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WORKING PAPER

Impact of IPSAS on Reforming Governmental Financial Information Systems: A Comparative Study

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Abstract

The diversity in reformed governmental financial information systems created a need for harmonized international accounting standards, resulting in the elaboration of the IPSAS (International Public Sector Accounting Standards). By means of a survey to experts this study examines the extent to which governments in Europe adopt IPSAS-inspired accrual accounting and how the differing levels of adoption can be explained.

The study reveals diversity in the adoption process of IPSAS-inspired accrual accounting. Some governments still account cash based. Only a minority apply IPSASs. The majority of local and central governments apply accrual accounting disregarding IPSASs.

The trend toward accrual accounting can be explained by the need for transparency, efficiency and performance management. The fact that the IPSAS are unique and offer specific know-how is the main argument to make use of them. A number of jurisdictions do not adopt IPSASs because they transfer their own local business accounting rules.

Key words

Public sector accounting reforms, IPSAS, New Public Management, comparative study

1. Introduction

One of the most crucial aspects of New Public Management (NPM) was the wave of reforms in financial information systems. These changes are an essential element to improve the management and decision-making of government institutions, which is also called New Public Financial Management (NPFM) (Guthrie et al., 1999). The cornerstone of reforming financial information systems is the introduction of accrual accounting in the public sector, at the expense of traditional cameralistic/cash accounting systems (Lapsley, 1999). Several governments have been adopting and implementing accrual accounting systems. Since the last decade the International Public Sector Accounting Standards Board (IPSASB), which used to be the Public Sector Committee (PSC) of the International Federation of Accountants (IFAC), has developed a set of International Public Sector Accounting Standards (IPSAS), in order to streamline and support these reforms.

Based on evidence in European countries this study aims to shed a light on the actual level of reforming financial information systems, particularly in the direction of the adoption of the IPSASs. Secondly, this paper attempts to explain the presupposed differences across the European jurisdictions.
This paper attempts to contribute to the comparative studies in public sector accounting. Some authors, such as Benito et al. (2007), Brusca and Condor (2002), Lüder (1992 and 1994), Pina and Torres (1999) and Vela and Fuertes (2000), have made contributions to comparative accounting studies in the public sector. Most of them however focus on a small sample of countries or on a particular aspect of the accounting legislation. It is the aim of this paper to compare the adoption of accounting systems, in relation to IPSAS, within a broader European context. Furthermore, while different papers only focus on the actual state of the adoption or implementation of an accounting system, this study also attempts to point on the reasons why governments choose for a specific accounting system.

Following this introduction, a theoretical explanation of accrual accounting reforms is given. Emphasis is placed on the efforts concerning the international harmonization of accounting standards. Chapter 3 and 4 provide the research objectives and the methodology of this paper. Next, the results of the survey are presented. Finally, the main findings of this research paper are summarized.

2. Financial information system reforms

Cameralistic/cash accounting has been the mainstream accounting and financial information system in the public sector for many years. Some governments still use it, e.g. in the context of the yearly discussion and approval of their budgets to spend. Although cash accounting has its merits, accrual accounting was introduced to improve the financial information system of public sector entities. Because cash accounting gives little information concerning liabilities and the future potential benefits of assets, accrual accounting is better suited for planning, financial management and decision making (FEE, 2007). It could also improve the comparability of the financial performance between jurisdictions and provide a greater accountability of the public resources, as the financial data will become more transparent (Guthrie, 1998). The importance of an efficient, reliable and user-friendly financial information system is emphasized by Osborne and Gaebler: “What gets measured gets done” (Osborne and Gaebler, 1993). Between the opposite poles of cash and accrual accounting two other bases of accounting were recognized by the IFAC: modified cash accounting and modified accrual accounting.

According to IFAC a **cash basis of accounting** is a “basis of accounting that recognizes transactions and other events only when cash is received or paid.” (IFAC, 2008, p. 926) It measures financial results for a period as the difference between cash receipts and cash payments. Cash flow statements and cash balances are the most common documents (IFAC PSC, 2000 and IFAC, 2008).

