as follows.

1. "Government's goal is to provide services and redistribute resources, not make a profit." Government accountability is primarily for the level, quality and costs of services provided. Net cost of service and net economic resources (ability to provide future services) must be reported.
2. "Most government tangible capital assets are different in nature than those held by a business." In a government setting, tangible capital assets represent service capacity rather than future cash inflows. Financial and non-financial assets should be segregated.
3. "Government capital spending may not focus on maximizing financial return because government objectives are broader." Capital spending may be undertaken for reasons such as employment or economic development rather than purely for financial reasons. Capital spending must be highlighted in the financial statements.
4. "The principal source of revenue for governments is taxation." The payment of taxes is obligatory and the ability to tax equals the ability to spend. It is important to provide an indication of the government's future revenue requirements.
5. "Senior governments hold assets acquired in right of the Crown." The value and use of crown assets are not recognized yet may outweigh the value and use of assets that

are recognized. Practical issues around the measurement and valuation of crown assets prevent their financial statement recognition. Instead, disclosure is a key requirement.

6. "Governments operate in a non-competitive environment." Except for certain government business enterprises, such as crown corporations, there is usually no competitive market for government outputs. Not only is cost of services information needed but performance measurement information is important as well.
7. "A government's budget portrays public policy, establishes estimates of revenue, expense, expenditure and financing requirements and is an important part of the government accountability cycle." Comparison of budget to actual amounts demonstrates public accountability for government finances and this comparison should be provided in the financial statements.
8. "Senior governments have debt capacities unparalleled by most other organizations in Canada." For some governments, the only limit to borrowing is the extent of the tax base to support it. Therefore it is critical to highlight debt and net debt on the financial statements.
9. "Governments are held to a higher standard of accountability than a business or a not-for-profit organization." Public accountability must be demonstrated because of the nature of a democratically elected government.   This requires a greater degree of transparency than most private sector reports.

Although these 9 characteristics of government are common across jurisdictions, standard setters do not agree on the extent to which these merit different accounting standards. There are four dimensions that inform the decision for whether or not governments need different accounting standards. These are:

1. Basis of accounting: cash basis or accrual basis accounting;
2. Desire for uniformity: sector neutral standards or government focussed standards;
3. Geographic focus: national or international; and
4. Subject matter: financial reporting only or a full range of performance reporting.

The next section will look at the current status of government accounting standard setting and will identify those countries (amongst the group under study) that have pursued sector neutral standards, i.e. a common set of accounting standards for all sectors of the economy: for-profit, government and not-for-profit. The other three dimensions will be pursued later in the paper.

Current status of government accounting standard setting

Table 1 provides a synopsis of the current status of government accounting standard setting in Australia, Canada, New Zealand, the United Kingdom and the United States. This section of the paper is limited to the current arrangements for government accounting standard setting. The standard setting boards for all of these countries have a history of inception, development and change. However, given the scope, only a small part of this history will be captured in this paper.

Australia

Government accounting standards in Australia are set by the Australian Accounting Standards Board (AASB). This board, in its current form, was established in 2000 to develop a single set of accounting standards for all sectors in Australia. The 2000 restructuring merged the previous version of AASB with the Australian Public Sector Accounting Standards Board. The AASB operates as a government agency and has statutory powers under the *Australian Securities and Investments Commission Act 2001* (Australian Accounting Standards Board, 2010, "About the AASB: Frequently Asked Questions").

The sector-neutral approach, as it is known, has been questioned. In 2005, a study was commissioned by the AASB oversight body, the Financial Reporting Council, to review whether a sector-neutral approach meets the needs of users and the public interest. Kevin Simpkins, Deputy Controller and Auditor-General of New Zealand for three years until May 2005, was commissioned to undertake the study. Simpkins (2006) notes there are stakeholders that have significant concerns about the differences in the public sector and that feel accounting standard setting needs to respond more to those differences.

The AASB Annual Report 2008-09 describes the current approach as "transaction neutral" whereby the for-profit International Financial Reporting Standards (IFRSs) of the International Accounting Standards Board are used as a starting point. The IFRSs are examined to determine if a different approach is warranted for the not-for-profit private sector or the public sector. If changes are warranted then additional Australian paragraphs are added or a separate standard is produced.

