

International standards for accounting and statistics¹

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This article reviews and compares the financial reporting and statistical standards for financial information about public sector institutions – particularly sovereign governments. The purpose is to provide a better understanding of the relationship between such systems and the extent to which they duplicate or conflict with each other.

There are two sets of international accounting standards for entity financial reporting and three for statistical financial reporting. These are summarised in the table below.

Table 1: Overview of accounting standards and statistical reporting systems

Title	Issuing body	Description	Coverage
FINANCIAL REPORTING STANDARDS			
International Financial Reporting Standards (IFRS) ²	International Financial Standards Reporting Board (IFRSB)	Standards for financial reporting by commercial entities	All commercial entities including Government Businesses Enterprises (GBEs)
International Public Sector Accounting standards (IPSAS)	The International Public Sector Accounting Standards Board (IPSASB) which is part of the International Federation of Accountants (IFAC)	Financial reporting standard for the public sector	All public sector entities (including sovereign governments) except GBEs
STATISTICAL SYSTEMS FOR FINANCIAL INFORMATION			
The UN System of National Accounts (UNSNA)	United Nations	A system by which countries report in standardised format information of a financial and economic nature about each sovereign entity (extends beyond financial information)	All countries
The IMF Government Finance Statistics (GFS) 2001	International Monetary Fund (IMF)	A system for each country to report on Government financial information	All countries except those reporting under ESA 95 or other regional systems
The European System of national and regional Accounts (ESA) 95	Eurostat (the European Statistical office)	Provides information covering both UNSNA and GFS	All EU members

Accounting standards are standards for financial reporting (in the form of General Purpose Financial Statements) by entities in the public and private sector. Initially financial reporting standards were

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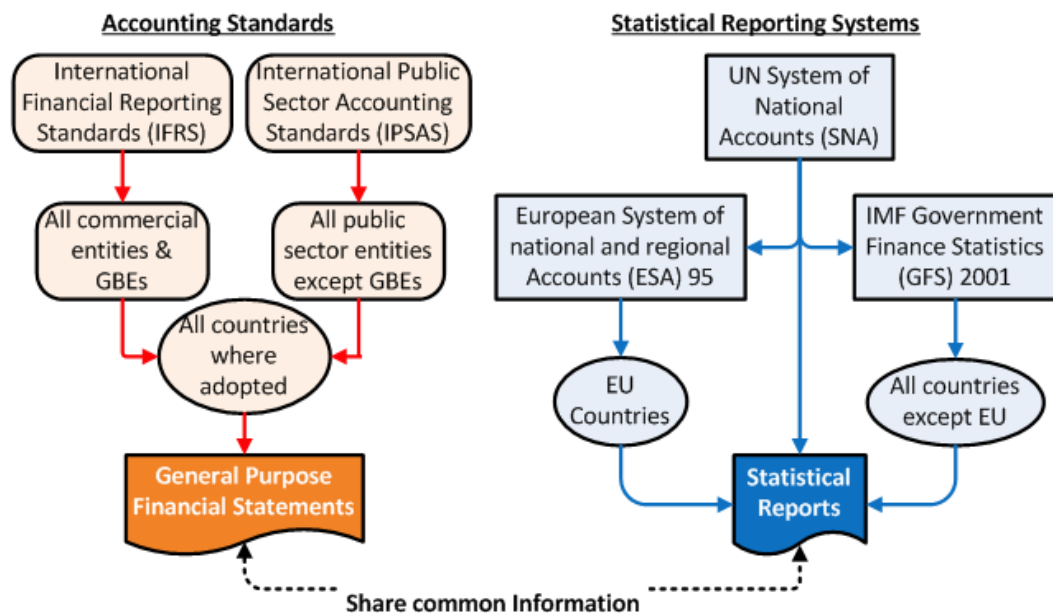
² IFRS are the new name for International Accounting Standards (IAS), which have all now been renamed or replaced as IFRS.

developed by national accounting bodies. The IFRSB is an international body created by national accounting bodies to establish the IFRS as international financial reporting standards. IPSAS have been developed from IFRS specifically to be applicable to public sector entities. The International Federation of Accountants promulgates IPSAS; although there is much common membership of IFRSB and IFAC they are two separate institutions. Both are private sector organisations although there has been input by multilateral development organisations and some national development agencies into the process of formulating IPSAS.

