INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS: CONCEPTUAL AND INSTITUTIONAL ISSUES

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ABSTRACT

In the current “global revolution in government accounting,” International Public Sector Accounting Standards (IPSAS) are proposed for adoption by governments around the world. After describing the nature of IPSAS, the paper discusses conceptual issues concerning system capability and internal accountability, conceptual framework, emulation of business standards, accrual basis of accounting and consolidated financial statements. The institutional issues regarding the representation on the IPSAS board and the sole oversight by the International Federation of Accountants (IFAC) are also analyzes. Setting standards is a first step on the long road of fundamentally reforming government accounting practices around the world.

Keywords: International Public Sector Accounting Standards, IPSAS, globalization, financial reform, standard setting

INTRODUCTION

International Public Sector Accounting Standards (IPSAS) is the centerpiece of the “global revolution in government accounting” (Heald, 2003) in response to calls for greater government financial accountability and transparency. IPSAS refers to the recommendations made by the IPSAS Board under the auspices of the International Federation of Accountants. IPSAS are accepted for accounting for funds provided under World Bank Programs. Developing countries are urged to adopt IPSAS by international organizations which provide financial assistance to developing countries. Other countries, regardless of their political and economic systems, are encouraged to harmonize their national standards with IPSAS. Thus, IPSAS have become de facto international benchmarks for evaluating government accounting practices worldwide. For these reasons, IPSAS deserves the attention of accounting policy-makers, practitioners and scholars alike. (When individual or multiple standards are discussed, the phrase “IPSAS are” is used; when a whole set of standards is referred to, “IPSAS is” appears instead.)

This paper critically examines conceptual and institutional issues in setting IPSAS. The conceptual issues are problem areas or debatable points on the substance of IPSAS. Institutional issues, on the other hand, relate to the governance and process of setting IPSAS. A brief introduction to IPSAS precedes the analysis of issues.

This is the latest in a series of papers the author has written on IPSAS over a period of several years, during which IPSAS and its institutional structure have expanded. These papers describe, explain and critique IPSAS in the belief that a scholar should independently examine even the authoritative literature and the authorities that practitioners are obliged to comply with.

THE NATURE OF IPSAS
In order to familiarize the reader with the IPSAS, this section identifies their characteristics, explains their structure, and briefly describes the IPSAS specific to the public sector, on the basis of information primarily from the IPSAS Board’s website.

**ipsas**

A distinction may be made between lower-case ipsas — international public sector accounting standards — and upper-case IPSAS, i.e. International Public Sector Accounting Standards. The “ipsas” refers to the norms for reporting government finance required or recommended by (1) international treaties, agreements, and contracts; and (2) international organizations of an official nature. The first category includes, for example, the definitions of “deficit” and “debt” used in calculating the financial ratios under the Maastricht Treaty, and in meeting the conditionality requirements of the International Monetary Fund (IMF). The second category includes the government financial reporting requirements in the United Nations (UN) and European System of National Accounts (SNA), the IMF’s Government Finance Statistics (GFS) and Fiscal Transparency (FT), the Organization for Economic Cooperation and Development (OECD) Budget Transparency projects. Due to the close relationships between these ipsas and IPSAS, the organizations concerned have worked on their harmonization.

**General Characteristics**

There are several ways to characterize IPSAS: as an international version of national standards; as a government version of business accounting standards; and as a professional version of laws and regulations.

IPSAS is substantively the Anglo-American model of government accounting elevated to the international level. The similarity is so great that the United States and the advanced British Commonwealth countries — Australia, Canada, New Zealand, and the United Kingdom — are regarded as de facto adopters of IPSAS. Despite their variations, governments in these countries now routinely issue consolidated financial statements produced by their accrual accounting systems in accordance with standards set by boards largely independent of government authorities.