Canada

Accounting standards in Canada are set by independent boards funded by the Canadian Institute of Chartered Accountants (CICA) which is the professional organization for chartered accountants (CAs). The Accounting Standards Board sets standards for for-profit and private sector not-for-profit entities while the Public Sector Accounting Board (PSAB) sets standards for all levels of government in Canada.

It is important to note that unlike for-profit standards, there is no power in law to require senior governments (national, provincial and territorial) to adhere to PSAB standards. The one exception is the province of British Columbia that has legislated itself to follow GAAP as promulgated by PSAB. Therefore the authority of PSAB lies in its ability to maintain legitimacy amongst its senior constituency. As far as local governments, most provinces have legislated adherence to PSAB standards.

New Zealand

The Accounting Standards Review Board (ASRB) of New Zealand is a Crown entity established by the *Financial Reporting Act 1993*. It is charged with approving accounting standards for all entities meeting public accountability requirements. This is undertaken primarily as a review of the IFRS standards issued by the IASB. This work is supported by the Financial Reporting Standards Board (FRSB), a committee of the New Zealand Institute of Chartered Accountants responsible for the technical work required to determine what changes, if any, are needed to make IFRSs fully applicable to New Zealand (Accounting Standards Review Board, 2010, “Statement of Intent”).

As far as public sector reporting, concerns have been expressed by the Office of the Controller and Auditor-General regarding the application of NZ IFRS to public sector entities. In response, the ARSB is considering if a single set of financial reporting standards continues to be appropriate for all sectors. This will include considering the adoption of International Public Sector Accounting Standards (Accounting Standards Review Board, 2010, “Statement of

Intent"). It should be noted that there are plans to reconstitute the ASRB with a planned implementation date of 1 July 2011 (Accounting Standards Review Board, 2010, "Statement of Intent").

United Kingdom

For-profit accounting standards in the UK are set by the Accounting Standards Board (ASB) while the government retains the authority for accounting standards used by the public sector. The ASB notes in its foreword to accounting standards: "The prescription of accounting requirements for the public sector in the United Kingdom is a matter for the Government" (Financial Reporting Council, 2010, p. 9). However, public sector entities tend to follow ASB standards with some differences in the format of financial statements (Financial Reporting Council, 2007, p. 9).

United States

The United States has three bodies that set accounting standards. The Financial Accounting Standards Board (FASB) sets for-profit and not-for-profit standards while there are two boards for government accounting standard setting (International Public Sector Accounting Standards Board, 2006). The Federal Accounting Standards Advisory Board (FASAB) is a federal advisory committee created by federal government officials in 1990 and charged with setting accounting standards for federal government entities. The *Chief Financial Officers Act* of 1990, amended by the *Government Management Reform Act* of 1994, requires annual audited financial statements for the whole of government as well as its financial reporting entities. FASAB was established to develop the applicable principles to meet this legislated requirement (Federal Accounting Standards Advisory Board, 2010, "FASAB Facts").

The Governmental Accounting Standards Board (GASB) was created by the Financial Accounting Foundation in 1984. (The Financial Accounting Foundation is also responsible for the creation and oversight of FASB.) GASB standards are not law and GASB does not have any powers of enforcement. Instead, its authority is maintained through a combination of self-directed legislation in some states as well as auditor reference to conformity with GASB as GAAP (Governmental Accounting Standards Board, 2010, "Facts about GASB"). Thirty-six of the fifty states in the United States have legislation prescribing use of government GAAP for at least some of their political subdivisions (Governmental Accounting Standards Board, 2008).

Adoption of accrual accounting: motivations and milestones

Basis of accounting

Business entities long ago converted to an accrual basis of accounting. Governments, on the other hand, are much more recent converts and there are still governments today, primarily in developing economies, that continue to report on a cash basis of accounting. It took until the 1980s before the Anglo-American governments gave accrual accounting serious thought (Public Sector Committee, 1996). The cash basis of accounting, despite its limitations, was seen as simple, objective, cheaper to use and easier for non-accountants to understand. The adherence to a cash basis of accounting was also understandable when one considers that government budgets and the authority to spend, i.e. government appropriations, were on a cash basis. Indeed, the move to accrual financial statements has meant a move to accrual budgeting and in some cases the use of accrual appropriations. By 2003, the five countries under study had accrual (Australia, New Zealand, United Kingdom) or modified accrual (Canada, United States) budgets (Blöndal, 2003).