Statistical reporting systems have been introduced by international bodies to gather information on countries in order to provide cross-country comparisons on a standardised basis. The IMF GFS is concerned exclusively with financial information on the General Government Sector. The coverage of the UNSNA and ESA 95 extend beyond financial information on the government to national economic data. However, this paper is only concerned with financial information element of statistical reporting.

Their relationship between the financial reporting and statistical systems is summarised in the model in Figure 1 below.

Figure 1: Accounting Standards and Statistical Reporting systems



From the model in Figure 1 it is clear that at the sovereign government level two sets of reports will be required

1. General Purpose Financial Statements that should be compliant with either IPSAS or adopted national standards, and
2. Reports on financial information under either GFS or ESA95

It is further apparent that:

1. Financial reporting standards and statistical reporting systems have different purposes, coverage and outputs, but
2. Both systems share much common information.

Therefore, it is desirable that as far as financial reporting standards and statistical reporting systems share common definitions, valuation models and measurement tools. Further, that a single financial information system (i.e. the accounting system) is the data source for both statistical and financial reports. Unfortunately, this is not always the case, as explained below.

Financial reporting standards

The IFRS have been developed to establish consistent financial reporting by commercial entities across the world. Such standardisation is required to meet the needs of the increasing globalisation of business. It is expected that over time IFRS will replace national reporting standards. This has already happened within the EU. On the other hand, the USA and other countries continue to use national standards. IFRS also apply to GBEs as defined in the IPSAS. Fortunately the definition of GBEs in accounting standards is very similar to the definition of “Public Financial and Non-financial Corporations” used in statistical systems.

IPSAS were developed by IFAC based on IFRS to meet the specific reporting needs of public sector entities (excluding GBEs). IPSAS are based on IFRS (there is a programme of convergence with IFRS) but adapted specifically to the needs of the public sector. Some IPSAS deal with specifically public sector issues and have no equivalent IFRS. IPSAS apply to all public sector entities including national and regional governments as well as multinational public organisations, e.g. the UN has adopted IPSAS for its own financial reporting. It is of course a decision of individual governments whether to adopt IPSAS for the public sector reporting within each country. A number of major countries, e.g. the UK, USA, Australia and New Zealand have adopted different standards (often commercial financial reporting standards).

The concept of sovereign governments publishing general purpose financial statements is relatively new. However, many countries do now publish such statements, with varying degrees of compliance with IPSAS or applicable national standards.

Statistical reporting systems

The UN System of National Accounts (UNSNA)

The aim of UNSNA is to provide an integrated and complete system of accounts enabling international comparisons of all significant economic activity within a given country. It does not relate to the Government or any other specific sector but rather to the whole of a sovereign entity – hence the term “national” accounts. In addition, the UNSNA contains much information other than financial, e.g. the production account, household expenditure account.

Hence, the UNSNA is not wholly relevant to public financial management, though much of the financial information within the UNSNA will come from public financial management reporting systems. Therefore, it is important that there is consistency between the definitions used in UNSNA, GFS, ESA and ultimately the classification systems of government accounting. In particular, the UNSNA defines a “**Classification Of the Functions of Government**” (COFOG) that is used by GFS 2001 and ESA 95. Both GFS and ESA 95 have been developed to ensure such consistency and to this extent these two systems may be regarded as specialised financial reporting systems within the umbrella of the UNSNA.

The IMF Government Finance Statistics (GFS) 2001

The IMF GFS is a comprehensive system for reporting on the activities of the General Government Sector (GGS) within each country. The system is fully described in the GFS Manual (GFSM). Although described as a statistical reporting system it has all of the attributes of an accounting system:

- It adopts an accounting model
- It defines many accounting concepts, e.g. assets, liabilities, revenues, expenditures, etc.
- It prescribes reporting formats including an operating statement and a balance sheet (see Annex).

European System of national and regional Accounts (ESA) 95

ESA 95 is the standard for fiscal reporting for countries EU member countries. Eurostat defines the rules and reporting formats for ESA 95. The Maastricht Treaty fiscal criteria for EU members are defined in the ESA 95 methodology. These are the ratio of government deficit to Gross Domestic Product (GDP) and the ratio of government debt to GDP. Hence the ESA 95 methodology generates measures that are significant to achieve compliance with Treaty obligations.