IPSAS is the government version of the International Financial Reporting Standards (IFRS). IFRS are set by the International Accounting Standards Board (IASB) and its predecessor for multinational corporations. From the outset, convergence with IFRS has been the modus operandi of the IPSAS Board and its predecessor, the Public Sector Committee. In their view, unless there is a reason for government to be different from business, IFRS applies to government.

Finally, IPSAS is the professional version of laws and regulations on government accounting and financial reporting. IPSAS are developed by an expert group appointed by a global federation of the accounting professional bodies in over 100 countries. IPSAS are not constrained or enforceable by either the “ipsas” mentioned above or by national laws and regulations enacted through legislative and administrative processes.

**Scope**

IPSAS address issues on financial measurement and financial reporting to the public. Specifically, they define the form and content of the so-called “general purpose financial
statements” and related financial disclosures in a government’s annual report. These financial statements consist of a statement of financial position and a statement of financial performance produced by an accrual financial accounting system, as well as a statement of cash flows produced by a cash accounting system.

This self-imposed scope limitation has a number of implications. IPSAS do not deal with the financial measures used in budgeting. IPSAS do not address the contents of reports produced to demonstrate compliance with laws and regulations, including budget execution. These reports are regarded as “special purpose reports” outside of the scope of IPSAS.

Premises

IPSAS are more comprehensible if one is aware of their underlying assumptions. The first assumption is that there are so many common transactions in the private and public sectors that it is possible, and indeed preferable, to have one set of generally accepted accounting principles for both sectors. Most IPSAS can therefore be set by making modest changes to the standards promulgated by the International [Business] Accounting Standards Board (IASB). Additionally, the IPSAS Board would establish standards for transactions and events unique to the public sector.

The second assumption is that since business firms annually prepare consolidated financial statements under the accrual basis, governments should do the same. Consolidated financial statements cover a primary organization and its subsidiaries in which the primary organization has a major ownership interest. The accrual basis used by business firms regards sale (not production) of goods and services as the criterion for judging financial performance.

The third assumption is that accounting standards are more objective and of a higher quality if they are set by an expert group independent of the organizations obliged to follow the standards. For the public sector, independence can be achieved or at least enhanced by giving the task to a private-sector body, an advisory board, or increase the number of public (non-government) members.

Finally, accounting standards should be produced through a due process. Due process means that research and deliberation should precede decisions. Furthermore, adequate opportunities are provided for interested parties to provide inputs before standards are finalized.

Structure

On the basis of the above premises, the IPSAS Board and its predecessor have gone through two phases of standard setting. The first phase from 1996 to 2002 produced a score of standards by modifying the corresponding IFRS. Since 2002, the second phase has focused on public-sector specific issues. (Interested readers can obtain up-to-date information about the board’s standard-setting activities, and can freely download the text of its documents.) General standards are listed ahead of specific standards, and the public-sector specific standards are noted in italics. (Short titles are used as necessary.)

Cash-basis and Accrual-basis Standards. The board issued one comprehensive cash-basis standard, presumably for countries, such as many developing countries, that are not ready to adopt the accrual basis. All the other IPSAS adhere to the accrual basis.
General Standards on Accounting Recognition and Measurement. There are only three standards in this category, namely:

- No. 4: The effects of changes in foreign currency exchange rates
- No. 9: Revenue from exchange transactions
- No. 23: Revenue from non-exchange transactions (taxes and transfers)

General Standards on Reporting. There are eleven standards in this category, namely:

- No. 1: Presentation of financial statements
- No. 2: Cash flow statements
- No. 3: Fundamental errors and changes in accounting policies
- No. 6: Consolidated financial statements and accounting for controlled entities
- No. 8: … Interest in joint ventures
- No. 10: Financial reporting in hyperinflationary economies
- No. 14: Events after the reporting date
- No. 18: Segment reporting
- No. 20: Related party disclosures
- No. 22: Disclosure … about General Government Sector
- No. 24: … Budget information ...