A **modified cash accounting** system recognizes transactions and other events on a cash basis during the year, but it also takes into account the unpaid accounts and/or receivables at year’s end. In fact, the books are held open for around a month after year end (IFAC PSC, 2000).

A **modified accrual accounting** system recognizes transactions and other events on an accrual basis, but certain classes of assets or liabilities are not recognized. A typical example is the expensing of all non-financial assets at the time of purchase (IFAC PSC, 2000).
An **accrual basis of accounting** is “a basis of accounting under which transactions and other events are recognized when they occur (and not only when cash or its equivalent is received or paid). Therefore the transactions and events are recorded in the accounting records and recognized in the financial statements of the periods to which they relate.” (IFAC, 2008, p. 32-33).

The IPSASB is an independent standard-setting body working under the auspices of the IFAC[‡]. The main activity of the institution is to publish the International Public Sector Accounting Standards (IPSAS) (Christiaens and Van den Berghe, 2006; IFAC, 2008). The IPSASB has currently published 27 standards on modernizing financial information systems. The Board is still working out new and updating existing standards. Each standard is the result of an intense and rigorous due process. The IPSASB chose to use the IAS/IFRS standards as a basis for developing the IPSASs. It is “an effort to be consistent, where possible, with the existing international guidance, as well as avoiding the need to ‘reinvent the wheel’ for the public sector” (IFAC PSC, 2000). The IPSASB is clearly convinced that the ultimate objective of financial reporting is the same for the public and private sector. Therefore each IAS/IFRS is reviewed and adapted to develop the IPSASs. For specific public sector topics, with no private counterpart (such as non-exchange revenues), new standards are written (Christiaens and Van den Berghe, 2006; IFAC 2008). As the IPSASB has no formal power, the adoption of the IPSAS in local and central governments is completely voluntary. Benito et al. (2007) have demonstrated that the IPSAS are an important stimulus for the harmonization of financial information systems in the public sector.

Different authors state that the international trend towards modernizing the financial information system is likely to continue during the following years (OECD, 2000; Lüder and Jones, 2003). An important stimulus in this evolution is the support of international organizations such as OECD, NATO, United Nations, the European Commission and Interpol. All these influential organizations promote sound financial management and accountability. They all have adopted an IPSAS compliant accrual accounting system (Hathorn, 2008). Such “good practices” have a moral influence on different countries around the world. In addition,

[‡] The IFAC is a non-profit, non-governmental, non-political international organization that issues the International Accounting Standards / International Financial Reporting Standards (IAS/IFRS). These are internationally accepted accounting standards for the private sector (Sutcliffe, 2003).

the International Organization of Supreme Audit Institutions (INTOSAI) promotes the use of IPSAS (Algemene Rekenkamer, 2003).

3. Research objective

Although the trend of adopting accrual based accounting systems in the public sector occurs worldwide, there appear to be significant differences in the way those systems are adopted. These differences are situated at three levels: (1) the content, (2) the timing of the adoption and (3) the way of adoption accrual accounting. Carvalho et al. (2007) state that there is a great diversity in the way the accounting reform in Portuguese local governments is applied across municipalities. This diversity can be explained by the voluntary compliance to the Official Plan for Governmental Accounting (OPGA). Most local governments adapt the accrual accounting reform to their own needs and thus, do not fulfill all requirements of the OPGA. A similar conclusion can be drawn for central governments. If each country adopts accrual accounting systems according to their own particular necessities, accrual accounting reforms will not be homogenous. It can be stated that, in spite of the international implementation of accrual accounting, the financial information systems in the public sector are still relatively divergent (Benito et al., 2007; Brusca and Condor, 2002; Carvalho, 2007; FEE, 2007; Lüder and Jones, 2003 and Torres, 2003).

