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IPSAS or IFRS as the Framework for Public Sector Financial Reporting? New Zealand Preparers' Perspectives

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The last 30 years have seen public sector accounting in many countries undergo considerable change. More recently, some governments adopted accrual accounting and International Public Sector Accounting Standards (IPSAS), some adopted modified International Financial Reporting Standards (IFRS) while others continued with cash-based accounting. New Zealand (NZ) has, for more than two decades, followed a sector neutral approach to financial reporting and standard setting where the same accounting standards were applied to all entities in all sectors: for-profit, not-for-profit and the public sector. This period included the adoption of IFRS by for-profit entities with minor modifications for the public sector. The suitability of IFRS for the public sector has been questioned and, recently, standard setters in NZ decided to adopt a sector-specific standard-setting approach with multiple tiers for each sector. The for-profit sector will continue to follow IFRS but reporting standards for the public sector will be based on IPSAS. In this period of change we sought the views of preparers of public sector financial reports regarding the users of such reports and their preferences for the public sector reporting framework. We also sought the views of the preparers regarding the usefulness of each financial statement for users, and whether the benefits of reporting by their organisations exceeds the costs. The findings indicate support for maintaining IFRS as a basis for reporting in the NZ public sector. However, IPSAS modified to NZ conditions is also perceived as an acceptable option by respondents in this study. The income statement is, in the opinion of the respondents in this study, the most useful statement while cash flows appear to hold little value. A high proportion of respondents believe that the benefits of reporting exceed the costs, which contradicts the view that such reports are mainly compliance documents that provide little value. This finding contributes to the continuing debate on costs versus benefits on the recent introduction of IPSAS as the reporting framework for the public sector and the perceived appropriateness of IPSAS in public sector reporting.

The last 30 years have seen public sector accounting in many countries undergo considerable change. The most significant has been the introduction of business accounting as an important element of New Public Management (Christiaens et al. 2010). The drive for this change has come from the requirement of public sector stakeholders for high-quality accounting information and a general trend of public sector accounting migrating to accrual accounting. However, there has not yet been consensus on which accounting standards are best suited for the public sector (Lapsley et al. 2009). Some governments adopted accrual accounting and International Public Sector Accounting Standards (IPSAS), some adopted modified International Financial Reporting Standards (IFRS) while others have continued with cash-based accounting. Pina and Torres (2003) noted that accrual accounting provides better information about government solvency and is more useful in determining the costs of public services. IFRS are designed predominately for use by large profit-oriented entities. IPSAS are accounting standards that are generally IFRS modified for the public sector. In general terms, countries that administratively and culturally fit into the Anglo-Saxon context have adopted accrual accounting and are, therefore, more inclined to adopt IPSAS.

In 2011 the Council of the European Union (EU) adopted the 'Six-Pack', a legislative package on economic governance in the EU. As part of the package, in 2012 the European Commission undertook public consultation on the assessment of the suitability of IPSAS for the Member States. The major driver in consideration of IPSAS was a need for high-quality finance statistics and data to ensure proper fiscal surveillance in the EU, given recent economic developments in the Union and the sovereign debt crises. It has been perceived by some EU Member States that the implementation of uniform and

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comparable accrual-based accounting practices, at least, for all sectors of general government would help in providing such high-quality data. This public consultation highlighted divergent views on public sector reporting in the EU by Member States with major concerns surrounding the costs of implementing IPSAS, incompatibilities of national laws in the EU and concerns surrounding the IPSAS board's governance arrangements. On that basis the overall conclusion from that consultation process was that there are some potential benefits in implementing a public sector accounting system and standards that would provide comparability and consistency of fiscal reporting in the EU, but that development in using IPSAS is seen to be more likely a medium to long-term project (EU 2012). A possible phased approach with accrual-based accounting applied first to some sectors across Member States, followed by IPSAS application at a later stage, has also been suggested as a preferred approach.