Standards on Specific Elements of Financial Statements. There are 13 standards in this category, namely:

- No. 3: Net surplus or deficit for the period
- No. 5: Borrowing costs
- No. 7: … Investments in associates
- No. 11: Construction contracts
- No. 12: Inventories
- No. 13: Leases
- No. 15: Financial instruments
- No. 16: Investment property
- No. 17: Property, plant, and equipment
- No. 19: Provisions, contingent liabilities and contingent assets
- No. 21: Impairment of non-cash-generating assets
- No. 25: Employee benefits
- No. 26: Impairment of cash-generating assets

Exposure draft. As of early July 2008, two exposure drafts awaited public comment, namely:

- Service concession arrangements
- Social benefits: disclosure of cash transfers to individuals and households

Current projects: At the same time, there were five current projects, namely:

- Conceptual framework for general purpose financial reports of public sector entities
- Review of cash-basis IPSAS
- Financial instruments
- Fiscal sustainability of government programs and their financing
- Heritage assets

In summary, the IPSAS Board has produced a small number of public-sector specific standards, but more is in progress. There are many more standards on specific topics than
on general criteria. Finally, the board recently initiated a project to articulate a formal conceptual framework on government financial reporting.

**Standards Specific to the Public Sector**

There are currently four IPSAS specific to the public sector.

No. 21 on impairment of non-cash generating assets: These are fixed assets that do not produce commercial benefits. The standard requires the recognition of loss due to impairment, which is the decline in fair value beyond depreciation.

No. 22 on general government sector: This standard clarifies the differences in the reporting entities in financial reporting and statistical reporting. The General Government Sector (GGS) used in statistical reporting includes financial and non-financial public corporations. The standard calls for additional disclosures about GGS.

No. 23 on revenues from non-exchange transactions: This standard covers taxes and transfers, which refer to fines, donations and debt forgiveness. Revenues are increases in assets or decreases in liabilities. Revenue recognition depends on the taxable events that trigger potential resource inflows.

No. 24 on budget information disclosure: Disclosures are made outside of financial statements. This standard calls for the following disclosures: original and final budget with projected revenues and appropriations; actual amounts on the budgetary basis; an explanation of variances; as well as a reconciliation of accrual and budgetary bases.

Additional standards will likely result from exposure drafts and current projects indicated earlier.

**CONCEPTUAL ISSUES**

**Conceptual issues** are debatable points about the standards themselves, including their substance and underlying ideas, in contrast to institutional or organizational issues. The conceptual issues include:

- Neglect of system capability and internal accountability
- Setting standards before agreement on a conceptual framework
- Starting IPSAS with modified international business accounting standards
- Ambiguous stance on the basis of accounting
- High aggregation level in financial reporting

These issues are briefly discussed.

**System Capability and Internal Accountability**

System capability refers to the infrastructure for collecting, recording, and summarizing financial data. Consolidated financial statements on the accrual basis can be produced only by an accounting system with sophisticated features. These features include: (1) the accounting equation, assets = liabilities + net assets, as its conceptual foundation; (2) a detailed chart of accounts for the elements of the accounting equation, as well as revenues and expenses as changes in net assets; (3) a double-entry recording system; and (4) the ability to translate standards (such as IPSAS) into specific policies and procedures applicable to the organization concerned. These features have to be incorporated in the hardware and software of the accounting system, along with human resources and financial resources made possible by political support and managerial
leadership. By assuming these prerequisites, the IPSAS seems neglects the necessity of building system capability.

Annual financial reporting to the public is not the only function of a government’s accounting system. Throughout the year, the accounting system is responsible for producing reports in response to requests by department managers, political executives, and parliamentary committees or members. IPSAS regards these internal “special purpose reports” as outside of its scope.

In summary, IPSAS emphasizes a subset of the outputs of a government’s accounting system, and pays little attention to its “through-puts” (operating procedures) and inputs. Officials responsible for designing and funding a government’s accounting system, however, have to take a holistic and operational perspective.

