



Emerging Markets Queries in Finance and Business

The need for public sector consolidated financial statements

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Abstract

The public sector has undergone a series of reforms, reforms that have had a great influence on the development of public accounting and reporting system. We consider that the most important issue that has resulted from these reforms refers to the introduction of consolidated financial reporting in the public sector. The public sector consolidated financial statements represent a challenging topic of worldwide research and also, became a debated issue both for international regulatory body (IPSASB) and for governments. However, the objective of this article is to analyze if there is a need for consolidated financial statements in the public sector and to outline the activity of the international regulatory bodies regarding the issuance of specific standards regarding this current topic. So as to reach this main objective of the research we explore the scientific literature regarding this issue and we followed the steps taken by regulators in the development of standards regarding consolidated financial statements that can be globally used. This theoretical paper emphasizes the importance of the introduction and presentation of consolidated financial statements by public sector entities and reveals the link between these types of reports prepared by entities from private sector and public one. The main conclusion of this conceptual paper is that public sector entities should prepare these consolidated reports and the regulators and governments play an important role in taking and introducing these practices into the public sector. So, we believe that there can be no excellence in accounting without excellence in reporting or vice versa.

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1. Introduction

Throughout recent years, the public sector was marked by a series of reforms that had a big influence on the accounting and reporting system. It was mainly due to an increasing internationalization of capital markets based on the background of a rapid development of economic globalization (Nistor, Stefanescu, 2012). The most important reform that took place in the public sector is the movement from cash-based accounting system to the accrual one. All these reforms could be seen as a revolution that occurred in the public sector organizations introduced by the NPM, fact also sustained by the researchers such as: Guthrie et al. (1998), Guthrie and Humphrey (1996), Pallot (1992), Jones et al. (2001), Grossi and Gardini (2012). The introduction of accrual accounting in public sector entities actually represents a first step towards the introduction of a new reporting system in the public sector, namely the consolidated reporting system. Although, this consolidated reporting system of public sector is not yet globally widespread, both governments and regulatory bodies in many countries make sustained efforts for the preparation and presentation of some consolidated reports at the public sector entities level. However, the opinions concerning the introduction of accrual accounting and the presentation of such reports in the public sector are both pros and cons. Some researchers believe that copying private sector practices and their application in the public sector is not exactly ideal, claiming that the objectives of the public sector, that differ from those of the private sector, should always be taken into account. Moreover, the direction towards which the accounting system in the public sector is going has been questioned, Chan (2003) asking himself if it is really necessary for governments to imitate without a critical sense the practices of the private sector. Also, Christiaens (2002) argues that the introduction of private sector methods and the lack of a conceptual framework for governmental accounting leads to the arising of a number of problems rather than solving them. However, although there are some retentions regarding the introduction of these practices, we believe that they are also necessary in the public sector because the whole public sector might be considered as a group of companies, and therefore a reporting system that gives us an overview of the public sector as a whole is needed.

Therefore, the purpose of this article is to investigate whether in the public sector the adoption and presentation of the consolidated financial statements (CFS) are more related to the information needs in the public sector. This research also focuses on the advantages and disadvantages of introducing and presenting the consolidated financial statements in public sector. Basing on this background, this paper will now develop as follows. After a brief overview of the literature on the public sector consolidated financial statements, section two highlights the main changes that determined the introduction and presentation of CFS in the public sector. Then, part three presents the activity of the international regulatory bodies regarding the issuance of specific standards regarding public sector consolidated financial statements, while section four summarizes the findings and presents the limits of the research, and the future prospect of research, too.

2. Literature review

The literature regarding the private sector consolidated financial statements is rather vast, which cannot be said about the literature regarding the public sector consolidated financial statements. Therefore, the public sector consolidated financial statements literature is sparse, and this lack of works about this topic is due to the novelty aspect of this issue in the public sector. So, if we compare the public and private sector consolidated reporting literature, it is undoubted that the main contributions to the concept of consolidation and to the development of this reporting system were brought by the private sector literature.

Although we believe that there are some differences between the two sectors, public and private, and between their goals, too, these practices that are applied in the private sector can be taken over by the public sector, as a financial reporting system.

Some relevant contributions to the development of the literature on the consolidated financial statements in the public sector were brought by some authors, namely: Grossi and Pepe (2008), Grossi (2008, 2009), Walker

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