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Editorial: IPSASB and academia: a promising co-operation

By Capalbo F, Watkins D, Steccolini I, Alvino F

Introduction: Valuation and measurement

The move from a cash basis to an accrual basis model requires addressing important cultural, organizational and technical changes and challenges. Among them, measurement issues appear to bear significant implications for both public sector organizations' accountability, and for decision making. The selection of one or more measurement bases amongst the several available options that have been developed so far by theory and practice (e.g., historical cost, replacement cost, deprival value, fair value, net realisable value, value in use, present value, cost of fulfilment, cost of release, assumption price) will affect the nature and the usefulness of the information the financial statements will be able to produce.

Each measurement basis supports a different concept of income and wealth, and, therefore, to the meaning of the figures in the financial statements; the choice of measurement basis is critical in determining the message that the preparer wishes to convey to users overall (Harcourt et al. 1986; Edwards and Bell 1964; Alexander and Solomons 1975; Lee 1985; Stamp 1971). Moreover, the selection of measurement bases is likely to affect the behaviour of the very same phenomena under measurement, since, as long acknowledged in the accounting literature (Solomons 1978; Prakash and Rappaport 1976), measurement results and decisional behaviour are strongly interdependent (American Accounting Association 1977). Stark evidence of such interdependence can be easily found in the political interference that European Commission and US Congress exercised to relax fair value accounting rules during the financial crisis of 2008, on the basis of the assumption that the write-downs due to falling market prices might deplete bank capital and set off a downward spiral¹.

Despite the importance that measurement has in the transition from cash to accrual accounting, public sector accounting literature, with a few exceptions mainly focused on accounting for infrastructure assets (Currie 1987; Pallot 1997; Rowles 1991; Walker et al. 2000), has not devoted much attention to the topic. Compared with private sector accounting literature, studies on the application of the various measurement bases have been extremely limited, especially in the context of a current value model. In its Conceptual Framework, the International Public Sector Accounting Standards Board (IPSASB) requires that measurement bases have to be selected in a way that *"that most fairly reflect the cost of services, operational capacity and financial capacity of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes"* (IPSASB 2010). While this has clarified IPSASB's perspective, on the objectives of public sector measurement, certainly many doubts remain unsolved, especially as far as the application of the measurement bases listed in the Conceptual Framework is concerned. This is, then, an area where the IPSASB especially needs the support of academic research and this became extremely clear when the IPSASB started its

¹ Laux and Leuz (2010) have contested this assumption and have provided evidence that Fair values play only a limited role for banks' income statements and regulatory capital ratios except for a few banks with large trading statements and regulatory capital ratios except for a few banks with large trading positions.

Measurement project, and the adoption of projects looking at the issues of accounting for heritage (the subject of a Consultation Paper issued in early 2017), accounting for infrastructure assets, and accounting for natural resources.

The relation between IPSASB and the Academia

The IPSASB has always boasted strong links with academics – through its membership. Professor Ian Ball was the Chair of the IPSASB's precursor body (the International Federation of Accountants Public Sector Committee, established in 1994) between 1995 and 2002. IPSASB's Chair between 2010 and 2015, Professor Andreas Bergmann, had also been an IPSASB member between 2006 and 2009. Other academics who have served on the IPSASB include Professor Mariano d'Amore (2010 to 2015), Professor Adriana Tiron Tudor (2012 to 2017), and one of the guest editors of this Special Issue – Professor Francesco Capalbo (2017 to 2019). However, the IPSASB has not, in the past, had strong links with academia. As the authors of one of the papers in this Special Issue note, there is "scarce [academic] literature on standard-setting processes in public sector accounting" (Conrath-Hargreaves et al (this issue). Throughout his term on the IPSASB, Professor Capalbo was vociferous in stating his view that the IPSASB should engage more with academia, in much the same way as the International Accounting Standards Board works with academia through its Research Forum. In the promotion material for the Research Forum, the IPSASB said "Academic research can make an important contribution to the development of high-quality public sector standards and the IPSASB intends to promote that contribution". Francesco has translated his ideas into practice, first having partnered with Ileana Steccolini in organizing the "International and European public-sector accounting standards: roundtable" at the European Accounting Association Conference in Milan in 2018, and then with her and David Watkins to organize the first IPSASB research forum connected with this special issue. That Forum, hosted held in Naples in September 2019, was, without doubt, the trigger for a new, more intense and more effective relationship between Academia and the IPSASB. By the time the organizers opened the doors on the morning of September 17th, we had 111 attendees from 16 different Nations, representing 34 Universities, 17 public sector accounting institutions including the EU Commission, National Treasuries and Supreme Audit Institutions, and 23 different speakers.