There is also a significant diversity in the timing of the adoption process. Some countries are intensively investing in modernizing their accounting systems. Countries that lead the bunch are mainly Anglo-Saxon (Australia, New Zealand, the United Kingdom and the United States), while other countries choose a more conservative approach (Benito et al., 2007; Carlin, 2005; Groot and Budding, 2008; OECD, 2002; Van Der Hoek, 2005).

A third difference refers to the way in which accrual accounting is adopted. Some countries have a decentralized vision, which means that the accrual accounting reforms are first developed at the municipal level before they are introduced in the central government (e.g. Sweden). Other jurisdictions impose the introduction of NPFM reforms in a more centralist way (e.g. New Zealand) (Groot and Budding, 2008; Guthrie et al., 1999; Olson et al., 1998).

It is the aim of this paper to study the different levels of adopting accrual accounting across different European countries. The focus is on the level to which accrual accounting is adopted. This study does not aim to focus on the content related differences of accrual accounting. This work has already been done by other authors such as Benito et al., 2007. Therefore the first research question is the following.

RQ 1: To what extent is (IPSAS inspired) accrual accounting adopted in different levels of government in European countries?

This study focuses on the adoption of new governmental information systems, i.e. the decision of the legislator or standard setter to prescribe a specific accounting system. The adoption is an important issue as it is the first step of the whole reform process. The implementation of the prescribed accounting system is a next phase of the reform process. Some authors (Benito et al., 2007, Brusca and Condor, 2002 and Pollitt and Bouckaert, 2004) have proven that there is a great diversity in the implementation of structural (accounting) reforms. However, the way and the status of implementing the accounting regulations is beyond the scope of this research paper and could be a topic for further research. It is the preceding phase of developing and adopting modernized information systems, in the light of international standards, that will be examined in this paper.

For local as well as for central governments the study of Benito et al. (2007) reveals that there is a reasonable degree of coincidence with the IPSASs, but they also prove that there is a lack of homogeneity between different accounting systems in the European Union. The study even states that diversity is a main characteristic of financial reporting in local and central governments. The current paper tries to enrich the accounting literature by investigating the reasons of this diversity. Therefore the second research question is defined as follows.

RQ 2: What explains the differing level of adopting IPSAS in different levels of government in European countries?

4. Methodology

In order to investigate these two research questions a field study across seventeen European countries was set-up by using a survey. The European Union (when it counted fifteen member states, between 1995 and 2004) was taken as a start. In order to get an idea of the accounting legislation in the public sector in Eastern Europe, Lithuania, which entered the EU in 2004, was added to the sample. Norway was also included in the sample. This country is specifically interesting because the public sector reform in Norwegian local governments had different sources and different intentions in comparison to the central government reform, but they ended up having (temporarily) similar effects (Guthrie et al., 1999; Mellemvik and Pettersen, 1998). Finally, Switzerland was included, because of the front running role of the *Cantons* in the NPM reforms (FEE, 2007; Guthrie et al., 1999). Luxembourg was excluded from the scope of this survey.

For the federal countries in the sample, the sub national levels were included as well, so that the group of governments under study is larger than the number of countries. For instance in Belgium, the different regions (i.e. Flemish Region, Walloon Region and Brussels Capital Region) have their own sovereign legislative powers regarding public sector accounting regulations. In Germany, the *Bundesländer* have considerable autonomy and are responsible for their own accounting legislation. For reasons of representativeness and simplicity three important *Bundesländer* were selected: Baden-Württemberg, Bavaria and Saxony-Anhalt. For Switzerland, the *Cantons* of St. Gall and Vaud were selected.

In summary, the survey focused on the following seventeen countries with their corresponding number of jurisdictions resulting in a total of 21: Austria, Belgium (2), Denmark, Finland, France, Germany (3), Greece, Ireland, Italy, Lithuania, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland (2) and the United Kingdom.

