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PUBLIC SECTOR ACCOUNTING

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INTRODUCTION

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Public sector accounting (PSA) and reporting is a theme of high relevance for both academia and practitioners in the European Union (EU). The reasons do not only lie in the considerable national reforms of PSA during the last decades,¹ but can currently be traced back to a project run by the European Commission (EC) aiming to harmonize the heterogeneous accounting systems of its member states by the adoption of European Public Sector Accounting Standards (EPSAS), still to be developed.

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

¹ See e.g. Manning and Lau (2016) pp. 39 ff., in: Bovaird and Loeffler (ed.).

statistics in the national accounts. Presently, the EU plans to develop EPSAS with International Public Sector Accounting Standards (IPSAS) as a reference, and currently provides financial support (until 2020) to public sector entities as well as jurisdictions that opt for a voluntary use of IPSAS. For the period of 2020-2025, a transition to EPSAS was indicated by the EC leading to a homogeneous EU-landscape of PSA and reporting. However, this implies that the EPSAS development and implementation project would be completed and a legal basis for the adoption in the EU member states would have to be found. From today's perspective, this is not certain, as final decisions have not been taken yet, but an impact assessment is at present (i.e. in June 2019) ongoing.²

As PSA in Europe is currently still very heterogeneous,³ professionals and academics in Europe face tremendous challenges. In particular, there will be a large need for university graduates that are knowledgeable in PSA and that are aware of the differing PSA standards and PSA systems across Europe. This book contributes to this kind of capacity building, and is one intellectual output of an EU funded Erasmus+ project ("Developing and implementing European Public Sector Accounting modules" (DiEPSAm)), which aims to develop teaching materials concentrated on existing methods and systems of PSA in Europe. The objectives of the DiEPSAm project are to develop an academic module for Bachelor's or Master's degree programmes by offering online lectures, slides, additional materials and this complementing textbook.

The DiEPSAm project is a cooperation between the Johannes Kepler University Linz (Austria), the Tampere University (Finland), the University of Rostock (Germany), the University of Coimbra (Portugal) and the University of Leicester (United Kingdom; UK). These partner countries (Austria, Finland, Germany, Portugal, UK) represent diverse national PSA traditions, thereby enriching the textbook by diverse views (at times contradicting) and

² See EC (2019), p. 6 and also Conclusion of this book.

³ See Brusca et al. (2015) and Vašiček and Roje (2019) for such an overview of PSA in single European countries.

leading to the discussion of alternative approaches. They are also the focus of some comparative studies across the book.

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

For each lecture offered in the DiEPSAm online lecture module,⁴ the textbook contains a corresponding chapter. In each chapter, additional readings are offered and topics for discussion are presented, in order to critically reflect on the themes presented. These topics might also serve for essays or seminal papers. At the end of the book, assessment questions (both multiple choice and open questions) are listed, per chapter, so that the reader can assess the knowledge gained. The solutions for the multiple choice questions are also provided, whereas the open questions can be derived from the text or additional readings. The main part of the book is structured as follows.

Chapter 1, authored by *Ellen Haustein* and *Peter Lorson*, provides an **introduction into PSA** and offers a map through the book by explaining important terms with respect to European PSA and by highlighting which concepts this book will focus on. In **Chapter 2**, *Andy Wynne* indicates the long and varied **history of PSA** and sketches some of the key developments. Thereby, he also provides an introduction to the three different approaches to PSA that were developed in England, France and the Germanic countries. The EPSAS project of the EU aims to use IPSAS as a reference, which itself are based on the private sector accounting standards IFRS. Therefore, *Andy Wynne* continues in **Chapter 3** to explain the **differences between private and public sector accounting**. He stresses

⁴ The lecture materials are accessible at no cost (open access) here: www.offene.uni-rostock.de/online-course-european-public-sector-accounting/

the major differences between the accountabilities and financial reporting requirements of public sector entities and those in the private sector.

Despite the focus of the EPSAS project on financial reporting, budgeting and budgetary accounting and reporting take a centre stage in PSA. **Chapter 4**, authored by *Lasse Oulasvirta*, is thus devoted to explaining approaches to budgeting, also addressing the roles and functions of the budget as well as budget planning and budget-linked accounting. A more theoretical lens on PSA is applied by *Lasse Oulasvirta* in **Chapter 5** while describing **theoretical accounting foundations and principles for PSA**, which may influence and interact with financial accounting standards and practices.

Accounting harmonization in PSA bears several challenges because there might be frictions between the accounting standards of the private sector and of the public sector, on the one hand, and the statistical data requirements on the other hand. This topic is addressed by *Lisa Schmidhuber*, *Dennis Hilgers*, and *Hannes Hofbauer* in **Chapter 6**. They take a closer look at **PSA harmonisation between IFRS, Government Finance Statistics (GFS) and IPSAS**.

Due to their high relevance and international dissemination, IPSAS play an important role in this book, which is also reflected in the Chapters 7-11. *Lisa Schmidhuber* and *Dennis Hilgers* start these chapters by addressing **IPSAS** in **Chapter 7**, introducing their **history, spread and use**. *Susana Jorge* continues in **Chapter 8** to explain conceptual frameworks (CFs) in PSA, particularly addressing the IPSAS CF. The chapter also offers brief views on selected national CFs from a group of European countries, i.e. the project partner countries. **Chapter 9**, authored by *Susana Jorge*, is devoted to **reporting components**, namely the financial statements, primarily building on IPSAS 1 and 2, also briefly addressing **reliability issues**, tackling transparency and auditing. In order to provide an **overview of IPSAS on public sector specific topics**, *Ellen Hausteijn* and *Peter Lorson* draw on selected IPSAS in their **Chapter 10**. The general accounting treatment of property, plant and equipment (IPSAS 17, 21 and 26), revenue from non-exchange transactions (IPSAS 23) and service concessions from the perspective of the grantor (IPSAS 32) is explained. In **Chapter 11**, *Ellen Hausteijn* and *Peter Lorson* apply the same IPSAS addressed in Chapter 10

to present an **IPSAS case study** by developing accounting records and illustrating the consequences on the financial statements.

Up to Chapter 11, primarily individual financial statements are addressed, which are financial statements for a single public sector entity only. However, when public sector entities run different (public sector) entities to provide public services, individual financial statements might fail to provide a true and fair view of the whole economic entity because of the financial interactions between these separate entities. Thus, some public sector entities are required to prepare **consolidated financial statements** that combine all entities under control of a public entity. This topic is addressed by *Ellen Hausteijn* and *Peter Lorson* in **Chapter 12**, where they explain the basic ideas and theories of consolidation and how to aggregate the transactions of the parent (i.e. controlling) entity and its controlled entities by using consolidation techniques. The topic is continued by both authors in **Chapter 13** addressing **consolidation methods and reporting** with a stronger focus on applying IPSAS.

Finally, in **Chapter 14**, *Lisa Schmidhuber* and *Dennis Hilgers* look at the EPSAS project again and describe **PSA future challenges** by promising an **EPSAS outlook**.

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

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