Nevertheless, a cash basis of accounting has its problems. It fails to provide the total cost of government programs and activities, thereby making it difficult to make decisions about expanding or contracting programming. Under the cash basis of accounting, significant asset holdings in the form of tangible capital assets go unreported. As a result, such assets often go unmanaged. Using a cash basis of reporting (or modified cash or modified accrual, for that matter) means that assets are recorded as expenditures in full in the year in which they are acquired. There is no need for deprecation and no allocation of asset costs on a year by year basis. Decisions revolve around whether or not to buy new capital assets instead of managing the capital assets on hand. Related to the treatment for capital assets, a cash basis of accounting makes it difficult to understand ongoing financing needs to maintain a given level of service. On the liability side, prior to accrual accounting, many governments were building up pension liabilities and other social benefits that went unrecorded in the financial statements.

It should be noted that there was not necessarily an abrupt change from cash to accrual. Many governments went through a cash, modified cash, modified accrual, accrual transition (for example, see Ellwood, 2002 regarding the UK and Naik, 2005 regarding Canada). Modified cash differs from the cash basis in that year-end adjustments are made for some non-cash items like accounts receivable and accounts payable. This is usually done by holding the books open for a month or so after year end. Modified accrual differs from the accrual basis of accounting in that capital assets are not recognized as assets but rather as expenditures in full in the period in which they are purchased.

All five of the countries under study have adopted accrual accounting within the last two decades. Why did it take so long to change? In addition to the arguments for a cash basis of accounting, Jones (1992, p. 262) talks about the comparative lack of interest in public sector accounting and he says, with reference to the UK, that “the government has not needed to establish its legitimacy for many years, probably centuries: it has the power to set and enforce its financial and accounting policies and, one way or another, it has done this”.

What motivated the change? For the most part, there was a common dissatisfaction with the cost and scope of government activities in the 1970s and 1980s. Government debt was increasing along with higher levels of taxation. In many cases this prompted a review of the role of government, its activities and operations and the efficiency and effectiveness of these activities and operations (Barton, 2009). At the same time, neo-liberal, small government thinking flourished, in many of the Anglo-American countries, especially with the Reagan and Thatcher governments (Hood, 1995). Not only was government being asked to do more with less but there were demands for governments and public sector managers to be more accountable.

New Public Management

“New Public Management” (NPM) is the term most commonly used to describe the changes in the public sector in the 1980s and 1990s. In short, this refers to the introduction of private sector practices into the public sector (e.g. Pallot, 2003). These changes were designed to improve accountability, governance and control as well as fulfill the neo-liberal agenda of privatizing and shrinking the size of government (Ellwood and Newberry, 2007).

Hood (1995) describes New Public Management as a label for the general shift in public management styles. He identifies seven components (p. 96):

1. Unbundling of the public sector into corporatized units organized by product;

2. More contract-based competitive provision, with internal markets and term contracts;
3. Stress on private sector styles of management practice;
4. More stress on discipline and frugality in resource use;
5. More emphasis on visible hands-on top management;
6. Explicit formal measureable standards and measures of performance and success; and
7. Greater emphasis on output controls.

Guthrie *et al.* (1999) look at NPM from more of a financial perspective and they use the term "New Public Financial Management" (NPFM). They study NPFM in 11 different nations and conclude that there are five categories of NPFM reforms.

1. Changes to financial reporting systems;
2. Development of commercially minded, market oriented management systems and structures;
3. Development of a performance measurement approach;
4. Devolvement/decentralization or delegation of budgets; and
5. Changes to internal and external public sector audits.

They note that financial management is the "technical lifeblood" of NPM organizational structures. Their cross-country study confirms that NPFM is not happening in a uniform way across the globe. Rather, there are differences between countries that need to be considered.