Because of the lack of reliable accurate data concerning the adoption of the financial information systems in the public sector in Europe, a questionnaire was developed. The first part of the questionnaire asked for factual information (RQ1). In order to answer the second research question, the questionnaire asked for the main motivations to choose for a specific accounting system and to (not) make use of the IPSASs. The multiple choice list of potential reasons was mainly derived from the studies of Anessi-Pessina and Steccolini, 2007; Benito et al., 2007; Bossert, 2005; Brusca and Condor, 2002 and Groot and Budding, 2008. In addition, some open ended questions were included.

The use of a questionnaire creates the possibility that respondents (deliberately) provide incorrect information (Benito et al., 2007). Therefore, three experts in public sector accounting were contacted in each jurisdiction. Professional public sector accountants make use of the statutory regulations on a daily basis. Consultants are often called in to assist in the process of modernizing the accounting legislation. Academics are often a critical observer, overlooking the modernization process. For each jurisdiction, the questionnaire was sent to a professional, an academic and a consultant. As the input from the three categories of experts was complementary, this method leads to reliable and accurate information. In case of doubt or unclear answers, supplementary articles and research data have been used. This resulted in an integrated set of data.

Based on a number of credentials (publications, years of experience, etc.) a sample of three experts, i.e. an academic, a professional and a consultant, were selected in each jurisdiction or country. The academics are mainly professors and researchers specialized in public sector accounting. They were selected on the basis of previous published research documents and articles. The professionals (of central and local governments) are people of at least a middle level, who are daily involved in governmental accounting issues. All selected consultants belong to a big-four accounting firm and are experienced in public sector accounting activities.

Before contacting the selected experts, the questionnaire was tested on comprehensibility and validated independently by three reviewers specialised in public sector accountancy, i.e. two accounting scholars and a treasurer. Of course, these reviewers were not part of the experts selected in the sample.

5. Results

After sending second and third requests, we received 33 completed questionnaires in November 2008. This leads to a response rate of 52.4 % (33/63). Based on these completed questionnaires, it was possible to investigate the accounting situation in local and central governments in the following nineteen jurisdictions: Austria, Baden-Württemberg (Ger), Bavaria (Ger), Denmark, Finland, Flanders (Bel), France, Greece, Italy, Lithuania, Netherlands, Norway, Portugal, Saxony-Anhalt (Ger), Spain, Sweden, Switzerland, United Kingdom and Wallonia (Bel).

Table 1 gives an overview of the financial information systems in European governments. Panel A shows the situation in local governments, panel B gives the same information for the central governments. The first column enumerates the nineteen jurisdictions. The column "IPSAS" shows those jurisdictions that are generally compliant with IPSAS. The financial information systems of these jurisdictions are not per se 100% IPSAS compliant. It is possible that some of them have minor exceptions to the IPSASs. In general though, they are based on IPSAS. The third column shows the jurisdictions that currently account on a cash basis but are planning to introduce an IPSAS compliant accrual accounting system in the near future. All jurisdictions that make use of a non-IPSAS compliant accrual accounting system are shown in the fourth column. The "planned accrual reform" column lists the jurisdictions that still account on a cash basis, but are planning to transform their accounting system to a non IPSAS compliant accrual version. Those jurisdictions that account on a cash basis and not plan to introduce an accrual accounting system are shown in the last column.

Although both systems are accrual based accounting systems, it should be noticed that the categories "IPSAS" and "Accrual accounting" (see Table 1) differ significantly. A non-IPSAS compliant accrual accounting system is mainly based on business accounting rules, as described in the fourth European directive of the 70's. It focuses on typical businesslike aspects such as capital, dividends and sales. The IPSASs are also accrual based, but are designed to give specific guidelines concerning typical governmental accounting issues such as grants, subsidies, taxes and donations.