Financial reporting in the New Zealand (NZ) public sector has also gone through significant changes in the last 20 years, from developing sector neutral NZ standards for application in both private and public sectors in the 1990s to the adoption of IFRS in 2005–2007. In general terms that has resulted in a high level of transparency and high-quality financial information provided by the NZ public sector to NZ citizens. A recent survey by the International Budget Partnership on the transparency surrounding government budgets found that NZ topped the list of 100 countries surveyed.[1] While budget transparency around the world has been described as 'generally dismal' (Crane 2013), NZ has been found to provide transparent and extensive information to its citizens. Part of the reason for this transparency is the implementation of better financial management, enabled first by the introduction of accrual-based accounting and then by a sector neutral approach to reporting in NZ (Crane 2013). Therefore, the adoption of IPSAS in countries around the world might lead to an improvement in financial management in adopting countries and it could be an indirect but important benefit (EU 2012).

Further changes in NZ GAAP for public benefit entities have occurred in the 2011–2012 period when the NZ External Reporting Board (XRB) developed a separate reporting framework for the public sector. In April 2012, the NZ Minister of Commerce approved the new Accounting Standards Framework for NZ, which signified more changes for public sector reporting. Subsequently, in June 2012, the XRB issued a package of exposure drafts on new standards for public benefit entities. These exposure drafts are also known as the Public Sector PBE Package and are part two of the five packages that XRB is developing so as to operationalise the new Accounting Standards Framework. These proposals encompass reporting standards for Tier 1 and Tier 2 Public Sector Public Benefit Entities (PBEs) that are to apply the PBE Standards, PBE Standards with Reduced Disclosure Regime and PBE, as well as NFP Simple Format Accounting Standards. Tier 1 entities (defined as 'large' with total expenses over $30m) are required to apply a suite of standards based on IPSAS.

In 2012 the XRB considered the responses to the exposure drafts on the new framework and the application of IPSAS. According to the XRB the new Reporting Framework in NZ, including the Public Sector PBE Package, is a result of three years of deliberation by the Board and extensive consultation with the constituency (Simpkins 2012). However, according to anecdotal evidence, the introduction of the new framework and IPSAS in NZ is perceived as yet another, potentially costly, change. Cost has also been a major consideration in EU deliberations on the adoption of IPSAS. EU Commission consultation highlighted the need for more research on the implementation of IPSAS and sharing of experiences by countries that are in the process of applying, or have already applied, IPSAS (EU 2012). NZ currently has in place IPSAS-based accounting standards for Tier 1 and Tier 2 public sector benefit entities, which are effective for financial periods starting from 1 July 2014.

Previous research on the adoption of accrual accounting in various countries has conceptually been linked to Public Choice Theory (Barton 2005), privatisation (Newberry and Pallot 2005) and neo-liberalism (Newberry and Ellwood 2004). Christensen (2007) called for more detailed empirical studies that would consider the relationship of accounting change in the public sector in the context of managerial and other changes.

Previous research on the adoption of IFRS in the public sector (Pilcher and Dean 2009a, 2009b) examined the consequences of adoption of full accrual accounting in Australia, coupled with the implementation of IFRS, on financial reporting compliance for local government in Australia. They found that IFRS does not add value to the management of local government in Australia and that the reporting requirements, especially for small councils, are time consuming, costly and tend to dominate management accounting systems. Trewavas et al. (2012) and Redmayne and Laswad (2013) also provide insights into changes and costs associated with implementation of IFRS in the NZ public sector but evidence regarding adoption of IPSAS is limited.

Prior research investigating the usefulness of accrual accounting in various decision contexts has been largely normative apart from a small number of Australian survey-based studies. These studies surveyed managers and financial statements preparers and users (Jones and Puglisi 1997; Andriani et al. 2010; Kober 2010; Kober et al. 2013) and found evidence of the 'experience effect'. The experience effect suggests that managers who have prior experience in using a certain reporting framework rate that framework as being more useful than managers who don't have such prior experience.

