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The reluctance of a developed country to choose International Public Sector Accounting Standards of the IFAC. A critical case study

Lasse Oulasvirta *

University of Tampere, School of Management, FI-33014 University of Tampere, Finland

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ABSTRACT

A movement towards internationally standardized public sector financial reporting started at the end of the 1990s. This standardization process is led by the non-governmental organization the International Federation of Accountants (IFAC). The IFAC has published International Public Sector Accounting Standards (IPSAS standards) for all public sector entities from national central governments to local governments. This article analyses the reasons why a developed country refused to adopt IPSAS standards. The analysis is done in the country context of Finland, where the national government accounting board (FGAB) took a negative stand on IPSAS standards. The method of this article consists of a literature review, interviews, a documentary review and of participatory observation in the FGAB. The article describes the reasons for the FGAB's decision and presents an interpretation supported by institutional theory. The choice of the FGAB is compared to the situation regarding the IPSAS adoption in European and especially in Nordic countries.

1. Introduction

One key area of accounting research considers the convergence of accounting standards across countries (Kimura and Ogawa, 2007, 216–217). A single set of globally accepted accounting standards serves the growing internationalization of capital markets and the information needs of capital providers (Camfferman and Zeff, 2007; Meeks and Swann, 2009). If listed companies account for identical transactions and events in the same consistent way, this will make financial statements more comparable. This may reduce information costs and serve international financial markets (De Lange and Howieson, 2006, 1013; Agostino et al., 2011, 437–438). Standards are also important for public sector accounting. A good quality of accounting and financial information serves the needs of governmental decision-making as well as accountability to voters and taxpayers. Also, International Public Sector Accounting Standards may create comparable public sector financial statements across countries.

* Tel.: +358 3 3551 6391.
E-mail address: lasse.oulasvirta@uta.fi.

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Before the turn of the present century governments did not have international accounting standards geared to the uniform presentation of financial statements and budgetary outcomes. Different governments regulated their accounting systems and financial and budgetary reporting from their own starting points. This led to diverse public sector financial accounting and reporting systems. Nonetheless, a common trait in preparing accounts has been cash based or modified cash based bookkeeping. Governments have emphasized the monetary and budgetary control and the presentation of budget outturn calculation instead of the presentation of financial performance (profit or loss) and financial position (Monsen, 2002, 2007).

The situation has later changed significantly. The New Public Management (NPM) thoughts have caused governments to use more and more accruals-based accounting and also to present statements of financial performance and position. Since 2000 the IFAC has released international public sector accruals-based accounting standards (IPSAS) for all public sector entities whether they are national central governments or local governments. The objective of the IPSASB (International Public Sector Accounting Standards Board) of the IFAC 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 (GPFS) (IFAC, 2008, 4). By the end of July 2012, the IPSASB had released 32 accruals-based standards for governments.

The accruals-based accounting for public sector may emphasize fair value evaluation and assets and liabilities (the balance sheet approach) or historical costs and the income statement (the revenue-expense approach) (Hintz, 2007, 328–330). The IPSASB was convinced when it started releasing standards that the objective of financial reporting was the same for the public sector and the private sector. Therefore the IPSASB chose IAS/IFRS standards as a basis for public sector standards (Christiaens et al., 2010, 540).

The research question in this article is now whether or not this accruals-based accounting model of the IPSAS based on the balance sheet approach and fair value measurement is able to challenge and replace the national governmental financial accounting and reporting model of Finland based on the revenue-expense approach and mainly on historical cost valuation.

The research question is further focused on the time period during which the national standards-setter of Finland took a stand on IPSAS standards. This was done in a certain institutional context with different forces either promoting or resisting a change in the present governmental accounting culture. At stake was the balance sheet approach and the fair value model of the IPSAS and, on the other hand, the Finnish government accounting model of revenue-expense approach and historical cost valuation.

The adoption of a private sector reporting model based on decision usefulness such as the IAS/IFRS standards has been questioned as inconsistent with the accountability reporting model relevant in the public sector (Falkman, 1997; Broadbent, 1999; Monsen, 2002; Pallot, 2003; Christiaens, 2004; Barton, 2005; GASB, 2006; Christiaens and van Peteghem, 2007; Luoma et al., 2007; Grossi and Tagesson, 2008; Tagesson, 2009). Different starting points in information usage in the private sector and public sector accounting should have some influence on the conceptual framework of accounting (Barton, 2005, 144). The decision usefulness framework serves the needs of investors' decision-making while the accountability model of reporting emphasizes the accountability of agents to their principals (Ijiri, 1983). In the private sector the interests of shareholders and investors dominate. Tax financed governments have no shareholders; they are primarily accountable to budget decision-makers and citizens as taxpayers and voters (e.g. Pallot, 1992; Collin et al., 2009).

One further critical element is that IAS/IFRS relies heavily on concepts and measurements derived from fair value accounting and the balance sheet approach. These starting points cause problems in the identification, measurement and evaluation of assets and liabilities in the public sector. The problematic issues are connected to the characteristics of public goods (Musgrave and Musgrave, 1988), public monuments, heritage assets, infrastructure assets and community assets, which seldom have any liquid markets and tractable market values and benefit the public at large and not the owner (the public entity) (Pallot, 1992; Barton, 2005; Lapsley et al., 2009).

However, this article will not replicate the extensive theoretical discussion on a suitable framework for public sector accounting. The theoretical framework for public sector accounting is, however, discussed in the context of the case country, because the Finnish Government Accounting Board's (FGAB) rejection of the IPSAS was in many respects based on the perception that the conceptual framework (CF) of the IPSAS was inadequate.

In the Finnish case, the FGAB's rejection of the IPSAS was based on a thorough assessment of the need to renew the accounting rules to meet IPSAS standards. The process took about seven years in the FGAB. During these years most of the IPSAS standards were critically reviewed, likewise the CF for the standards. This exhaustive work of the FGAB offers a good opportunity for our study on standard setter's decision-making on adopting or not adopting international standards.

The assumption that can also be used in a wider context than only connected to the FGAB's decision is that only when the deinstitutionalizing forces are strong enough the prevailing accounting culture will change. If the challenged national accounting culture is deeply rooted, in other words, local institutional rules have already entered the phase of sedimentation (Tolbert and Zucker, 1996), it may contribute to that kind of resistance that slows down or even completely prevents the deinstitutionalization of the ruling culture and the institutionalization of the new transnational accounting culture represented by the IPSAS. The conclusions of this study should have some universal applicability in the attempt to analyse the accounting and financial statement presentation models chosen in the public sector within the framework of institutional theory.

The structure of the paper is as follows. The introduction describes the background and aim of the article. Section 2 presents the theoretical approach and the method of the study. Section 3 contextualizes the case within the Finnish governmental accounting tradition and practice. Section 4 describes and analyses the FGAB's evaluation of the IPSAS framework. Section 5 compares the Finnish case to those in other European countries. Finally, Section 6 presents conclusions in an institutional context.

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