ESA 95 is consistent with the UNSNA and hence most definitions, including classifications (COFOG and economic) are the same as those used for GFS 2001. However, whilst definitions of concepts in GFS 2001 and ESA 95 are the same, differences exist between the two statistical systems³. The most important difference is the focus of the GFS system on financial transactions—taxing, spending, borrowing, and lending—while *ESA 95* focuses on the production and consumption of goods and services. Thus whilst the GFS reports are recognisably similar to financial statements (see the Annex) the *ESA 95* tables bear no relationship to financial statements. Nevertheless it is possible to link data in *ESA 95* tables with the data in GFS 2001 tables.

ESA 95 consists of a set of macroeconomic accounts, balance sheets, and tables based on a set of concepts, definitions, classifications and accounting rules. These table may summarised under three headings:

- Current accounts – resources
- Accumulation accounts – net lending or borrowing
- Balance sheets

In total these accounts provide a record of the complex economic activities taking place within a country. Several conceptual differences exist between the *ESA 95* and *GFSM 2001* data. Three of the most significant are the presentation of social security, the treatment of government employer retirement pension schemes, and the consolidation rules for transactions and balances. The last of these three is especially significant for financial reporting.

Table 2: Comparison of GFS 2001 and ESA 95

Area of difference	GFS 2001	ESA 95
1. Social security	Social security is included as part of the sector that administers the social security scheme, usually central government. Hence they are presented both unconsolidated as a subsector of central government, and also consolidated with the budgetary and extra-budgetary entities to show the consolidated central government.	Social security schemes are a separate subsector and not consolidated in central government.

³ The explanation in this sub-section is based on “The Government Finance Statistics Manual 2001 Framework and Its Relationship with The European System of Accounts 1995” on the IMF web site

Area of difference	GFS 2001	ESA 95
2. Pension contributions	Contributions and benefits paid under government employer unfunded pension schemes are treated as financial transactions. This requires an imputation of government liabilities related to the unfunded pension schemes, and imputed interest on that liability	Treated as contributions and benefits in the current accounts
3. Consolidation	GFS (and IPSAS) consolidation rules require the elimination of transactions between general government units, as well as stocks of assets and liabilities that represent claims by one general government unit on another general government unit. The transactions that can be more easily identified in practice are interest, taxes, grants, and financing transactions.	Flows and stocks between constituent units are not consolidated as a matter of principle. However, consolidated accounts may be built up for complementary presentations and analysis.

Furthermore, ESA 95 uses more specific concepts and is more rule based than either UNSNA or GFS 2001. This reflects the need for precise definitions to be able to measure adherence to treaty obligations, and historic experience of some EU members using previous flexibility in the rules to misrepresent their fiscal situation.

Comparison of statistical reporting systems and IPSAS

There are significant differences between, on the one hand, GFS and ESA 95, and on the other hand IPSAS. The IPSASB has published a comparison of the IPSAS, GFS and ESA 95⁴. Some of the most significant differences are summarised in the table below.

Table 3: Some key differences between IPSAS and statistical reporting systems

Area of difference	Statistical systems	IPSAS
Type of reports that are outcomes of each system	Unaudited statistical reports in a prescribed format	Audited General Purpose Financial Statements which meet minimum information requirements and contained specified statements, but without a mandatory format
Entity definition	Defines the entity as the General Government Sector and only reports on that sector	Apply to each separate entity within Government and also the whole of government on the basis of control (Note however IPSAS 22 provides for reporting on the GGS)
Basis of accounting	Accrual only (but most countries still report on cash basis)	Accrual or cash basis
Valuation of assets	Current market value. No concept of depreciation but diminution in value of assets over time is treated as an "other economic flow"	Cost or "fair value". Depreciation is provided to reduce the carrying value of assets used in the entity for more than one year and to spread costs over the period of use
Net worth or net equity	Not directly recognised	A fundamental concept

⁴ "International Public Sector Accounting Standards (IPSAS) and Statistical Bases of Financial Reporting: an Analysis of Differences and Recommendations for Convergence" IPSASB January 2005