This paper also examines the views of the preparers of NZ public sector reports regarding the users of public sector reports and the usefulness for users of each financial statement, the suitability of the reporting framework for the public sector, the benefits and costs of reporting, and whether financial statements prepared by public sector entities are used in internal management decision-making. In that sense this research provides additional empirical evidence on the usefulness of public sector financial reporting in the changing reporting environment.

Background to New Zealand Public Sector Reporting

NZ public sector reporting has gone through three phases of change and is about to enter its fourth phase. The three phases were: cash basis until the late 1980s; accrual-based accounting coupled with sector neutral standards from the early 1990s to 2005–2007; and modified IFRS from 2007 to 2012. The new and fourth phase is IPSAS-based standards with multi-tiers to be used in NZ public sector reporting.

Cash-based accounting was the traditional form of accounting in the public sector in NZ prior to the public sector reforms of the 1980s. These reforms were comprehensive and change occurred relatively quickly compared to other countries. The *State Sector Act 1988* was introduced with the objective of increasing departmental accountability, and the *Public Finance Act 1989* required the use of accrual-based accounting at both government and agency level (Carlin 2005; Ellwood and Newberry 2007). Accrual accounting was introduced to the public sector in NZ as it was believed that cash accounting distorted the cost of services provided when compared to private sector entities that were required to include non-cash expenses in their costs.

Accrual accounting was expected to provide a more accurate assessment of the costs of services and be a better indicator of efficiency in the public sector (Guthrie 1998). Besides those benefits, this type of accounting is thought to include a more comprehensive identification of costs, cost control and efficiency measurements, better pricing policies, increased productivity, greater accountability, intergenerational equity, restrictions over government indebtedness and greater financial performance comparability (Guthrie 1998). Accrual accounting is also considered more suitable for long-term projects and accounting for assets, as it extends the focus of accounting to include transactions that have occurred but have not involved the transfer of cash (Robb and Newberry 2007).

Overall accrual accounting in NZ was part of a wider set of public sector management reforms with the objective of improving the efficiency of public sector and external accountability on all levels of reporting.

At the same time the NZ Financial Reporting Standards Board (FRSB) proposed and subsequently approved a single set of standards applicable to all NZ entities. Given the lack of a specific public sector conceptual framework and a small number of public sector specific standards, it was perceived then that private and public sector entities share a number of common transaction features and can use the same financial reporting framework (Newberry 2003; Bradbury and van Zijl 2007). The *Financial Reporting Act 1993* established the Accounting Standards Review Board (ASRB) with the role of reviewing and approving accounting standards developed by the FRSB (Bradbury and Baskerville 2007). The development of the FRSB standards considered all sectors and became known as the Financial Reporting Standards (FRS). In NZ, the FRS followed accrual accounting as it was applicable to the public sector and this was then widely accepted as being sector neutral (Brady 2007).

In 1997, the FRSB announced that all future NZ standards would be based on standards issued by either the Australian Accounting Standards Board (AASB) or the International Accounting Standards Committee (IASC) (Bradbury and van Zijl 2007). In June 2002, the Australian Financial Reporting Council (FRC) instructed the AASB that Australian entities would be required to prepare their financial reports according to IFRS for accounting periods beginning on or after 1 January 2005 (Brady 2007). As a result of the Australian decision, in October 2002 in NZ, the ASRB decided that all listed issuers (meaning private sector companies and entities), would be required to comply with IFRS from 2007 with the option to comply earlier from 2005.

Consultation with the public sector occurred in NZ over the following two months with the result being very strong support for the adoption of IFRS by NZ and continuation of sector neutral accounting standards (Bradbury and van Zijl 2007). Consequently, in December 2002, the ASRB announced that all reporting entities in the NZ public and private sectors would be required to comply with NZ IFRS for periods beginning on or after 1 January 2007, with an option to comply with NZ IFRS for periods beginning on or after 1 January 2005.