This event, and this Special Issue, represent important steps towards a stronger dialogue between academia and practice, addressing a long-debated critical issue in accounting and public sector accounting literature (Tucker et al. 2019; ter Bogt and van Helden 2012; van Helden 2019; Ferry et al. 2019). In their "polyphonic" debate book, Ferry et al. (2019) collect the experiences of 46 public sector accounting scholars from 21 countries, pointing to the multiplicity of ways in which they engage with practice and the enablers and constraints of their engagement. They especially point to the fact that there is no single best way to institutionalize links between the practical and academic worlds, suggesting that connections are often created and nurtured thanks to the initiative of committed individuals, both on the academic and the practice side. Along these lines, for example, the Accounting and Accountability SIG of the IRSPM, the CIGAR network, the EGPA PSG XII have jointly established a task force that brings together academics from the three research networks interested in providing comments on IPSASB Exposure Drafts and, more generally, in helping to improve the public sector standard setting process. In some cases, however, the dialogue may be promoted because of, and thanks to, people who find themselves at the intersection between the two "worlds", acting as translators and connectors. Francesco Capalbo has acted as an important catalyst in this respect,

having tenaciously championed the need to strengthen the collaboration between academia and standard setters in public sector accounting.

The Measurement project

Originally adopted as a project in 2015, the project brief for Public Sector Measurement was revised and re-approved in March 2017. The objectives of the project were stated as “issuing amended International Public Sector Accounting Standards (IPSAS) with revised requirements for measurement at initial recognition, subsequent measurement and measurement-related disclosure; providing more detailed guidance on the implementation of replacement cost and cost of fulfilment and the circumstances under which these measurement bases will be used; and addressing transaction costs”.

The main drivers for the project were the issuance by the International Accounting Standards Board of International Financial Reporting Standard (IFRS®) 13, *Fair Value* (issued in May 2011), and the issuance of the IPSASB’s *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (October 2014). After completing the Conceptual Framework, the IPSASB recognised a need to better align IPSAS measurement requirements and guidance with the principles in the Framework. Respondents to the IPSASB’s 2014 Strategy and Work Plan consultation reinforced this view by supporting a Public Sector Measurement project.

However, the IPSASB project has wider aims than the IASB *Fair Value* project, as it seeks to establish a comprehensive measurement framework for the public sector. The IPSASB approved a Consultation Paper, *Measurement*, at its March 2019 meeting and it was issued on April 30th. The consultation period extended until October 14th, 2019 – a period partly selected so as to give time for discussions at the Research Forum to lead to academic contributions to the debate initiated by the Consultation Paper which provided both a concepts-based discussion, identifying areas where the IPSASB had reached preliminary views and, in an Illustrative Exposure Draft, an illustration of what a draft IPSAS could look like, given the IPSASB’s preliminary views. The proposals for additional guidance on measurement principles included in the Consultation Paper covered historical cost, current cost, replacement cost and fair value (the latter being aligned with IFRS 13).

The Consultation Paper discussed three questions: what measurement basis to use in the context of the Conceptual Framework and examining possible sources of application guidance; how to implement the bases comparing accounting standards with the approaches taken in the standards issued by the International Valuation Standards Council in 2017 and the International Monetary Fund’s *Government Finance Statistics Manual 2014*; and which bases to use in particular circumstances.