**Conceptual Framework**

The lack of guidance from a sound conceptual framework is partly responsible for the current state of IPSAS. A conceptual framework is expected to specify such things as objectives, scope, recognition criteria, definitions and qualitative characteristics of financial information. Even though they are necessarily general, these parameters could still provide the justification and foundation for standards. Up to this time, IPSAS are characterized by numerous detailed rules about specific elements of financial statements, and only few general principles. One might argue that, given the global reach of IPSAS, principles (see Exhibit 1) or principles-based standards might be more appropriate.

**Exhibit 1. Minimal Government Accounting Principles**

- Prepare and publish budgets, maintain complete financial records, provide full disclosures, and submit to independent audits.
- Monitor assets, liabilities, revenues, and expenses.
- Measure cash and other financial consequences of transactions and events.
- Assess government’s financial condition and performance.
- Issue user-friendly financial reports periodically.

Government accounting principles are not likely to be derived from the kind of conceptual framework being formulated at the IPSAS Board. Furthermore, if the experience of other accounting standards boards is any guide, constructing conceptual frameworks is a never-ending exercise and requires a delicate balance between generality and specificity. Conceptual frameworks have not been helpful in making specific accounting policy choices. The way forward, in the author’s opinion, is a commitment to an explicit theory of government accountability, so that accounting standards are derived from accountability requirements.

The conceptual foundation of corporate financial reporting is the theory of the firm that emphasizes managers as agents of the owners of the firm. Government accounting needs a broader theory of government accountability, which can be derived from Herbert Simon’s organization theory (Simon, 1945). When applied to the public sector, the essence of the theory states that a variety of stakeholders (see Exhibit 2) have a vested interest in a financially viable government. Their incentive to use a government’s financial statements — a source of their common knowledge about the government (Sunder, 1997) — comes from their desire to know the amount, timing and degrees of
uncertainty of the benefits they expect to receive from government. General purpose financial reporting reduces the information asymmetry between the stakeholders and government officials in control of government financial accounting system.

Exhibit 2. Government and Stakeholders

<table>
<thead>
<tr>
<th>Stakeholders</th>
<th>Contributions Made</th>
<th>Benefits Expected</th>
</tr>
</thead>
<tbody>
<tr>
<td>Voters</td>
<td>Government legitimacy</td>
<td>Public and private goods and services</td>
</tr>
<tr>
<td>Taxpayers, fee payers</td>
<td>Payments or promises to pay</td>
<td>Public and private goods and services</td>
</tr>
<tr>
<td>Grantors and donors</td>
<td>Financial resources</td>
<td>Services per terms of grants</td>
</tr>
<tr>
<td>Lenders, creditors</td>
<td>Financing, including</td>
<td>Payment plus interest</td>
</tr>
<tr>
<td></td>
<td>financial resources</td>
<td></td>
</tr>
<tr>
<td>Employees</td>
<td>Labor services</td>
<td>Compensation, retirement benefits</td>
</tr>
<tr>
<td>Contractors</td>
<td>Goods and services</td>
<td>payments</td>
</tr>
</tbody>
</table>

**Emulation of Business Accounting**

Contemporary business financial accounting has influenced government accounting in several positive ways: Annual financial statements should be in the consolidated format in order to cover the whole firm, and to lessen information overload for users. There should be a package of financial statements to show financial position and performance, as well as cash flows. The balance sheet should have a broad measurement focus so that capital assets and long-term liabilities are reported. The accrual basis should be used so that financial performance emphasizes accomplishments in terms of sales. Finally, financial statements should be prepared by using standards set by a neutral organization, and should be verified by independent auditors.