In response to wider problems and inconsistencies in financial reporting and assurance of financial statements in various sectors in NZ, in September 2009 the NZ Ministry of Economic Development and the ASRB issued discussion documents on the revision of the statutory framework for financial reporting. Part of the revision process was the proposal for the NZ not-for-profit sector, which includes public sector entities, to abandon sector neutral financial reporting and require compliance with NZ Public Benefit Entities Accounting Standards (NZ PBE Accounting Standards). These standards are proposed to be based on the IPSAS issued by the

IFAC International Public Sector Accounting Standards Board (IPSASB).

In July 2011, the ASRB was reconstituted as the External Reporting Board (XRB) with wider responsibilities for setting accounting and auditing standards and in September 2011 the NZ Accounting Standards Board (NZ ASB), as part of the XRB, decided to change reporting in the public sector with the adoption of a multi-standard approach, where public benefit entities' reporting frameworks are to be, in principle, based on IPSAS (NZ ASB 2011). This heralded the end of the sector neutral approach to financial reporting in NZ. Australian regulators are still continuing with the application of IFRS across both private and public sectors, while in Continental Europe the discussion continues regarding the need to have good accounting reasons why the public sector should adopt accrual accounting in the first instance, and then IFRS or IPSAS. The discussions continue on the implications of such changes and adoptions (Heald and Georgiou 2009; Hyndman and Connolly 2011; Grossi and Soverchia 2011).

Private sector reporting has gone through many phases of change and there is a consensus that IFRS is the best framework for this sector. However, there are diverse views within the public sector about the suitability of various reporting frameworks (Lapsley et al. 2009; Pilcher and Dean 2009a, 2009b; EU Commission 2012). The debate about suitability of various reporting frameworks would benefit from more information on the adoption process and experiences of participants in financial reporting in the public sector. In this study we explore the views of one such key group, the preparers of public sector reports.

Sample and Data Collection

A survey instrument was developed for this study containing questions relating to the perceived use of public sector reports, the reporting framework, the costs and benefits of reporting and whether financial reports are used in management decision making. A list of public sector entities and their chief executive officers (CEOs) was obtained from the Office of the Auditor and Controller General. The list was comprised of 358 public sector organisations. The survey instrument and an invitation to participate were posted to all chief executives on that list. Twenty-nine responses were not received because the addresses were incorrect while 164 responses were received, giving an overall response rate of 50%. All respondents represent public sector entities that currently prepare financial statements under NZ IFRS. Most respondents (89%) are chief financial officers (CFOs) or CEOs and the remaining respondents are senior finance staff. The respondents have considerable work experience in the public sector and generally. Table 1 outlines the profile of the respondents. The majority of respondents are local government CFOs who are males with significant work experience in the public sector.

Table 1 Profile of respondents

	No. of entities	*%*
Sub-sectors		
Local government	49	29.9
Crown entities	28	17.1
Service departments	23	14.0
Tertiary education institutions	17	10.4
District health boards	7	4.3
SOE	7	4.3
Other public sector	33	20.1
Total	164	100
Occupation		
Chief executive officer	19	11.6
Chief financial officer	109	66.5
Other senior finance staff	36	20.0
Total	164	100
Gender		
Male	118	72
Female	46	28
Total	164	100
Mean Work Experience	*Years*	
in current position	5.4	
in the public sector	12.6	
Total experience	22.4	

Results

Users of public sector financial reports

IASB and draft IPSASB Conceptual Frameworks state that the primary purpose of financial reports is meeting users' information needs. The IASB framework identifies resource providers (investors and creditors) as the primary users while the IPSAS draft framework states that the primary users of general purpose financial reports (GPFR) are resource providers and recipients of services. This suggests a wider user base in the public sector than in the for-profit sector. In this study the respondents are asked to rate the importance of various user groups using a scale from 1 (very important) to 5 (not important). They are also able to indicate whether a particular group is not a relevant user. The respondents also have the opportunity to identify and rate other groups not specified in the questionnaire. Understanding the perceptions of preparers regarding the users of reports is useful as these perceptions are likely to influence the ways in which the preparers tailor their reports and choose between accounting policies.