NPM has not been well received by everyone. Pallot 2003 speaks of the tensions created by NPM and how differing views of accountability emerge. She describes it as the democratization agenda versus the privatization agenda. By privatization she means both the recasting of the public sector in corporate form or outright sale to private sector business interests.

Several authors comment that the issue is not with accrual accounting per se which has contributed in a positive fashion to decision making and better asset management. Instead, the issue is with taking private sector incentives and presuming that they will work in the public sector without considerable modification (Newberry & Pallot, 2004). Parker & Guthrie, (1993) point out that the private sector models are not always automatically transferred into the public sector without modification and that the importation of managerialism seeks to continue "to aim at preserving traditional values of public administration, such as fairness and probity, while at the same time focusing increased attention on what is being achieved" (p. 66). The argument continues by asserting that the emphasis is on the purpose of programs and cost-effectiveness rather than simply on inputs and processes.

Barton (2009) comments on the adoption of accrual accounting and budgeting and takes the view that the reforms did enable significant improvements in resource management, accountability and fiscal performance. He acknowledges that some of the reforms were inappropriate and created problems but maintains that the problem areas have been resolved.

Keeping the motivation of New Public Management in mind, the paper now turns to the adoption of accrual accounting on a country by country basis.

New Zealand

New Zealand was the first country to adopt accrual accounting in April, 1992. The *Public Finance Act 1989* required a full set of financial statements from the government, prepared on an accrual basis. The Minister of Finance responsible for introducing this act makes the following comments about accrual accounting and the resulting statements (Public Sector Committee, 1996):

> These accounts, which are independently audited, have two benefits: they remove the scope for fiscal trickery, and they encourage governments to focus on the longer-term consequences of policies (p. 8). . . . More valuably, for the first time, we were able to begin to interpret our net worth. Not surprisingly it was very negative, but at last we had a reliable measure of improvement over time (p.9).

This change in government reporting occurred as part of public sector management reform that began in 1987 as part of a broader economic reform platform in the 1984 election (Lye *et al.*, 2005). New Zealand had descended from the 5th highest standard of living in the western world in the early 1950s to the 25th by the late 1980s (Public Sector Committee, 1996, p. 5). This is not to say that 1987 or 1984 was the first time that the idea of change in reporting came about. Lye *et al.*, (2005) note several calls for change, coming mainly from the Controller and Auditor General, dating back to 1978. They suggest that there were six factors that served to bring about this change in government reporting:

1. key people – both elected and public service leaders had changed;
2. axial principles – a robust framework of guiding principles was agreed;
3. communicating ideas – collaboration was achieved though communication;
4. contextual determinants – economic and technological factors made the change both necessary and possible;
5. ethos – there was a receptive attitude to reform amongst different people in different sectors; and
6. knowledge – this included university training and experience in the private sector.

Australia

Guthrie (1998, p. 1) argues that the introduction of accrual accounting in the Australian public sector was not an end in itself but was accompanied with an emphasis on changing "the administration of the public sector, replacing old discourse ideals and methods of management with new managerialism, contracting and market-based activities". At the state level, there were a number of factors in the late 1980s that created a climate for the transition to accrual accounting. State governments had serious fiscal problems and two major state banks failed (Guthrie, 1998).

The Public Sector Accounting Standards Board was created in 1983 to develop financial accounting and reporting standards for government. However, accrual financial statements were being produced by government before PSASB could develop a full set of public sector standards. As a result, PSASB adopted the private sector standards with a couple of exceptions (Barton, 2009). The Premier of New South Wales, elected in 1988, pushed the accrual accounting agenda for the state and New South Wales produced its first set of accrual financial statements for the 1993 year-end. His advisors persuaded him to adopt GAAP for the private sector (Barton, 2009). The national government announced the adoption of accrual accounting in 1992 and by 1994 all departments prepared accrual financial statements. The whole of government accrual statements were produced for the first time in 1995 (Barton, 2009). PSASB was merged with the AASB in 2000 (Australian Accounting Standards Board, 2010, "About the AASB: Frequently Asked Questions").