Even so, it is not necessary for IPSAS to imitate IFRS to the point that the so-called “core” set of initial IPSAS (Sutcliffe, 2003) amount to slightly modified IFRS. IFRS are necessitated by global capital markets and the operations of multinational corporations. There are no comparable motivating forces for IPSAS. By imitating the IFRS, the Public Sector Committee (IPSAS Board’s predecessor) spent resources over six valuable years and incurred considerable opportunity costs. It could have developed a set of accounting standards specifically to meet the common needs of international lenders and donors to governments. Or it could have spent the time addressing public sector issues. These public sector issues arise from some fundamental differences between government and businesses, such as those identified in Exhibit 3.

Exhibit 3 Government and Business Characteristics

<table>
<thead>
<tr>
<th>Defining Characteristics</th>
<th>Government</th>
<th>Business</th>
</tr>
</thead>
<tbody>
<tr>
<td>Driving force</td>
<td>Power</td>
<td>Money</td>
</tr>
<tr>
<td>Ultimate performance criterion</td>
<td>Equity</td>
<td>Efficiency and economy</td>
</tr>
<tr>
<td>Relation to law</td>
<td>Has the authority to make and enforce laws</td>
<td>Can influence legislation but cannot legislate</td>
</tr>
<tr>
<td>Standard of conduct</td>
<td>Promotion of the public</td>
<td>Promotion of self-interest</td>
</tr>
<tr>
<td>Residual financial stakeholders</td>
<td>Taxpayers</td>
<td>Stockholders</td>
</tr>
<tr>
<td>---------------------------------</td>
<td>-----------</td>
<td>--------------</td>
</tr>
<tr>
<td>Transactions</td>
<td>Involuntary and non-reciprocal exchanges on the output side and some on the input side</td>
<td>Mostly voluntary and reciprocal exchanges on both the output and input sides</td>
</tr>
<tr>
<td>Product</td>
<td>Indivisible public goods for collective consumption</td>
<td>Divisible private goods for personal consumption</td>
</tr>
<tr>
<td>Financing source</td>
<td>Tax revenues</td>
<td>Sales revenue</td>
</tr>
<tr>
<td>Assets</td>
<td>Public property, including all non-private property within jurisdiction</td>
<td>Private property with ownership clearly defined by law</td>
</tr>
<tr>
<td>Liabilities</td>
<td>Broadly construed to promote general welfare</td>
<td>Narrowly construed to limit risk exposure</td>
</tr>
</tbody>
</table>

The “non-business” characteristics of government have a number of consequences for its accounting. The accounting equation — “assets – liabilities = residual equity” — befits the nature of business firms. Since a government can be viewed as a legal person, owning property and being held liable, the accounting equation is used to structure the financial data of government. Even so, the residual equity or net assets of a government cannot be easily explained or interpreted. In addition, some government assets (e.g. heritage assets) are difficult to measure with accounting techniques developed for a market economy. Some potential government liabilities (e.g. social security) are difficult to define because of political and legal considerations. The indivisible nature of public goods makes it impossible to recognize tax revenues on the basis of services rendered or goods sold, i.e. the full accrual basis used by business firms. Instead, government benefits are distributed primarily through the budgetary process, making the budget the government’s primary fiscal document. The extent to which accounting (and accounting rules) should be independent of budgeting (and budgeting rules) is a contentious issue. In any event, year-end financial reporting complements budgetary disclosures and is a component of fiscal transparency.

**Cash vs. Accrual Measurement**

The IPSAS Board has demonstrated an ambiguous stance on the issue of cash basis vs. accrual basis of accounting, and has not clearly explained the relationship between accrual basis and accrual accounting. The IPSAS Board has sent mixed signals on its commitment to accrual. It evidently favors the accrual basis, issuing all its standards under that basis, except one comprehensive cash-basis standard. That standard is justified on the basis of the time and effort required for some governments to transition to accrual. However, this position is unnecessary because the board could affirm accrual in principle, leaving each country to implement the principle to the extent possible. It is detrimental to the board’s overall posture of promoting accrual by creating the impression that both cash and accrual are equally acceptable bases in adopting and implementing IPSAS.
The mixed signal regarding accrual may have to be clarified by differentiating three contexts for accrual: the accrual basis of revenue recognition, accrual accounting, and accrual-based financial statements.