Table 2 presents the distribution of responses for each user group, the number and proportion of respondents regarding the user group as relevant, and the mean importance score for each group. The results indicate

Table 2 Distribution of responses and descriptive statistics of importance of user groups of public sector reports

		Very important		Not important				
		1	2	3	4	5	Relevant group	Mean importance score
Management	n	79	42	28	11	2	162	1.86***
	%	48.2	25.6	17.1	6.7	1.2	98.8	
Minister(s)	n	61	38	24	15	13	151	2.21***
	%	37.2	23.2	14.6	9.1	7.9	92.1	
Councillors	n	38	27	22	10	10	107	2.32***
	%	23.2	16.5	13.4	6.1	6.1	65.2	
Parliament	n	46	43	26	20	13	148	2.40***
	%	28.0	26.2	15.9	12.2	7.9	90.2	
Staff	n	20	55	54	25	7	161	2.65***
	%	12.2	33.5	32.9	15.2	4.3	98.2	
General public	n	27	40	47	33	13	160	2.78**
	%	16.5	24.4	28.7	20.1	7.9	97.6	
Ratepayers	n	31	14	21	15	18	99	2.75*
	%	18.9	8.5	12.8	9.1	11	60.4	

Significantly different from the midpoint of 3 at *≤0.1, **≤0.05 and ***≤0.01.

that 'management' (those who manage the entity, such as the CEO) is regarded by the respondents as the most important user group of public sector reports. Management as a user group has the highest proportion of respondents (48%), which indicates that this user group is very important. This finding is interesting as neither IASB nor IPSAS frameworks include 'management' as a primary user of financial reports in the public sector. However, this is not surprising as the respondents are managers and they view management as the most important user group. This finding also aligns with the original objectives of the NZ public sector reforms (and the consequent adoption of accrual accounting) of using financial reporting in improving efficiency and accountability of management.

A comparison of median responses across the sub-sectors indicates consensus among the respondents regarding the following user groups: management, staff and general public. These user groups are common across sub-sectors. The median of responses across the sub-sector is statistically significant, suggesting lack of consensus for the following user groups: ratepayers, Minister(s), councillors and Parliament. A possible explanation for the difference is that the relevance of these user groups varies across sub-sectors (e.g., what is perceived as relevant information and users varies between local authorities and central government agencies).

Ministers and Parliament appear to be the second and third most important users of financial reports while ratepayers and the general public are seen as less important. Future research on such users should explore what is the actual use of the financial reports provided to these stakeholders. In addition, a number of responses in the current research qualified as 'other users' indicate that banks, finance providers, lenders and auditors are seen by respondents as important users of financial reports in the NZ public sector. These responses provide an interesting perspective on the perceptions of the preparers of financial reports of who uses financial reports in the NZ public sector, in particular in relation to banks and lenders using financial statements to advance finance or loans. This finding is of potential interest worldwide to countries considering adoption of accrual accounting and IPSAS, especially in light of the recent sovereign debt crisis where there was a call for stronger emphasis on long-term sustainability of public finances so as to ensure additional funding.

The usefulness of financial statements to users of financial reports in the public sector

The respondents were asked to rate the usefulness of each financial statement to the users on a scale from 1 (very useful) to 5 (not useful) or to indicate that the statement is not relevant to users.

Table 3 provides the distribution of responses for each financial statement, the proportion of respondents indicating that the statement, in their opinion, is useful and the mean usefulness score. The Mean Usefulness Score is statistically significant from 3, the midpoint rating, except for the statement of changes in equity.