Area of difference	Statistical systems	IPSAS
Concepts such as materiality and prior year adjustments	Not recognised	Fundamental part of reporting in Financial Statements
Classification (Chart of Accounts)	Prescribed in detail – but any classification that enables required reports acceptable	Not prescribed; any classification acceptable as long as it enables required information in Financial Statements
Terminology	Based on terms commonly used in statistics, fiscal and macro economic analysis	Accounting terminology as used in commercial accounting and financial reports

These differences present a challenge when designing an accounting system to enable reporting for, on the one hand, GFS or ESA 95, and, on the other hand, IPSAS compliant financial statements. However, it should be noted that neither GFS 2001 nor ESA 95 prescribe mandatory rules for the accounting system or chart of accounts; as long as the system can generate the required reports it meets the requirements for statistical reporting.

The entity concept and consolidation

One very important area of difference identified above is the definition of the entity and the approach to the consolidation of information from different entity levels.

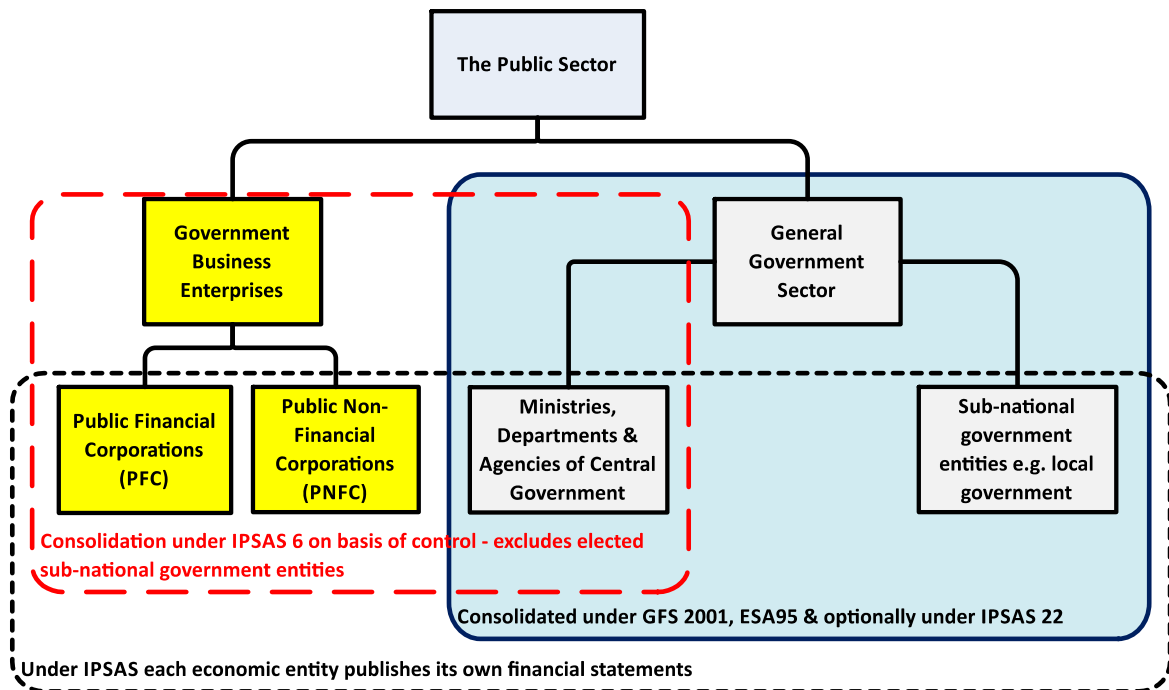
The IPSAS follow the IFRS in using the concept of control to define an entity for consolidation. Thus at a sovereign government level the “whole of government” financial statements include the entities controlled by central government. This is interpreted to include Ministries, Department and Agencies of central government, and also GBEs under the control of central government. It excludes sub-national levels of government which are controlled by elected bodies. Entities of Government may also publish separate IPSAS compliant financial statements (though there is no guidance as to which entities should publish financial statements).

Both GFS 2001 and ESA 95 use the General Government Sector (GGS) as the definition for reporting. The GGS is an administrative concept that includes all Ministries, Departments and Agencies of all levels of government within the sovereign entity, but excludes GBEs. There are no separate sub-national or entity reports (though there may be reports for specific economic sectors). However, only GFS 2001 applies a consolidation process that eliminates inter-agency flows and balances.