The IPSAS Board has not articulated a clear alternative to full accrual of revenue recognition in business. As explained earlier, it is not feasible for governmental activities that produce collective services to use service results or accomplishments as the basis for recognizing tax revenues. IPSAS No. 23 provided the board with an opportunity to state an alternative to the business-type accrual basis. However, even though the board properly traced tax revenue recognition to taxable events, it fell short of explicitly identifying the government’s assertion of a claim as the basis of recognizing such revenues and related receivables.

Accrual accounting is much broader than the accrual basis of accounting. Governments can still practice accrual accounting without the full accrual basis of revenue recognition, because revenue is an increase in net assets, and the amount of net assets depends on the criteria used in recognizing some resources as assets and some obligations as liabilities. A wider range of assets and liabilities could be reported on the balance sheet with higher degrees of accrual. The amounts of net assets measure liquidity and solvency. Revenues and expenses are increases and decreases, respectively, in net assets (Exhibit 4).

<table>
<thead>
<tr>
<th>Degree</th>
<th>Assets</th>
<th>Liabilities</th>
<th>Net Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mild accrual</td>
<td>Current financial resources</td>
<td>Current liabilities</td>
<td>Liquidity</td>
</tr>
<tr>
<td>Moderate Accrual</td>
<td>Current and long-term</td>
<td>Current and long-term</td>
<td>Financial solvency</td>
</tr>
<tr>
<td></td>
<td>financial resources</td>
<td>liabilities</td>
<td></td>
</tr>
<tr>
<td>Strong accrual</td>
<td>Financial and non-financial</td>
<td>Current and long-term</td>
<td>Economic solvency</td>
</tr>
<tr>
<td></td>
<td>(capital) resources</td>
<td>liabilities</td>
<td></td>
</tr>
</tbody>
</table>

The “degrees of accrual” concept conveys the elastic nature of accrual, and contrasts sharply with the dichotomous approach implicit in IPSAS. Since fundamentally assets are property rights and liabilities are obligations, this “rights and obligations” version of accrual is the public-sector counterpart to the service effort and accomplishment (SEA) based accrual used by businesses.

We have moved from “accrual basis of accounting” to “accrual accounting.” Accrual accounting refers to accounting that emphasizes the balance sheet which reports the cumulative consequences of past transactions and events. Data from the accrual accounting system can be used to prepare accrual-based financial statements, namely the statements of financial position and financial performance.

The practical implication of this clarification of accrual is that transition to accrual entails three phases: (1) recognizing the government’s receivables from taxation and other non-exchange transactions; (2) gradually building up the capacity of accounting system to capture a larger portfolio of assets and liabilities; and finally (3) preparing the accrual-based financial statements.

**Level of Aggregation**
In addition to requiring financial statements to be prepared under an ambiguous accrual basis, IPSAS also favors presenting financial statements in a consolidated format, which displays the government as a whole to give an overview to users. This presentation format, however, raises two controversial issues: (1) What does a government consist of? And (2) should the government as a reporting entity be presented as a whole in one column of figures?

The problematic nature of defining the boundary of government is evidenced by the need for IPSAS No. 22. The standard seeks to clarify the relationship between (a) government as a entity for which financial statements are prepared and (b) the general government sector for which government finance statistics are reported. One should be aware that, while all governments shall certain essential attributes, institutional arrangements vary in different political and economic systems. Except in cases of a great concentration of power, corporate-type consolidation probably would always overstate the extent of central control in government.

A basic limitation of having one column for the “whole government” is that this format cannot show internal borrowing and transfer of funds. What consolidation reveals may be interesting, but what it conceals is vital. For example, the general fund of the U.S. Government has repeatedly borrowed billions of dollars from the Social Security fund, with little prospect of repaying it with interest. This fact is reported, but only in an obscure note following the financial statements.

