Exposure Draft 94

Linkages Between IPSAS Standards and the Government Finance Statistics Manual 2014 (Amendments to IPSAS 22)

REQUEST FOR COMMENTS

European Accounting Association – Public Sector Accounting Committee (EAA PSAC)

In May 2024, the European Accounting Association (EAA) established the Public Sector Accounting Committee (PSAC) to strengthen the role of public sector accounting within the broader accounting field. The EAA PSAC's mission is to embed public sector accounting at the core of the accounting ecosystem by providing a nexus among academics, research networks, practitioners, and standard setters in the public sector accounting arena, to promote high-quality research, standard-setting, and public financial management and policymaking.

The EAA PSAC is committed to promoting and facilitating public sector accounting research; participating – also through *ad-hoc* task forces – in public consultation processes that are relevant to public sector accounting standard setting (e.g. IPSASB Exposure Drafts); networking with other accounting research groups and communities; and planning and organizing online activities and symposia at EAA conferences to discuss timely topics and stimulate debates between academics and practitioners. More information about the EAA PSAC is available at https://eaa-online.org/public-sector-accounting-2/.

In line with its mission, the EAA PSAC plans to involve public sector accounting scholars in drafting theoretically sound, research-based documents. These documents may be developed independently or in response to requests from bodies such as the IPSASB, providing theoretical insights and empirical evidence for consultation papers and exposure drafts. Importantly, the documents issued by the EAA PSAC reflect only the views of their signatories, not the collective perspective of the wider research community nor the opinions of the institutions affiliated with such signatories or of the European Accounting Association.

The EAA PSAC is currently chaired by Sandra Cohen (Athens University of Economics and Business, Greece), with Eugenio Anessi-Pessina (Università Cattolica del Sacro Cuore, Italy), Isabel Brusca (University of Zaragoza, Spain), Susana Jorge (University of Coimbra, Portugal), and Mariafrancesca Sicilia (University of Bergamo, Italy) as members.

Comments to ED 94

In March 2025, the IPSASB launched the project *Strengthening Linkages Between IPSAS Standards and the Government Finance Statistics Manual*, in order to analyse and reduce unnecessary differences between IPSAS Standards and the Government Finance Statistics Manual (GFSM) 2014. The aim is to enhance the usefulness of IPSAS-based accounting data as a source for Governmental Finance Statistics (GFS) reporting and, thereby, for macro-fiscal management and decision-making purposes.

Before addressing the two Specific Matters for Comment, we consider it useful to present the current state of the relations between IPSAS and GFSM 2014, highlight some country examples on how financial accounting information intertwines with GFS and national accounting, and summarize key conclusions from the academic literature and other relevant research. This is because our responses are informed by these considerations.

Background

Public entities, particularly those within General Government, must compile information for macroeconomic and statistical purposes. This often results in a dual system of accounting comprising governmental accounting and financial statistics/national accounts (Jorge et al., 2016). The situation becomes even more complex in countries where budgetary and financial accounting use different bases and criteria, leading to a triple system of accounting: 1) accrual-based financial accounting, inspired by IPSAS or other standards; 2) budgetary accounting, traditionally prepared on a cash or modified cash basis; and 3) financial statistics and national accounting, also following an accrual logic, but grounded in statistical frameworks, such as GFSM 2014 or the European System of Accounts (ESA).

Government financial statistics and national accounts can be considered as parts of the same system because they both fall within the general accounting framework for macroeconomic statistics. However, they differ in their objectives and in the information they present. Importantly, their scope also differs: GFS provide a view of government finances, while national accounting offers a comprehensive representation of the whole economy, including all institutional sectors, one of which is the General Government Sector (GGS). In summary, the purpose of financial reporting prepared in accordance with statistical bases is to provide information useful for fiscal policy and macro-economic decision-making (Jones & Caruana, 2015; Caruana et al., 2019).