Once the IPSASB has debated the responses to the Consultation Paper, the next stage in the project is the issuance of an Exposure Draft which updates the Illustrative Exposure Draft based on comments received from respondents and also on further work carried out by IPSASB staff and the Task Force overseeing the project. The Exposure Draft also present proposals for consequential amendments to other IPSAS to ensure consistency of all IPSAS with the principles in the Conceptual Framework and the requirements set out in Exposure Draft *Measurement*.

The IPSASB follows a rigorous Due Process, which is monitored by its oversight body, the Public Interest Committee. Once due process has been completed, the final stage is the issuance of a new

IPSAS, in this case the *Measurement one*, together with the finalised consequential amendments – currently planned for approval at the June 2022 IPSASB meeting.

The papers in the Special Issue

The papers in this Special Issue provide fresh, energizing, perspectives on issues of measurement and standard setting in the public sector.

The *fil rouge* connecting them is the recognition of the inherent complexity of measurement in the public sector, and the need to reconcile divergent views, definitions, translations. This is especially important in a context where publicness counts (Steccolini, 2019), and, thus, technical, professional and political rationalities intertwine, dimensions of performance are multi-faceted, and accounting standards and standard-setting processes and governance have increasingly come to reflect the tensions between private-sector influences, and public sector practices and traditions.

Complexity is something standard-setters need to take into account in their work, and may even become greater as new challenges loom ahead, including climate change and environmental sustainability, demographic changes, migration movements and rising inequalities, and the continuous emergence of shocks with disruptive global consequences (terroristic attacks, pandemics, economic crises), which have shown the centrality of government preparedness in tackling them. These issues pose new challenges for public sector accounting scholars and standard setters alike, which will be hopefully addressed in the years to come. The papers in this Special Issue provide a very interesting starting point in this direction.

Caruana (this issue) provides an in-depth analysis and critique of the IPSASB's consultation paper on measurement. Her work highlights the importance of addressing issues of measurement, while pointing to the challenges facing IPSASB in writing an ambitious consultation paper. In particular, the author suggests that in the consultation paper not all the possible measurement methods are considered; that there is a need to align and clarify the terminology used throughout the Conceptual Framework and the individual IPSAS; and importantly, that IPSASB should make more significant efforts in taking into consideration actual government accounting practices, rather than concepts derived from private sector standards and practices.

The complex nature of measurement in the public sector, and its consequences for standard setting and accounting practices, set the scene also for Conrath-Hargreaves et al (this issue)'s contribution. Analysing experiences of translation and application of IPSASs within specific national or supranational settings, and especially the EPSAS case, the authors discuss the risks of mismatches between global aspirations and concepts, and local expectations and experiences. In doing so, they underline the importance of the current measurement project in reducing inconsistencies between the conceptual framework and individual standards at the global level, and thus inform standard-setters' measurement projects at the local level.

Lombardi et al (this issue) provide a concrete illustration of the general considerations above by looking at the specific case of infrastructure assets. In analysing the state of the art of infrastructure assets accounting standards, comparing standards across different countries, they highlight that both in practice and in the literature there is still no convergence regarding the best accounting treatment,

and describe the main challenges still outstanding in terms of their definition, recognition, measurement.

Finally, Dabbicco's (this issue) contribution sets new ambitious goals for standard setters and scholars, pointing to the need to develop more research as well as guidance on reporting on natural resources. Pointing to the important roles of reporting and standards in making natural resources, and their depletion, more visible, the author highlights the challenges and issues to take into consideration when developing frameworks and guidelines for natural resources reporting, advancing possible, concrete, solutions.

All in all, these four studies provide food for thought for practitioners, policy makers and academics. In closing this editorial, the editors wish to thank the independent and anonymous reviewers for their time and dedication to ensure the papers accepted for publication met rigorous academic standards (important for the authors). We hope this special issue will provide useful insights for IPSASB's Work Programme, as well as for scholars interested in embarking in new research in public sector accounting standards and standard setting.

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