Table 1
Overview of financial information systems

Panel A Local Government Accounting Legislation	IPSAS	Planned IPSAS reform	Accrual accounting	Planned accrual reform	Cash accounting
Austria	-	-	-	-	Yes
Baden-Württemberg (Ger)	-	-	-	Yes	-
Bavaria (Ger)	-	-	-	-	Yes
Denmark	-	-	Yes	-	-
Finland	-	-	Yes	-	-
Flanders (Bel)	Yes	-	-	-	-
France	-	-	Yes	-	-
Greece	-	-	-	Yes	-
Italy	-	-	-	Yes	-
Lithuania	Yes	-	-	-	-
Netherlands	-	-	Yes	-	-
Norway	-	-	Yes	-	-
Portugal	-	-	Yes	-	-
Saxony-Anhalt (Ger)	-	-	-	Yes	-
Spain	-	-	Yes	-	-
Sweden	Yes	-	-	-	-
Switzerland	-	-	Yes	-	-
United Kingdom	-	-	Yes	-	-
Wallonia (Bel)	-	-	Yes	-	-
Total	**3**	**0**	**10**	**4**	**2**
Panel B Central Government Accounting Legislation	IPSAS	Planned IPSAS reform	Accrual accounting	Planned accrual reform	Cash accounting
Austria	-	-	Yes	-	-
Baden-Württemberg (Ger)	-	-	-	-	Yes
Bavaria (Ger)	-	-	-	-	Yes
Denmark	-	-	Yes	-	-
Finland	-	-	Yes	-	-
Flanders (Bel)	-	-	-	Yes	-
France	Yes	-	-	-	-
Greece	-	-	-	-	Yes
Italy	-	-	-	Yes	-
Lithuania	Yes	-	-	-	-
Netherlands	-	Yes	-	-	-
Norway	-	Yes	-	-	-
Portugal	-	-	Yes	-	-
Saxony-Anhalt (Ger)	-	-	-	-	Yes
Spain	-	-	Yes	-	-
Sweden	Yes	-	-	-	-
Switzerland	Yes	-	-	-	-
United Kingdom	-	-	Yes	-	-
Wallonia (Bel)	-	-	-	Yes	-

Total	4	2	6	3	4

In spite of the major efforts of the IPSASB and other international organizations, the IPSASs do not play an important role in most local and central government accounting reforms in Europe. Table 1 shows that only three local and four central governments have used the IPSASs as a starting point. Local governments in Flanders, Lithuania and Sweden have adopted an IPSAS based accrual accounting system. On the central governmental level, France, Lithuania, Sweden and Switzerland have adopted an IPSAS compliant accounting system.

When one observes the jurisdictions that still account on a cash basis today, but will account on an accrual basis in the near future, it is clear that the IPSAS will not be used frequently. The local governments of Baden-Württemberg, Greece, Italy and Saxony-Anhalt and the central governments of Flanders, Italy and Wallonia are planning to introduce an accrual based financial information system, but none of these will link the new accounting legislation to the IPSASs. Only in the Netherlands and Norway, the central governments will use IPSAS when converting the current cash accounting system to an accrual based system.

Accrual accounting is widely spread in Europe, 68% of the local governments and 52% of the central governments of the investigated jurisdictions make use of an accrual financial information system, whether or not based on IPSAS. Furthermore, still nine other governments are planning to introduce an accrual accounting system in the near future. On the other hand, there are also six “die hard” cash accounting governments. The local governments in Austria and Bavaria and the central governments in Baden-Württemberg, Bavaria, Greece and Saxony-Anhalt are not planning to change the current cash accounting system.

Table 2 shows that in eleven local governments, the accrual accounting system (IPSAS compliant as well as non-IPSAS compliant) is fully adopted. At this moment, the Lithuanian local governments are in a transition period. On the other hand, the Flemish law has been changed, but it has not been adopted yet. An analogous situation can be found at the central governmental level. In 80% of the cases, accrual accounting has been fully adopted. It can thus be stated that in the majority of European jurisdictions, the local and central government accrual accounting reform process has been finished.