The whole government could be reported in other ways. There could be columns organized by principal types of activities — governmental, business-type and fiduciary — and a total for the whole government. The government-wide total may have to be augmented by another column displaying legally independent units with significant financial interdependency with the government. The general point is that the accounting system has to maintain data at a sufficiently disaggregated level to permit ways of presenting the government.

The resolution of the conceptual issues identified in this section would move IPSAS in the direction of generally appropriate accounting principles. Another major challenge of the IPSAS Board is to realize the goal of global acceptance, which requires the resolution of the institutional issues discussed in the next section.

INSTITUTIONAL ISSUES

IPSAS is an audacious enterprise in several respects: It is intended to transcend national jurisdictions. It either overlooks or ignores the national diversity in political and economic systems, as well as cultural and legal traditions. It elevates professional authoritativeness above governmental authority. It expects the Anglo-American model of government accounting to have global appeal.

The previous section identified the serious conceptual issues awaiting resolution. Even in the absence of the conceptual challenges, there remain some legitimate institutional issues about the standard-setting structure and its oversight.

Standard-setting Structure

The IPSAS Board, preceded by the Public Sector Committee (PSC) until 2004, is a senior technical committee of the International Federation of Accountants (IFAC).
IFAC is composed of 157 national associations of professional accountants in 123 nations. IPSAS Board members, all serving on a part-time and non-salary basis, are appointed by the governing board of IFAC, primarily on the basis of nominations made by IFAC’s institutional members. Currently the IPSAS Board has 15 members nominated by national bodies, and 3 public members.

The IPSAS Board is assisted on technical matters by a broadly-based Consultative Group. Observers that have provided financial support include: International Monetary Fund, The World Bank, the United Nations Development Program, and the Asian Development Bank. Observers that have not provided financial support include: International Organization of Supreme Audit Institutions, the Organization for Economic Cooperation and Development, International Accounting Standards Board, and the European Commission.

The current size and composition of the IPSAS Board reflects a delicate balance of considerations. The larger the board, the more representative it could be but the more it costs. At any size, the appointing authority has to grapple with several issues concerning representation: What are, or should be, the attributes of representativeness? What is the appropriate weight of each attribute? How many of attributes should a board candidate possess?

Judging from the roster of IPSAS board membership over the years, the distribution of seats seems to reflect these attributes:

- nominees of national accounting/auditing bodies, and “public” members
- the countries whose practices are (likely to be) embodied in IPSAS, and other countries
  - professional experience in government or in the private sector
  - different regions of the world
  - developed nations, and developing nations
  - democracies, and other political systems

Similar attributes may be used to describe the Consultative Group. The expectation is that individuals possessing one or more of these attributes, in some imperceptible ways, would shape the IPSAS in the proper fashion.

In any appointment period or on a particular project, one might be concerned about the under- over over-representation of a particular attribute. The ultimate dilemma is this: the greater the diversity of participants, the less coherent their work products are likely to be.

**Oversight Structure**

Another institutional issue is: Should the IFAC remain the sole oversight body for the IPSAS Board? Formally, the IFAC has been the sole oversight body for the IPSAS Board (since 2004) and the PSC (from 1986 to 2004). Additional sources of institutional accountability, if not oversight as such, are the organizations that provide funding and donated services for the operation of the IPSAS Board. Even though the production of IPSAS continues, the adoption and implementation of IPSAS has emerged as a relevant issue for all concerned. Presumably the IFAC’s interest in sponsoring the IPSAS Board extends to the adoption and implementation of IPSAS. If so, a pluralistic oversight mechanism merits consideration. Such a mechanism should include government finance officers and government auditors.
In all countries, changes to government accounting systems require the approval of the chief financial officers and possibly even the legislature. Approval may take the form of administrative rule or legislation. Budgetary support to implement IPSAS is the most tangible form of endorsement. To the extent that international organizations of legislators, finance ministers, budget directors exist, their willingness to participate in an oversight body for IPSAS would be conducive to the implementation of IPSAS.