The results indicate that the respondents, who are the preparers of the statements, see the statement of financial performance as the most important statement, followed by the balance sheet and cash flow statements. This is an interesting finding in light of the recent EU consultation on IPSAS (EU 2012), where the main advantage of introducing accrual-based accounting and IPSAS for Member States is considered to be the improvements in recognition, measurement and disclosure of liabilities, especially those of a long-term and uncertain nature (such as borrowings, guarantees, pensions and social contributions). The EU perspective places emphasis on

Table 3 **Distribution of responses and descriptive statistics of usefulness of financial statements to users**

		Very useful		Not useful				
		1	2	3	4	5	Relevant group	Mean score
Profit and loss/Financial performance	n	89	42	18	7	2	158	1.68***
	%	54.3	25.6	11.0	4.3	1.2	96.3	
Balance sheet	n	62	67	25	8	1	163	1.89***
	%	37.8	40.9	15.2	4.9	.6	99.4	
Cash flows	n	64	59	21	12	8	164	2.03***
	%	39.0	36.0	12.8	7.3	4.9	100.0	
Comprehensive income	n	34	47	44	23	15	163	2.62***
	%	20.7	28.7	26.8	14.0	9.1	99.4	
Changes in equity	n	22	43	44	33	20	162	2.91
	%	13.4	26.2	26.8	20.1	12.2	98.8	

Significantly different from the midpoint of 3 at *≤0.1, **≤0.05 and ***≤0.01.

the balance sheet while it appears that the preparers of NZ public sector reports place more emphasis on financial performance and the profit and loss statement. The emphasis on financial performance in NZ is largely a legacy of the New Public Management reforms of the 1980s, where some key performance indicators of public sector entities were based on the income statement. An example of a financial KPI in the public sector, the Tertiary Education Commission, a crown entity responsible for higher education in NZ, requires universities to achieve a minimum of 3% return on revenue.

When asked what other information might be useful, respondents mention the statement of service performance and statements on achievements on key KPIs as the 'other' most important statements. This is consistent with responses about the perceived key users of financial reports in the public sector, being management, ministers and Parliament who use financial reporting as a means of discharging their accountability. Other responses were centred around governance disclosure, summaries of business, statements on future sustainability and financial strategy.

Comparing responses across the sub-sectors indicates that there are no significant differences when it comes to the relevance of the profit and loss statement, balance sheet and comprehensive income. This suggests consistency across the sub-sectors in the perceived relevance of these financial statements. There were, however, significant differences across the sub-sectors in respect of cash flows and changes in equity statements, which suggest variations in the perceptions of the importance of such statements.

The preferred reporting framework

The respondents were asked to indicate their preferences for each reporting framework using a scale from 1 (best) to 5 (worst) or to indicate that the framework is not relevant. They were also asked to identify any other frameworks not included in the list of frameworks.

Three major reporting frameworks were listed: IFRS, IPSAS and a NZ-based framework. IFRS includes pure IFRS, IFRS modified for public benefit entities, and reduced disclosure. IFRS modified for public sector entities includes some measurement and disclosure exemptions for the public sector while a reduced disclosure includes only disclosure exemptions.[2] IPSAS includes pure IPSAS, IPSAS modified for NZ conditions, and reduced disclosure IPSAS. A NZ-based framework includes NZ GAAP developed completely in NZ, basic accrual reports and cash basis financial reports.

Table 4 shows the distribution of preferences of reporting frameworks, the proportion of respondents indicating the relevance of each framework, and the mean preference score. The results indicate that NZ IFRS modified for public benefit entities is the preferred framework. This is followed by IPSAS modified to NZ conditions and reduced disclosure NZ IFRS. These are the only frameworks that had preference scores significantly less that the midpoint of 3. The results also indicate that adopting pure international frameworks (IASB or IPSAS) is currently regarded by the respondents as least suitable in the NZ public sector. This suggests that the respondents believe that there are conditions in NZ that need to be incorporated in the adoption of international frameworks. The reluctance of preparers of financial statements to abandon NZ IFRS is understandable given the level of change in NZ public sector reporting in the last five to seven years. In addition, given the seniority, background and experience of the respondents, these findings are consistent with the 'experience effect', that is, managers who have prior experience in using a certain reporting framework rate that framework as more useful than managers who don't have such prior experience. The preference for standards that are adapted to NZ conditions is consistent with responses in the EU 2012 Consultation on the IPSAS, where respondents favoured