Table 2

State of the adoption of accrual accounting

What is the state of the adoption of accrual accounting?	
Panel A - Local governments	
1	A law/standard has been accepted
0	A number of pilot projects have been started
1	There is a transition period
11	Accrual accounting is fully adopted
0	Some local governments voluntarily adopt accrual accounting
Panel B - Central governments	
0	A law/standard has been accepted
0	A number of pilot projects have been started
2	There is a transition period, adoption is planned
8	Accrual accounting is fully adopted

0	Some agencies voluntarily adopt accrual accounting

Six jurisdictions still account on a cash basis. Four of them are planning to introduce an accrual system. This is the case in Baden-Württemberg, Greece, Italy and Saxony-Anhalt.
In Baden-Württemberg a draft law has been proposed, while in Italy the law has already been accepted. At this moment, there is a transition period in Greece and Saxony-Anhalt.
There is a similar situation in the five central governments that are planning to change the current cash accounting system. Three jurisdictions (Flanders, the Netherlands and Norway) have started a number of pilot projects. A new accounting law has been accepted in Italy and in Wallonia a draft law has been proposed.

In order to answer the second research question the motivation to choose for a specific accounting system was investigated. Table 3 shows the reasons why jurisdictions make use of IPSAS when reforming their financial information system. Apparently, the majority of the jurisdictions that apply IPSAS do this because it is useless to reinvent the wheel. This means that in three out of the four local governments and in four out of the six central governments that apply an IPSAS compliant accounting system, the legislators and standard setters prefer to make use of the knowledge of the IPSASB rather than inventing new accounting rules. The second reason to use the IPSASs as a starting point for an accrual accounting reform is the goal to improve the national and international comparability of financial information. Other important motivators are the improvement of the comparability of the financial information of public and private organizations, the wish to be in accordance with international organizations and the facilitation of financial statement consolidation.

Table 3

Reasons to link the accrual accounting legislation to IPSAS

For what reasons is the (planned) accrual accounting legislation linked to IPSAS?	
Panel A - Local governments	
3	It is useless to reinvent the wheel; it is more efficient to make use of the knowledge of the IPSASB
2	To enhance national/international comparability of financial information
1	To be in accordance with international organizations
1	To facilitate the consolidation of financial statements
0	To improve private/public comparability
0	The IPSASs are developed by qualified persons
0	For financing purposes
Panel B - Central governments	
4	It is useless to reinvent the wheel; it is more efficient to make use of the knowledge of the IPSASB
2	To enhance national/international comparability of financial information
2	To improve private/public comparability
2	To be in accordance with international organizations
2	To facilitate the consolidation of financial statements
0	The IPSASs are developed by qualified persons
0	For financing purposes

The main reasons why some jurisdictions choose/chose to not make use of IPSAS when reforming their accounting legislation are summarized in Table 4.
In eight of the fourteen jurisdictions that are accounting/planning to account on an accrual basis, accounting rules in local governments are/will be based on country specific business accounting rules, although the IPSASs are also based on business accounting rules i.e. IAS/IFRS. This argument is also important for central governments. This clearly shows that the public sector accounting legislation in many European countries is dominated by local business accounting rules. Other crucial factors to not apply IPSAS are the unfamiliarity with IPSAS, the fear of losing its standard setting authority and the lack of experience in implementing these relatively new standards.

Table 4

Reasons to not link the (planned) accrual accounting legislation to IPSAS

For what reasons is the (planned) accrual accounting legislation not linked to IPSAS?	
Panel A - Local governments	
8	The accounting legislation is based on local business accounting rules
5	The IPSASs are rather unknown in my jurisdiction
4	There is a fear of losing the standard setting authority
2	There is few experience in implementing the IPSASs
2	The IPSASs do not consider budgetary accounting
1	The IPSASs are based on IFRS/IAS
1	The IPSASs are mainly inspired by Anglo-Saxon accounting legislation
1	The IPSASB has limited legislative power
0	Not all relevant accounting issues are covered by the IPSASs
0	The IPSASs are not government-specific enough
0	The IPSASs are not in harmony with the ESA 95 standards
Panel B - Central governments	
3	The accounting legislation is based on local business accounting rules
3	The IPSASs are rather unknown in my jurisdiction
3	There is few experience in implementing the IPSASs
2	There is a fear of losing the standard setting authority
2	The IPSASs do not consider budgetary accounting
1	The IPSASs are mainly inspired by Anglo-Saxon accounting legislation
1	The IPSASB has limited legislative power
1	The IPSASs are not in harmony with the ESA 95 standards
1	The IPSASs are based on IFRS/IAS
1	Not all relevant accounting issues are covered by the IPSASs
0	The IPSASs are not government-specific enough