United Kingdom

Humphrey *et al.*, (1993) refer to concerns with public sector management “erupting” in the UK in the 1980s. Such a desire for “accountable management” as they phrased it included: efficiency scrutinies, value-for-money audits, performance indicators, resource management initiatives, computerized financial information systems, cash limits, delegated budgets and internal markets. By the end of the 1980s the UK public sector had diverse accounting practices and a lack of interest in developing a conceptual framework for public sector reporting (Ellwood, 2002).

Resource Accounting and Budgeting was the terminology used to describe the accounting reform and the move for government departments in the UK to adopt accrual accounting. The first year that UK government departments produced accrual accounts was for the 2000 year-end. In 1998 the UK government proposed to provide whole of government audited consolidated accounts for 2005-2006 (Ellwood, 2002; Naik, 2005) and the requirement for whole of government accrual accounts was mandated by the *Government Resources and Accounts Act 2000*. Chow *et al.* (2008) indicate that the deadline for this requirement has been extended a number of times and by the time of their 2008 report, no whole of government accounts had yet been published.

United States

Johnson and Langsam (1991) note that government accounting in the US traces its roots to the municipal reform movement at the beginning of the 20th century. Foltin (2008, p. 27) adds to this by indicating that despite this long history little attention was paid to government accounting until the mid 1970s when a number of organizations recognized a need for better accounting:

> At that time, the country's infrastructure was wearing out, revenues were slowing, services were being cut, and some major cities defaulted on debt (New York City in 1975 and Cleveland in 1978). These forces brought government accounting and financial reporting to the forefront of the profession.

GASB Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments was issued in June 1999 and among other changes to the financial reporting model, it required a full accrual basis of accounting for government-wide financial statements (Kravchuk & Vorhees, 2001). Issuing this standard was the culmination of more than 15 years of work. Although the standard was issued in 1999 it laid out an implementation timetable based on the size of government. Earlier adoption was encouraged but, depending on size, certain governments had until their 2004 year-end to comply. Foltin (2008, p. 27) notes that the passage of this standard was very divisive and "provided the first signs that GASB's existence may be in jeopardy". He says that the Government Finance Officers Association was the most outspoken opponent.

The FASAB issued accrual based standards in 1995 (Mosso, 2006). However, issuing standards is one thing; getting adoption is another. The 1998 year end was the first year that federal executive branch agencies prepared financial statements in accordance with FASAB accounting principles (Comes & Riley, 1999). It was not until 1999 before the auditing profession recognized them as GAAP (Mosso, 2005). Some departments and agencies have been able to get clean audit opinions on their financial statements. On the other hand, for government-wide financial statements, which have been audited for 13 years (as at fiscal year-end 2009), the US Government Accountability Office has not yet been able to express an opinion on the accrual-based consolidated financial statements due to material weaknesses in internal control (Government Accountability Office, 2010).

Canada

Canada has had a longer road to accrual accounting. However, when compared with the UK and the US, the adoption of accrual accounting for governments has been more successful in Canada, at least at the level of senior governments. The federal government in Canada produced accrual based financial statements for the year ending 2003 and received a clean audit opinion from the Auditor General of Canada (Auditor General of Canada, 2003). At the local government level, accrual accounting takes effect for 2010 year-ends.

Like many standard setting boards (e.g. IASB and IPSASB), the Public Sector Accounting Board (PSAB) got its start in life as a committee and the committee got its start as a result of a CICA research report, *Financial Reporting by Governments*, that was published in 1980. This report, in turn, got its start from a task force, established in the summer of 1975 by the Joint Research Steering Committee of the CICA. The task force was charged with determining "whether the Government of Canada and the provincial governments need accounting and reporting standards and whether the Institute might contribute to their development" (Canadian Institute of Chartered Accountants, 1980, 1st page of Foreword). The need for major changes in accounting and reporting practices were motivated by two federal government commissions: the 1962 Glassco Commission on Government Organization and the 1979 Lambert Commission on Financial Management and Accountability (Baker & Rennie, 2006; Canadian Institute of Chartered Accountants, 1980).

As a first step the task force recommended that a report be prepared on existing practices in government accounting, reporting and auditing. The president of the CICA at the time wrote to the responsible ministers of the federal and provincial governments about such a project and all of them agreed that such a report would be desirable. Not only did the report catalogue current government practices, it also made some conclusions and recommendations. One of the conclusions was that there was a need for generally accepted reporting standards for senior governments in Canada.