Recognising the importance of financial information on the GGS IPSAS 22 allows financial statements for the sovereign entity to include consolidated financial statements for the GGS, but these are in addition to financial statements prepared using the IPSAS 6 consolidation rules based on the concept of control.

The relationships of the different rules are summarised in Figure 2 below.

Figure 2: Different entity concepts



In practice few countries have been able to prepare whole of government consolidated financial statements in accordance with IPSAS or adopted national standards. These are all countries which have applied full accrual principles for government reporting. On the other hand, almost all countries prepare either GFS 2001 or ESA 95 statistical reports for the GGS. So clearly reporting in accordance with the statistical basis is more widely adopted than IPSAS reporting for sovereign governments.

A comparison of financial statement and statistical report format and content

The Annex compares the GFS reports and nearest equivalent IPSAS financial statements⁵. This makes it clear that whilst they contain the same information, it is presented differently using different terminology and with different aggregation.

Harmonisation of statistical and accounting reporting systems

There has been considerable success in harmonising statistical reporting systems with each other, and also in the ongoing process of harmonising IFRS and IPSAS.

In June 2003, the Public Sector Committee (PSC – now the IPSASB) of IFAC initiated a meeting of officers of relevant international organizations – the International Monetary Fund (IMF), Eurostat, and the Organisation for Economic Co-operation and Development (OECD) – and some national organizations that had been working on convergence issues in relation to accounting and statistical bases of financial reporting – the United Kingdom Treasury, United Kingdom Office of National Statistics and the Australian Accounting Standards Board. The purpose of that meeting was to:

⁵ This Annex was developed through discussions with Mrs. Sagé de Clerck of the IMF

- Identify differences in the information reported by IPSAS, the IMF's Government Finance Statistics Manual 2001 (GFSM 2001) and European system of accounts (ESA 95)/ESA 95 Manual of Government Deficit and Debt (EMGDD);
- Consider whether these differences are necessary for the different objectives of those systems; and
- Identify a process to eliminate or reduce any unnecessary or unintended differences

This led to the publication of a study identifying the differences and making recommendations for convergence. This led in particular to the issue of IPSAS 22 allowing Financial Statements to provide additional statements showing the results of the consolidation of the General Government Sector as defined in the UNSNA.

However, this has not become an ongoing process of harmonisation. Though there has been increasing cross recognition between statistical systems and accounting standards, the differences between the two approaches have continued. There is no momentum towards further harmonisation.

Conclusions on accounting standards and statistical reporting systems

There appears to be a general acceptance that statistical and accounting financial reports have different objectives and will never be fully harmonised. However, the opportunity of adopting standardised definitions and measurement concepts is not being exploited because:

- IPSASB is mainly focussed on harmonising IPSAS with IFRS; the latter are driven by commercial needs and IFRSB has no linkage with statistical reporting systems
- Statistical systems have been harmonised with UNSNA and are primarily concerned with developing rules for sovereign government financial reporting.

The consequence of the above is that sovereign financial reporting is at present driven by the rules of statistical reporting systems. For example, all of the EU requirements for financial reporting and compliance with deficit reduction targets are based on ESA 95 reports. Published financial statements of sovereign governments are to a large extent ignored by policy makers.

Nevertheless countries are under pressure from external development partners to publish whole of government IPSAS compliant financial statements. Thus we can envisage an increasingly common future scenario where sovereign governments will have two financial reports:

1. Reports in accordance with statistical systems and requirements – in some cases such as the EU recognised in law, and
2. Audited financial statements in accordance with IPSAS?

Which of the above reports will then be used in assessing a country's deficit, sovereign fiscal risk or the appropriateness of economic policy decisions?