As Table 1 shows, thirteen local governments and ten central governments use an accrual financial information system, another nine (local and central) governments are planning to introduce one in the near future. Accrual accounting is being applied for the following six reasons (in descending order of importance): (i) it improves cost awareness and thus efficiency; (ii) it enhances external accountability and oversight control; (iii) it answers the growing need for qualitative accounting information for performance management; (iv) it improves asset and

cash management, (v) it facilitates decision-making and (vi) it helps to calculate governmental fees and charges.
Remarkable is the fact that all respondents gave multiple answers to this particular question. It can thus be concluded that the advantages of accrual accounting are widely known in Europe, especially in comparison to the knowledge of IPSAS.

Table 5
Reasons to adopt accrual accounting

What are/were the reasons to adopt accrual accounting?	
Panel A - Local governments	
14	To improve cost awareness and efficiency
14	To improve external accountability and oversight control
10	To support performance management (growing need for accounting information)
9	To improve asset and cash management
8	To facilitate decision-making
7	To support the calculation of governmental fees and charges
6	To better see the impact of public policies on public organizations' financial position
4	To facilitate the recognition of risks and opportunities
4	To measure intergenerational equity
0	To be able to give reliable financial information to the capital markets
Panel B - Central governments	
11	To improve cost awareness and efficiency
10	To support performance management (growing need for accounting information)
7	To improve external accountability and oversight control
6	To improve asset and cash management
6	To better see the impact of public policies on public organizations' financial position
4	To facilitate the recognition of risks and opportunities
4	To facilitate decision-making
2	To support the calculation of governmental fees and charges
0	To be able to give reliable financial information to the capital markets
0	To measure intergenerational equity

Two local (Austria and Bavaria) and four central (Baden-Württemberg, Bavaria, Greece and Saxony) governments still make use of a cash accounting system. The main reasons to choose for a cash financial information system are shown in Table 6. Different jurisdictions are afraid that an accrual accounting reform will lead to considerable costs. It is also stated that a traditional cash accounting system better complements with a budgetary accounting system.

Table 6
Reasons to not adopt accrual accounting

What are the reasons for the standard setter/legislator to not adopt accrual accounting?

Panel A - Local governments

1	Balance sheets and profit/loss calculations are of less importance in the public sector
1	Cash accounting systems complement better with budgetary accounting systems
1	An accounting reform will lead to considerable costs
0	The current cash accounting system meets all requirements
0	A cash based system better fits the characteristics of a public sector organization
0	The accounting system was only just changed to a modified cash accounting system
0	Local governments resist against an accounting reform
0	Some public sector efforts cannot be accounted for
0	Former accounting reforms have shown significant implementation problems
0	Accrual accounting has limited potential to support political decision-making

Panel B - Central governments

4	An accounting reform will lead to considerable costs
3	Cash accounting systems complement better with budgetary accounting systems
2	Former accounting reforms have shown significant implementation problems
1	Accrual accounting has limited potential to support political decision-making
1	The current cash accounting system meets all requirements
1	A cash based system better fits the characteristics of a public sector organization
1	Balance sheets and profit/loss calculations are of less importance in the public sector
0	The accounting system was only just changed to a modified cash accounting system
0	Local governments resist against an accounting reform
0	Some public sector efforts cannot be accounted for

Comparison between the different levels of government

When one compares the accounting systems of local and central governments, it becomes clear that accrual accounting is more used in local governments (thirteen jurisdictions) than in central governments (ten jurisdictions). On the other hand, the IPSASs are more popular in central governments. While only three local governments account on an IPSAS compliant basis, six central governments already make use of an IPSAS compliant accrual accounting system or plan to do this. In general though, compliance with IPSAS, both in local and central European governments, can be described as weak.