At the international level, the reference for national accounting is the System of National Accounts (SNA), adopted by the United Nations Statistical Commission, while GFSM 2014 is the standard for compiling and presenting government fiscal data. Within the European Union (EU), the standard for macroeconomic and statistical data is ESA 2010, complemented by the Manual on Government Deficit and Debt to ensure harmonized data on deficit and debt across EU member countries (Jorge et al., 2018). ESA 2010 is aligned with SNA 2008. To align with the new SNA 2025, a new ESA is under development.

Financial accounting information is a key input for both GFS and national accounting. However, differences between accounting and statistical systems raise concerns regarding the relevance, reliability, and comparability of the aggregates (Jorge et al., 2014; 2018). The World Bank (2019) provides a summary of the main differences between IPSAS and GFS. Significantly, moreover, many countries continue to use (modified) cash-based budgetary information as a source for GFS, which further limits the role played by accrual-based accounting and IPSAS (Jones & Caruana, 2015; Jorge et al., 2016; Sforza & Cimini, 2017). Adjustments to national accounting systems under ESA 2010 have not improved convergence between GFS and budgetary accounting in reporting deficits (Dasí et al., 2016).

Consolidated financial reports aggregate the financial accounting information of multiple entities into a single reporting entity. In this respect, they perform a function that is conceptually similar to GFS, which also combine data across institutional units. Therefore, consolidation could serve as a bridge between accounting and statistical reporting. However, important differences remain (Connolly & Stewart, 2025), for example in relation to the scope and the reporting entity.

In consolidated financial reports, the reporting entity – and thus the set of entities to be included – is identified on the basis of control (see, for example, IPSAS 35). By contrast, national accounts are based on the classification of resident institutional units by institutional sector: general government, non-financial corporations, financial corporations, households, and non-profit institutions serving households. As a result, the public sector is divided into the GGS (including the central, regional, and local levels) and publicly owned corporations, classified as non-financial or financial. The World Bank (2024) provides a detailed analysis of the differences between the perimeter of consolidation under IPSAS and the perimeter of the GGS under statistical and national accounting criteria. This analysis shows that these differences can be due to several factors, which complicate the reconciliation between accounting consolidation and statistical compilation.

The existence of a double (or even triple, in many countries) system of accounting has caused controversy over the diversity of systems, their relationships, and their usefulness for decision making (Barton, 2011). In the literature, several contributions advocate greater harmonization between financial reporting and national accounts (Caruana et al., 2019; Jones, 2000; Jorge et al. 2014, 2018; Lüder, 2000). This harmonization can yield important benefits by simplifying reporting processes, reducing duplications, and enhancing the usefulness of accounting information for decision making. Above all, it could also facilitate the preparation of GFS (Dasi et al., 2018).

In practice, several countries have undertaken initiatives to align financial accounting and GFS reporting. In 2008, the Australian government adopted an enhanced GFS system, which incorporated Australian Accounting Standards treatment of some items. It then decided to use this enhanced GFS system as its main Financial Management Information and Reporting System (Barton, 2011). *AASB 1049 – Whole of Government and General Government Sector Financial Reporting* requires Australian governments to prepare Whole-of-Government and GGS financial reports, supplement them with a reconciliation between the two. The literature on the UK has also reported a significant influence of ESA on financial and even budgetary reports (Caruana, 2016; Heald & Georgiou, 209), including the provision of well-documented reconciliations between national accounts figures and IFRS-based financial reports to encourage fiscal transparency. In this respect Heald and

Georgiou (2009) argued that, in the UK, there was a logic to using the Treasury's designation powers to align the scope of Whole of Government Accounts (WGA) consolidation with national accounts. This was intended to produce a "clear line of sight" from WGA to national accounts aggregates, lest "the practical impact of the former on policy formation and fiscal surveillance will be greatly reduced […] given that macroeconomic policies and obligations generally depend on national accounts definitions" (p. 220).

The IPSASB has long recognised the importance of these linkages. IPSAS 22, issued in 2006, establishes disclosure requirements for governments that choose to present information about the GGS in their consolidated financial reports. The standard emphasizes that disclosing appropriate information about the GGS can enhance the transparency of financial reports and improve users' understanding of the relationship between financial statements and statistical reporting frameworks (§ 1).