> The financial statements of Canadian governments are now so complex and varied in presentation and terminology that even persons familiar with government accounting have difficulty in appreciating the significance of the information conveyed (Canadian Institute of Chartered Accountants, 1980, p. ii).

However, because accounting standards are set by the profession in Canada and senior governments are sovereign, the report noted the following.

> Since only the governments themselves can decide how they will report, some framework is needed for them to develop standards. The Study proposes that the CICA should ask governments to co-operate in creating, and appointing the members of, some independent body to work towards the development of government accounting standards. The CICA, because of its experience in developing such standards for commercial enterprises, should offer to help any independent body that is created (Canadian Institute of Chartered Accountants, 1980, p. viii).

The Public Sector Accounting and Auditing Committee (PSAAC) was established in 1981. Although the need to move to accrual accounting was articulated as far back as the 1962 and 1979 federal commissions (Baker & Rennie, 2006), the PSAAC did not initially establish accrual standards. Instead, its stated role was to “improve and harmonize” government financial reporting (Roy, 1988). The first challenge faced by PSAAC was the need to follow due process set against a desire to get a set of accounting and auditing standards developed quickly. Also, as the Committee was getting established there were those who argued that government did not need a separate set of accounting standards (*CAmagazine*, 1991).

Effective 1993, the Committee became a board known as the Public Sector Accounting and Auditing Board (*CAmagazine*, 1993). Within 5 years, by 1998, it was decided that the auditing role for the Board belonged to the Audit and Assurance Board of the CICA and the board became the Public Sector Accounting Board (Canadian Institute of Chartered Accountants, 2000).

The move to accrual accounting for senior governments was required by PSAB for 2006 year ends (Denning, 2003). Due to a need to obtain legitimacy and consensus it was felt that accrual accounting for local governments needed to be a separate project. The standards relating to their adoption of accrual accounting were required for 2010 year-ends.

> The challenge was for municipalities to agree to a common set of financial statements, a common basis of accounting and to have the various departments of municipal affairs endorse the Public Sector Accounting (PSA) Handbook as generally accepted accounting principles for municipalities" (Beauchamp, 2009, p. 50).

Developments in international public sector accounting standards

The move to accrual accounting has been a significant change in government financial reporting not only for the countries discussed herein but for numerous other countries. Coupled with this change, though, has also been the move to International Public Sector Accounting Standards (IPSASs). This section looks at the establishment of the International Public Sector Accounting Standards Board and the extent to which the countries under study have adopted the standards promulgated by this Board. Sanderson & Van Schaik (2008) indicate that there are over 60 countries and inter-governmental organizations that have either adopted IPSASs or are in the process of adopting them.

Establishment of the International Public Sector Accounting Standards Board

The International Public Sector Accounting Standards Board (IPSASB) is one of the standard setting boards of the International Federation of Accountants (IFAC). IFAC describes itself as the global organization for the accountancy profession. It was formed in 1977 and currently has 159 members and associates (International Federation of Accountants, 2010, “About IFAC”, “IFAC History in Brief”).

The Public Sector Committee was established as a standing committee of IFAC in 1986. In 1994 it was renamed the International Public Sector Accounting Standards Board and it established new terms of reference (International Public Sector Accounting Standards Board, 2007). The stated objective of IPSASB (International Federation of Accountants, 2010, “International Public Sector Accounting Standards Board Fact Sheet”) is:

> ...to serve the public interest by developing high quality accounting standards for use by public sector entities around the world in the preparation of general purpose financial statements. This will enhance the quality and transparency of public sector financial reporting and strengthen public confidence in public sector financial management. In pursuit of this objective, the IPSASB supports the convergence of international and national public sector accounting standards and the convergence of accounting and statistical bases of financial reporting where appropriate.

IPSASB has an 18 member volunteer board. There are also a number of observers who have full rights on the floor at IPSASB meetings but do not vote on the issuance of exposure drafts or IPSASs. These observers include: the Asian Development Bank; the European Commission; Eurostat; the International Accounting Standards Board; the International Monetary Fund; the International Organization of Supreme Audit Institutions; the Organisation for Economic Co-operation and Development; the United Nations; the United Nations Development Programme; and the World Bank (International Federation of Accountants, 2010, “International Public Sector Accounting Standards Board Fact Sheet”).