The motivators to (not) choose for a specific accounting system are analogous in local and central governments. Also the reasons to (not) choose for IPSAS are comparable in both governments.

The data also clearly show that there are two approaches to introduce accrual accounting in European governments. Some jurisdictions, like the Netherlands, Norway and Wallonia, use an accrual accounting system in local governments, while at the central level, cash accounting is still being used. In those three countries, the accrual accounting reform is finished in local governments and planned for the central government. This is clearly a decentralized way of introducing accrual accounting in the public sector. Austria, on the other hand, applies a centralized approach. Accrual accounting has already been initiated in the central government, while the local governments still apply a cash accounting system.

6. Conclusion

Based on the survey of this research paper it can be concluded that, although some countries still use a cash based accounting system, accrual accounting has been strongly adopted in Europe. These NP(F)M-inspired accounting systems are fully implemented in the majority of the jurisdictions in Europe, as well in local as in central governments. Furthermore, most public institutions that do not account on an accrual basis yet plan to reform their accounting system in the near future. The main arguments for this international reform towards accrual accounting, in local as well as in central governments, are the need for enhanced cost awareness and thus efficiency, the necessity to improve external accountability and oversight control and the development of performance management which asks for qualitative accounting information.

This paper also clearly shows that there is a contradiction with regards to the adoption of IPSAS in Europe. It can be stated that the IPSASs are only weakly applied in central and local European governments. Although some jurisdictions clearly use these standards to reform their accounting systems, some countries still appeal to the local business accounting rules when reforming their accounting systems. In addition, different countries that are planning to introduce accrual accounting in the near future will not use IPSAS as a starting point. Lithuania, Switzerland and Sweden are mostly inspired by IPSAS.

The reasons to use these international standards are of two kinds. According to the public sector accounting experts of the jurisdictions that choose/chose to apply the IPSASs, it is more efficient to make use of the knowledge of the IPSASB, they do not want to reinvent the wheel. They are also convinced that the adoption of IPSAS will improve the (inter)national comparability of financial information.

Some jurisdictions, on the other hand, choose to not apply the IPSASs. The reasons to do this are double. First of all, an important weakness is the fact that the IPSASs are still relatively unknown. When asking for the reasons to choose for accrual accounting, the majority of respondents gave multiple answers. This could be interpreted that many jurisdictions are enthusiastic and aware of the different advantages of accrual accounting. The answers to the question “for what reasons does your jurisdiction choose for IPSAS?” were much more modest. One could conclude that the advantages of the IPSASs are still relatively unknown, especially in comparison with the ones of accrual accounting. Giving lectures, organizing conferences and writing brochures could help to overcome this problem. It is clear that the IPSASB will need to continue its efforts to make central and local governments more familiar with IPSAS. The second reason why some jurisdictions choose to not apply the IPSASs is the predominance of business accounting rules. Although the fact that the IPSASs are based on IFRS/IAS, which are international business accounting rules, the power of the country specific business accounting rules slows down the IPSAS compliance process. In order to overcome this, a cultural change is necessary. As this will take time, it can be concluded that there is still a long way to go on the road leading to full IPSAS compliance.

7. List of abbreviations used

EU	European Union
FEE	Fédération des Experts Comptables Européens
IAS	International Accounting Standards
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
INTOSAI	International Organization of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
IPSASB	International Public Sector Accounting Standards Board
NPM	New Public Management
NPFM	New Public Financial Management
OECD	Organization for Economic Cooperation and Development
OPGA	Official Plan for Governmental Accounting
PSC	Public Sector Committee
SAI	Supreme Audit Institutions
UN	United Nations
US	United States (of America)

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