Table 4 **Distribution of responses and descriptive statistics of appropriateness of reporting frameworks for the public sector**

		Very useful		Not useful				
		1	2	3	4	5	Relevant FW	Mean preference score
IFRS-based frameworks:								
Pure IFRS	n	13	27	49	38	22	149	3.19***
	%	7.9	16.5	29.9	23.2	13.4	90.9	
NZ IFRS (modified for public benefit entities)	n	41	49	39	12	5	146	2.25***
	%	25.0	29.9	23.8	7.3	3.0	89.0	
Reduced disclosure NZ IFRS	n	9	37	45	17	4	112	2.73**
	%	5.5	22.6	27.4	10.4	2.4	68.3	
IPSAS-based frameworks:								
IPSAS	n	3	25	47	18	14	107	3.14
	%	1.8	15.2	28.7	11.0	8.5	65.2	
IPSAS modified to NZ conditions	n	22	40	26	14	8	110	2.51***
	%	13.4	24.4	15.9	8.5	4.9	67.1	
Reduced disclosure IPSAS	n	9	24	35	16	13	97	3.00
	%	5.5	14.6	21.3	9.8	7.9	59.1	
NZ-based frameworks:								
NZ GAAP	n	13	29	42	29	21	134	3.12
	%	7.9	17.7	25.6	17.7	12.8	81.7	
Basic accrual accounting	n	21	30	27	33	21	132	3.02
	%	12.8	18.3	16.5	20.1	12.8	80.5	
Cash basis	n	2	10	10	18	75	115	4.34***
	%	1.2	6.1	6.1	11.0	45.7	70.1	

Significantly different from the midpoint of 3 at *≤0.1, **≤0.05 and ***≤0.01.

their own national government budgeting and reporting systems.

A comparison of preferences across sub-sectors indicates consensus of views regarding all frameworks except for pure IFRS and cash basis, the least preferred frameworks.

Benefits and costs of reporting

Table 5 shows the distribution of responses regarding the relation between costs and benefits of reporting in the public sector. A high proportion of respondents (70%) indicated that benefits exceed costs. A chi square test indicates that this distribution varies across sub-sectors. The majority of respondents from all sectors indicated that benefits exceed costs except respondents from local government and state-owned enterprises, who were equally divided.

These findings contribute to the continuing debate surrounding the cost of changes in regulation and changes in financial reporting in the public sector. Costs exceeding benefits on implementing IPSAS are also a major concern presented in the EU 2012 consultation process on IPSAS.

The respondents who considered that benefits exceed the costs of preparing financial reports in the public sector supported their responses by emphasising that there is a need for public accountability and transparency with public money (this includes comments on financial reports being in a certain format in order to be audited), and that Crown monitoring and reporting requirements are paramount. At the same time these respondents indicated that the financial reports they prepare have limited value to outsiders and have onerous disclosure requirements. The respondents who considered that costs exceed benefits overwhelmingly responded that the intended users of financial reports in the public sector (ratepayers/councillors) do not understand them, rarely read them, and find them complex. The compliance costs for small finance or accounting teams in the public sector are also highlighted. This suggests that there is strong perception that financial reporting is a valuable output for discharging public accountability but only by certain size entities in the public sector. The application of full IPSAS standards that do not differentiate between reporting entities on the basis of size is also considered an obstacle in implementing IPSAS in the EU (EU 2012).

The use of financial statements in management decision making

We asked respondents whether the financial statements are used in management decision making. The results presented in Table 6 indicate that about half of the respondents use general purpose financial reports for internal decision making while the other half does not. A chi square test indicates differences among the sub-sectors at 0.10. Tertiary education institutions are the sub-sector with the highest use of financial reports by management.