In many countries, private-sector auditors do not, or are not authorized to audit government financial statements, especially those issued by the central government. Supreme audit institutions, as well as their offices or counterparts in lower levels of government, have the mandate to perform government audit, or contract out audit services. Currently the INTOSAI (International Organization of Supreme Audit Institutions) is an observer at IPSAS Board meetings. Its willingness to recommend IPSAS to the auditors general of its member states would be a major vote of confidence for the enforceability of IPSAS.

It has been said that wars are too important to be left to generals. If so, government accounting may be too important to be left to accountants. For those who fear the “politicization” of accounting, politics is that way government operates. IPSAS represents accounting for government. However, accounting by government is still the way of accounting of government is carried out.

CONCLUSION

One may draw an analogy between reforming government accounting and constructing a new building to replace an old one. Before the new building is realized, many steps have to be executed: (1) An architecture sketches a conceptual design and refine it into a blueprint. The planning documents reflect design principles and the architect’s interpretation of tradition and style. He considers the function of the building when deciding its form, as well as characteristics of the site and the larger surroundings. The architecture also must comply with the building code promulgated by government authorities to ensure safety, among other objectives. (2) A structural engineer will come in to make sure that the building the architect has designed will not collapse under various stressful scenarios, such as earthquakes, strong winds, and extreme temperatures. (3) The assessment of the structural engineer may compel the architecture to revise his design, sacrificing beauty for stability and other practical considerations. (4) A developer then makes an economic assessment of the project, and looks for financing. If the old building has architectural or cultural significance, the approval of government regulators is often required to demolish or significantly alter it. (5) Assuming adequate financing is secured, contracts with contractors are negotiated and signed. Construction begins. Cost overrun and other “surprises” may be encountered and overcome… Eventually, the ribbon is cut and the building opens.

The reader can envision an analogous process in building a new, or modifying an old government accounting system in a country. The system is designed and tested, financing and approval is secured, and the work is done and redone as necessary. In other words, accounting standards such as IPSAS are similar to the conceptual design for a building. Standard setting is only a preliminary step in the long process of reforming accounting in
Developing IPSAS is similar to formulating a universal building code. One may raise questions about the feasibility and desirability of having such a code. Is there enough reliable knowledge that enables us to confidently specify the requirements for all governments? Comparative international government accounting (CIGAR) is still in its early stage of development (Lueder, 2008). Researchers are still very far away from having found the laws of human nature as counterpart to the laws of physics which have served as the foundation of structural engineering. Given the inadequate knowledge base, prescribing a set of uniform accounting requirements for all governments in view of their diverse environments requires a leap of faith.

This paper has identified the “design” issues to be resolved while the conceptual sketch or blue print is on the drawing board. It has also raised issues about who should be on the design team, and who else should be recruited to participate in the marketing and implementation of IPSAS.

Judging from the information available from the IPSAS Board, the process of adopting and implementing IPSAS has already begun. That would be similar to starting the construction process while the conceptual design is still being drawn. The hopes are high, but the risks may be higher.

The current transformation of government accounting is likened to a global revolution staged by accountants. Many revolutions were started with high ideals and an incomplete conceptual design. Most failed because the revolutionaries ignored local conditions, or did not have the patience to prepare a blueprint on how to govern a country afterwards. It remains to be seen whether this global revolution in government accounting is premature. In this regard, Niccolo Machiavelli’s cautionary note may be in order:

There is nothing more difficult to carry out, nor more doubtful of success, nor more dangerous to handle, than to initiate a new order of things. For the reformer has enemies in all who profit by the old order, and only lukewarm defenders in all those who would profit by the new order. This lukewarmness arises partly from fear of their adversaries, who have the law in their favor, and partly from the incredulity of mankind, who do not truly believe in anything new until they have to have actual experience of it.

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