IPSAS 22 defines the GGS in accordance with the statistical reporting framework (§15 ff.). The GGS comprises all non-market entities and activities, that is, entities and activities that rely primarily on appropriations or allocations from the government budget to finance their service delivery. Public sector statistical reporting also recognizes the public corporations sector, which includes entities primarily engaged in market activities and classified as either public financial corporations (PFCs) or public non-financial corporations (PNFCs).

Under IPSAS 22, when governments present consolidated financial statements and also include information on the GGS, such information must be prepared using the same accounting policies as those applied in the consolidated financial statements. An exception applies to PFCs and PNFCs, which are treated as investments and measured at the carrying amount of the net assets of the investees (§ 23 ff.). Importantly, IPSAS 22 does not allow the GGS disclosure to expand beyond the reporting boundary of the government's consolidated financial statements. In other words, entities which are not included in the consolidated financial statements are also excluded from the GGS disclosure than accompanies such statements. This is consistent with the objective of providing additional information about the reporting entity by disaggregating it into several subsectors, one of which is the GGS (PFCs and PNFCs would be the other sectors). Furthermore, IPSAS 22 requires a reconciliation between the GGS disclosures and the consolidated financial statements, showing the amount of the adjustments for each financial statement item (§§ 45-46).

These differences raise broader questions regarding the definition of the reporting entity and the possible role of statistical criteria in financial reporting. In this respect, a World Bank technical note (2024, p. 9) proposes that "an integrated consolidation and compilation process should use the delineation of the public sector and its subsectors as presented in GFSM 2014 to prepare consolidated financial statements, instead of defining the economic entity based on the principle of control in accordance with IPSAS 35". The note proposes a consolidation and compilation process consisting of fourteen steps, grouped into six phases: (i) initial setup in accordance with the statistical framework; (ii) maintenance and preparatory work in accordance with accounting standards and the statistical framework; (iii) financial data consolidation in accordance with accounting standards; (iv) financial reporting in accordance with accounting standards; (v) statistical data compilation; and (vi) statistical reporting. This proposal reflects the controversy over how financial accounting, and particularly consolidated financial statements, could be linked to government statistical reporting (Heald & Georgiou, 2011)

In this context, the IPSASB's project, *Strengthening Linkages Between IPSAS Standards and the GFSM*, aims to enhance the usefulness of IPSAS-based accounting data for macro-fiscal management and decision-making, advancing collaboration with international statistical organizations. As part of this project, the IPSASB has issued **Exposure Draft 94, Linkages Between IPSAS Standards and the Government Finance Statistics Manual 2014 (Amendments to IPSAS 22).** The objective of ED 94 is to provide additional non-authoritative guidance to IPSAS 22, *Disclosure of Financial Information About the General Government Sector,* in order to facilitate the preparation of GGS information by entities that include such disclosures in their consolidated financial statements, while also enhancing the use of accounting data for statistical reporting purposes.

Specific Matter for Comment 1

SMC1 refers to the proposed non-authoritative amendments to IPSAS 22. In our view, a clearer linkage between financial and statistical reporting systems is not only appropriate, but also desirable, as it would enhance the usefulness of both types of information and reduce the cost of preparing GFS. By clarifying the adjustments made when using governmental accounting data to prepare GFS reports, moreover, it would improve the reliability of information, ultimately impacting the efficiency of public financial management. Therefore, all initiatives that clarify and enhance this linkage should be welcome. Despite having different objectives and using different criteria, both governmental financial accounting and statistical reporting rely on accrual-based financial data for the GGS. Therefore, a single set of accounting data could potentially be used as a source for both financial reporting and statistical purposes. As the proposed non-authoritative guidance highlights the differences between IPSAS and GFSM 2014, it could support countries in the identification of such differences and the adoption of technical solutions to connect the two systems, making the micro-macro adjustment process more transparent and avoiding unnecessary procedures. Furthermore, the proposed guidance can encourage the use of consolidated accrual-based reports as the proper starting basis for (macro) GFS reporting.