ANNEX: COMPARISON OF IPSAS ACCRUAL FINANCIAL STATEMENTS AND GFS REPORTS

Figure 3: Balance Sheets and Financial Position

GFS - Balance sheet	Comments on differences	IPSAS - Statement of Financial Position
Nonfinancial assets Fixed assets Inventories Valuables Nonproduced assets	1 IPSAS does not distinguish whether assets are acquired by market or non-market means	Non-current assets Receivables Investments in associates Other financial assets Infrastructure, plant and equipment Land and buildings Intangible assets Other non-financial assets
Financial assets Domestic Currency & deposits Securities other than shares Loans Shares & other equity Insurance technical reserves Financial derivatives Other accounts receivable Foreign Currency & deposits Securities other than shares Loans Shares & other equity Insurance technical reserves Financial derivatives Other accounts receivable Monetary gold and SDRs		2 IPSAS does not distinguish purpose for which assets acquired 3 IPSAS does not distinguish financial and non-financial assets but descriptions used enables such differentiation 4 GFS does not distinguish current and non-current assets & liabilities 5 The classification differences can easily be accommodated through a suitably designed chart of accounts
Liabilities Domestic Currency & deposits Securities other than shares Loans Shares & other equity (public corporations only) Insurance technical reserves Financial derivatives Other accounts payable Foreign Currency & deposits Securities other than shares Loans Shares & other equity (public corporations only) Insurance technical reserves Financial derivatives Other accounts payable Net worth (total assets less liabilities)	6 There maybe valuation differences but GFS and IPSAS valuation approaches are converging Because of valuation differences GFS net worth and IPSAS Net assets may not be identical, but differences will usually be minimal or non-existent	Liabilities Current liabilities Payables Short-term borrowings Current portion of long-term borrowings Short-term provisions Employee benefits Superannuation Non-current liabilities Payables Long-term borrowings Long-term provisions Employee benefits Superannuation Total liabilities Net assets
		Total assets Net assets = equity

Figure 4: Operations and Financial Performance

GFS - Government Operations Table	Comments on differences	IPSAS - Statement of Financial Performance
TRANSACTIONS AFFECTING NET WORTH Revenue (transactions increasing net worth) Taxes Social contributions Grants Other revenue Expense (transactions decreasing net worth) Compensation of employees Use of goods and services Interest Subsidies Grants Social benefits Other expense Net gross operating balance	<p>GFS is a standardised classification system to enable comparability.</p> <p>IPSAS provides (i) an illustrative presentation, (ii) requirement to disclose specific information and (iii) a general requirement to disclose material information.</p> <p>An appropriately designed chart of accounts can enable the production of GFS reports and IPSAS financial statements</p> <p><i>Net Operating Balance will differ from surplus/deficit because of the inclusion of different items (see below)</i></p>	Revenue IPSAS allows a classification of revenue appropriate to the entity and taking account of the materiality of the items to be disclosed Total Revenue Expenses IPSAS allows a classification appropriate to the entity based on either economic purpose or function and taking account of materiality of the items to be disclosed Finance costs Total Expenses <i>[This would be depreciation in IPSAS and part of use of goods and service]</i> Surplus/(deficit) for the period
TRANSACTIONS IN CAPITAL ASSETS Net acquisition of non-financial assets Fixed assets Change in inventories Valuables Nonproduced assets Net lending / borrowing	<p><i>The GFS and IPSAS concepts of revenue & expenses differ. But they can be reconciled within the financial statements as indicated in the box below. IPSAS concept of depreciation differs from GFS concept of consumption of fixed capital but could be regarded as an approximation to the GFS concept. IPSAS also allows revaluation of fixed assets which is closer to the GFS concept of value.</i></p>	Under IPSAS 1 Holding gains or losses on current assets (whether financial or non-financial and whether realised or unrealised) are part of surplus/deficit 2 Realised and unrealised holding gains or losses on assets and liabilities are shown as part of surplus/deficit except that unrealised gains (e.g. revaluation) on fixed assets are shown directly as changes in equity and not included in surplus or 3 Cash flows resulting from acquisitions or disposals of assets are part of cash flow statement. Any gain or loss on disposal is 4 Nonproduced assets are not separately identified and hence are treated according to above rules
TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES (FINANCING) Net acquisition of financial assets <i>Domestic</i> <i>Foreign</i> Net incurrence of liabilities (incurrences less liquidations) <i>Domestic</i> <i>Foreign</i>		

Reconciliation of GFS and IPSAS concepts of revenue:

1. GFS (Revenue + Other Economic Flows) = IPSAS (Revenue + economic inflows recognised directly in Statement of Changes in Equity), and
2. GFS (Expenses + Negative Other Economic Flows) = IPSAS (Expenses + outflows recognised directly Statement of Changes in Equity)

Figure 5: Sources and use of cash and cash flow

GFS - Statement of Sources and Uses of Cash	Comments on differences	IPSAS - Cash Flow Statement
<p>Cash receipts from operating activities</p> <ul style="list-style-type: none"> Taxes Social contributions Grants Other receipts <p>Cash payments from operating activities</p> <ul style="list-style-type: none"> Compensation of employees Purchase of goods and services Interest Subsidies Grants Social benefits Other payments <p style="text-align: right;">Net cash received from current operations</p>	<p><i>Two statements are very similar other than some differences in classification</i></p>	<p>Receipts</p> <ul style="list-style-type: none"> Taxation Sales of goods and services Grants Interest received Other receipts <p>Payments</p> <ul style="list-style-type: none"> Employee costs Superannuation Suppliers Interest paid Other payments <p style="text-align: right;">Net cash flows from operating activities</p>
<p>Cash flows from investments in non-financial assets</p> <ul style="list-style-type: none"> Purchase of non-financial assets Fixed assets Strategic stocks Valuables Nonproduced assets <p style="text-align: right;"><i>Net cash outflows form investment in nonfinancial assets</i></p> <p style="text-align: right;">Cash surplus/deficit</p>		<p>Cash flows from investing activities</p> <ul style="list-style-type: none"> Purchase of plant and equipment Proceeds from sale of plant and equipment Proceeds from sale of investments Purchase of foreign currency securities <p style="text-align: right;">Net cash flows from investing activities</p>
<p>Cash flows from financing activities</p> <ul style="list-style-type: none"> Net acquisitions of financial assets other than cash Domestic Foreign Net incurrence of liabilities Domestic Foreign <p style="text-align: right;">Net cash inflow from financing activities</p> <p>Net changes in stock of cash</p>		<p>Cash flows from financing activities</p> <ul style="list-style-type: none"> Proceeds from borrowings Repayment of borrowings Distribution/dividend to government <p style="text-align: right;">Net cash flows from financing activities</p> <p style="text-align: right;">Net increase/(decrease) in cash and cash equivalents</p>
<p style="text-align: center;">Reconciliation part of balance sheet</p>		<ul style="list-style-type: none"> Cash and cash equivalents at beginning of period Cash and cash equivalents at end of period

Figure 6: Other economic flows and changes in net assets/equity

GFS - Statement of Other Economic Flows	<i>Comments on differences</i>	IPSAS - Statement of Changes in Net Assets/Equity
<p>Changes in net worth resulting from other Economic Flows</p> <p>Nonfinancial asses</p> <p> Holding gains</p> <p> Other volume changes</p> <p>Financial assets</p> <p> Holding gains</p> <p> Other volume changes</p> <p>Liabilities</p> <p> Holding gains</p> <p> Other volume changes</p>	<p>These two reports are NOT directly comparable as they have different purposes.</p> <p>This is explained below under the concepts of GFS net worth and IPSAS net assets/equity</p>	<p>Balance [year end] 31, 20XX-1</p> <p> Gain on property revaluation</p> <p> Loss on revaluation of investments</p> <p> Exchange differences on translating foreign operations</p> <p> Net revenue recognized directly in net assets/equity</p> <p> Surplus for the period</p> <p> Total recognized revenue and expense for the period</p> <p>Balance at [year end], 20XX carried forward</p> <p> Changes in accounting policy</p> <p> Restated balance</p> <p> Changes in net assets/equity for 20XX</p>

Net worth compared to net assets/equity - the accounting model	
GFS balance sheet opening net worth + operating balance + changes due to other economic flows = balance sheet closing net worth	
IPSAS opening net assets/equity + surplus/deficit + items shown directly on changes in equity statement = closing net assets/equity	
Note:	<p>IPSAS also requires</p> <p>(i) a comparison of budget and actual amounts (provided there is a published budget) either as a separate additional financial statement or as an additional budget column</p> <p>(ii) notes comprising a summary of significant accounting policies and other notes</p> <p>(iii) comparative data for the preceding year</p> <p>None of the above are required for GFS reports</p>