Interestingly, IPSASB promulgates cash basis IPSASs as well as accrual basis IPSASs. Cash basis IPSASs are of benefit to developing countries that are not ready to make the move to accrual accounting. The accrual basis IPSASs are based on International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB). IPSASB is consciously moving to IFRS convergence. This commitment means that IPSASB standard setting starts with the corresponding IFRS. The IFRS will be adopted unless there is a public sector specific reason for departure. Where necessary, then, IFRSs will be adapted for the public sector. There are also circumstances where a public sector issues exist that does not have a related IFRS. Accounting for heritage assets is a notable example in this regard (International Public Sector Accounting Standards Board, 2007). In these circumstances IPSASB will develop its own standard.

Recognition of IPSASB: convergence, harmonization or something else?

According to Payne & Ranagan (2008) there is a five stage continuum that describes a country's move from national to international accounting standards: (1) informed deliberations; (2) adaptation; (3) harmonization; (4) convergence; and (5) adoption. Payne & Ranagan describe these stages as follows. Informed deliberation involves monitoring and considering the work of the international standard setters but not being constrained by that work in standard setting. With regard to IPSASB, this is the position taken by FASAB (Payne & Ranagan), GASB (Governmental Accounting Standards Board, 2010, "Strategic Plan 2008-2012") and PSAB (Canadian Institute of Chartered Accountants, 2010, "About PSAB"). Adaptation involves making the standards fit country circumstances. Moving along the spectrum of adherences, harmonization involves standards being compatible while convergence implies a separate but parallel process whereby a single set of standards will eventually be realized. Finally, adoption is simply taking the international standards as they are without any changes and without continuing the domestic standard setting exercise.

Australia

The AASB website does not appear to refer to convergence with the IPSASB standards and rather speaks more generally. One of the statutory functions of the AASB is "to participate in and contribute to the development of a single set of accounting standards for worldwide use" (Australian Accounting Standards Board, 2010, "About the AASB").

Canada

The PSAB has as part of its mission statement, "contributing to the development of internationally accepted standards". The website explicitly states that "PSAB has no official policy of harmonization/convergence." And it is noted that: "In the absence of clearly demonstrated unique Canadian public sector circumstances PSAB will endeavour to adopt a new accounting standard in Canada that reflects that of its international colleagues" (Canadian Institute of Chartered Accountants, 2010, "About PSAB").

New Zealand

The ASRB website makes the following comments: "ASRB Board members participate actively in international organisations and fora, advancing harmonisation of financial reporting standards with Australia and globally" (Accounting Standards Review Board, 2010, "What We Do"). New Zealand in effect has adapted IFRS for the New Zealand public sector whereas Australia has harmonization and convergence with IFRS as a goal (Payne & Ranagan, 2008).

United Kingdom

Given that the ASB does not have a mandate to set accounting standards for the public sector, it is not surprising that it does not have an explicit mandate for international harmonization or convergence. The 2007 Financial Reporting Council report does note that "Even though IPSASs are not followed in the UK, they are helpful in developing standards for particular public sector activities (Financial Reporting Council 2007, p. 9)".

United States

The vision, mission and core values statement found on the GASB website is silent on the issue of internationalization as is the FASAB website.

Accounting standards for governments

At the outset of this paper it was noted that there are four dimensions that inform the decision whether or not governments need different accounting standards. These are:

1. Basis of accounting: cash basis or accrual basis accounting;
2. Desire for uniformity: sector neutral standards or government focussed standards;
3. Geographic focus: national or international; and
4. Subject matter: financial reporting only or a full range of performance reporting.

Clearly all five countries under study are in pursuit of accrual accounting. However, not all of them have got there yet. The UK has not yet produced accrual basis financial statements for the whole of government. The US has not yet got a clean audit opinion on whole of government financial statements. And, Canada is just this year in the process of producing accrual basis statements for local governments.