In particular, the ED's proposed guidance provides the following information for each IPSAS (with some exceptions): (a) Whether recognition and measurement requirements are aligned with GFSM 2014; (b) whether GFSM 2014 has different presentation requirements even though recognition and measurement requirements are aligned; and (c) in the presence of key recognition and measurement differences, what additional data needs to be collected for GFSM 2014 purposes. This structure provides a detailed understanding of the similarities and differences between IPSAS and GFSM. The use of a question-and-answer format is especially helpful, as it enhances clarity and facilitates practical application by preparers and statisticians.

The analysis of key principles across IPSAS Standards is also valuable, as it supports countries adopting IPSAS and encourages stronger links between accounting and statistical reporting systems. The grouping of standards by topic further improves consistency and usability. As a side note, we consider GFSM 2014 as the appropriate statistical standard to be used in the comparison as it is the international framework for GFS and it is connected with SNA. GFSM 2014 and SNA are the reference statistical reporting standards for several countries around the world. Even countries that do not use SNA/GFSM as their main reference, such as EU member countries, apply systems (such as ESA) that are consistent with the international statistical framework and would consequently benefit from this comparative analysis.

In our view, the ED would benefit from deeper analysis and more extensive guidance on two specific IPSAS that address the scope of financial reporting in relation to GFSM, namely IPSAS 22 and IPSAS 35.

Regarding IPSAS 22, ED 94 (p. 15) states that "presentation differences arise in jurisdictions where the Federal or Central Governments do not control all the entities in the statistical Central Government and Local Government sub-sectors. For example, in jurisdictions with legally separate states, it may not be possible to prepare an IPSAS 22-based report for GGS. In such cases, separate accounting data for the various government units will need to be obtained for GFSM 2014 reporting". This situation is likely to occur in several countries. Therefore, additional guidance would be useful on how GGS information from different levels of government could be used for GFSM reporting. This guidance could make reference to the scope differences that may arise in such cases as well as differences in the set of entities that would be included in the GGS disclosures provided under IPSAS 22 compared to the GFS framework.

A similar issue could be addressed in IPSAS 35, with additional information about the entities that are not included in the consolidated financial statements because they do not meet the IPSAS concept of control, but that are nevertheless required to be included in GFSM reporting.

Specific Matter for Comment 2

SMC2 focuses on the proposal to provide non-authoritative guidance on measurement at the measurement basis level rather than the measurement technique level.

The IPSASB reports that they considered whether the non-authoritative measurement guidance should be developed at the measurement basis level or at the measurement technique level, in accordance with IPSAS 46. They ultimately chose the measurement basis level as this approach gives accountants and statisticians greater flexibility to select the measurement techniques in IPSAS 46 that best meet the objectives of both IPSAS 46 and GFSM 2014 in each specific case.

We agree with this decision. However, we believe that transparency would be enhanced if entities were required to explain and justify their choice of measurement techniques

Further suggestions

We believe that ED94 would benefit from the introduction of non-authoritative guidance on how to present a reconciliation between GGS disclosures prepared in accordance with IPSAS 22 and GGS information as defined under GFSM, where a government entity elects to provide such a reconciliation. This reconciliation could be included in the Illustrative Financial Statements Structure (Part 1) of IPSAS 22.

ED94 also highlights certain differences in terminology. Therefore, it could usefully provide two lists: one identifying different terms that have similar meanings under IPSAS and GFSM, and another identifying terms that are used differently in the two frameworks. The proposed guidance could also benefit from some examples that illustrate the differences, particularly with respect to the highlighted issues.

Conclusions

In conclusion, we strongly support the IPSASB's effort to clarify differences and similarities between financial accounting and statistical reporting systems. The ultimate objective should be to develop one financial information system capable of producing the information needed for both financial reporting and GFS. Such an approach can offer advantages for both preparers and users by lowering the costs of reporting and enhancing data quality based on audited financial information.

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