Table 5 Benefits and costs of preparing financial statements

	Crown entities	Departments	DHB	Local government	SOE	TEI	Others	Total	%
Benefits exceed costs	23	18	5	25	4	12	28	115	70
Costs exceed benefits	5	5	2	24	3	5	5	49	30
Total	28	23	7	49	7	17	33	164	100

Table 6 The use of financial statements in management decision making by sub-sector

	Crown entities	Departments	DHB	Local government	Others	SOE	TEI	Total	%
Used	13	9	2	20	15	1	13	73	45
Not used	15	14	5	29	18	6	4	91	55
Total	28	23	7	49	33	7	17	164	100

The respondents who use the financial statements in internal decision making supported their answers by saying that preparing financial statements provides them with the discipline to use in their planning and reporting, and the financial statements are used for forecasting, analysing trends and budgets, and as a platform for government to formulate fiscal policies. The respondents who do not use financial reports for their internal decision making generally indicated that information in financial reports is, in their opinion, out of date, reporting on past performance and therefore not appropriate for day-to-day management decision making. This second view is in line with Christensen's (2007) conclusions that managers utilise detailed, confidential and timely information that is usually available only to them and not to external stakeholders, while financial reporting is designed to meet external information needs that are generally not expected to drive managerial decision making.

These findings further support the view that financial reporting in the public sector is of limited use for daily management decision making but overall useful for 'bigger picture planning' and therefore can be seen as more than just a mere compliance exercise. The findings of this study provide some additional evidence on the usefulness of IFRS, especially given Pilcher and Dean's (2009a, 2009b) report on de-coupling of financial reporting and management reporting when IFRS is used in the public sector in Australia.

Summary and Conclusion

NZ has a history of interest in quality financial reporting in the public sector. This history includes accrual accounting, sector neutral accounting standards, and the adoption of IFRS for the public sector; currently it is in the process of adopting further changes, which include IPSAS-based accounting standards. This study provides insights into the perceptions of preparers of public sector financial reports regarding some key aspects of financial reporting in the public sector. It was undertaken during a period of considerable change in public sector reporting.

The preparers' perceptions of the users of reports are likely to influence their approach to presentation and choice of accounting policy. The findings of the study include that management is viewed as the primary user of public sector financial reports. This finding is interesting as neither IASB nor IPSAS frameworks include 'management' as a primary user of financial reports as such reports are aimed at external parties. However, this finding is not surprising as preparers indicate these reports are used for some internal decision making. Therefore, the findings of this study provide further evidence of the decision usefulness of financial reports in the public sector. Further, the income statement is viewed as the most important financial statement. This could be explained by the fact that many public sector entities have financial performance as one of their KPIs. Further, this statement appears to be useful for lending and banking purposes even in the public sector.

NZ IFRS modified for public benefit entities is currently still seen, by the participants in this study, as the best financial reporting framework for the public sector in NZ. This finding provides further evidence of the previously documented 'experience effect' in public sector reporting where there is a preference for current reporting regimes and resistance to change.

Financial reporting is one of the tools used in public sector management, with a nearly equal number of respondents indicating that its benefits exceed its costs, and about half of the respondents indicating that financial reporting in the public sector is more than a compliance exercise.

This study provides some useful insights into perceptions by the preparers of financial reports in the NZ public sector, particularly at a time of change in the reporting regime and the introduction of IPSAS standards.

In that way this study provides much needed information for the debate on the suitability of IPSAS standards for public sector reporting worldwide.

As with any survey-based study, there are some limitations. One of the limitations is whether the views provided are personal opinions or reflect those of the wider organisation. As this study was undertaken during a period of considerable change in public sector reporting in NZ, future research would be able to provide additional insights through comparing perceptions during change with a more stable reporting environment.

Notes

1 The full report of the International Budget Partnership is available at http://internationalbudget.org/what-we-do/open-budget-survey/full-report/.

2 Reduced Disclosure Requirement or RDR regime is based on the Australian RDR for-profit entities. In the context of NZ IPSAS, it requires the same presentation in the financial statements as IPSAS but allows reduced disclosures in the notes to the financial statements for smaller public benefit entities.

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