The five countries are mixed on whether business accounting standards can be applied to government. New Zealand, Australia and the UK are sector neutral (albeit with some adaptation for the public sector) while Canada and the US have separate government accounting standard setting bodies. Academics have taken issue with the application of business-style accounting for the public sector. For example, Robb & Newberry (2007) argue that for New Zealand business standards fail to provide constitutional safeguards or fulfill requirements for public accountability. Additionally, the public sector has accounting issues that have no private sector counterparts: for example, heritage assets, military assets, social obligation programs and non-exchange transactions. Most notable in the literature is the debate over accounting for heritage assets (e.g. Hooper *et al.*, 2005; West & Carnegie, 2010).

As far as moving from national standards to international standards, all five countries are "involved" with the International Public Sector Accounting Standards Board. All of them are member countries on the Board and all of them review IPSASB pronouncements. However, IPSASB standards must be further developed before the Anglo-American countries will consider full adoption.

What has not been discussed thus far is the issue of scope and whether or not standards should relate to financial reporting or a full range of performance reporting that includes financial and non-financial information. Space permits only a few comments about the US and Canada. It should be noted, however, that all of the countries discussed herein have embarked on a range of performance reporting exercises.

The biggest threat to GASB's legitimacy in the US has resulted from the board pursuing standards on performance reporting. This GASB project is referred to as SEA (service efforts and accomplishments) (McCall & Klay, 2009). In 2006 the Government Finance Officers Association (GFOA) sought to abolish GASB and transfer the responsibility for government accounting standard setting to FASB. The GFOA perspective is that government accounting is limited to reporting financial transaction based information. It is important to note that the GFOA was responsible for providing guidance on government accounting from 1906 until GASB was formed in 1984 (Foltin, 2010) and that the GFOA approved performance measurement as a recommended practice (Rivenbank, 2003). The issue then is whose job is it to develop the field of performance measurement in government. It is argued that GASB's role is one of financial accountability and not the broader accountability that includes operational performance of government entities (Rivenbank, 2003). McCall & Klay (2009) set up this tension as a constrained view of transaction accounting versus an expansive view of accounting and accountability.

The Public Sector Accounting Board in Canada has developed guidance on non-financial reporting. This guidance takes the form of Statements of Recommended Practice (SORPs) which are not part of GAAP. Four SORPs have been issued thus far:

1. Financial Statement Discussion & Analysis;
2. Public Performance Reporting;
3. Assessment of Tangible Capital Assets; and
4. Indicators of Financial Condition.

The response to such guidance was not as dramatic as in the US. Stakeholders, in general, did not seem to be concerned with PSAB taking on this role. Rather the main concern was the authority of SORPs. There were stakeholders who were very concerned about SORPs becoming GAAP.

Speculations for the future

Where is the future of government accounting standard setting headed (at least for the five countries in question)? Any comments in this regard can only be speculative. Nevertheless, it would seem that the path travelled thus far leads to the following plausible conclusions. Accrual accounting is here to stay and eventually all levels of government will get there. The push for international uniformity will strengthen. Given, the approach that IPSASB has taken to standard setting, it would seem that IFRS will be the core set of standards to drive this uniformity. But, given that there are some unique circumstances in the public sector, it can be expected that there will be some adaptation and some standards established strictly for the public sector. And finally, there is little doubt that there will be more performance reporting. It is just too early to tell whether accounting standard setters will all take that on board as part of their mandate.

There have been many dramatic changes to government accounting standard setting in the last 30 years and it remains to be seen what the next 30 years will hold.

Table 1 – Source of Government Accounting Standards

	Australia	**Canada**	**New Zealand**	**United Kingdom**	**United States**
Name of Board	Australian Accounting Standards Board (AASB)	Public Sector Accounting Board (PSAB)	Accounting Standards Review Board (ASRB)	Accounting Standards Board	Federal Accounting Standards Advisory Board and Governmental Accounting Standards Board
Authority	Legislated	Legitimacy at federal and provincial level (legislated by BC); Legislated by provinces for local level	Legislated	None over government accounting standards	FASAB – legislated GASB – some states have legislated; auditors required to refer to it as GAAP
Scope	All sectors; government based on IFRS	Government	All sectors; government based on IFRS	Business; UK government tends to adopt ASB standards with modification	FASAB – Federal government GASB – State and local government

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