

Emerald Studies in Public Service  
Accounting and Accountability



# Measurement in Public Sector Financial Reporting

*Theoretical Basis and  
Empirical Evidence*

*Edited by*

Josette Caruana • Marco Bisogno • Mariafrancesca Sicilia

# **Measurement in Public Sector Financial Reporting**

# EMERALD STUDIES IN PUBLIC SERVICE ACCOUNTING AND ACCOUNTABILITY

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EMERALD STUDIES IN PUBLIC  
SERVICE ACCOUNTING AND  
ACCOUNTABILITY

**Measurement in Public  
Sector Financial Reporting:  
Theoretical Basis and  
Empirical Evidence**

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# List of Abbreviations

AASB	Australian Accounting Standards Board
AIMS	Asset Information Management System
AMAF	Asset Management Accountability Framework
ARCONET	Commission for the Accounting Harmonization of Italian Subnational Governments
ASB	Accounting Standards Board
BDAP	Banca Dati Amministrazioni Pubbliche
CF	Conceptual framework
CFM	Cantonal Finance Ministers
CFS	Consolidated financial statements
CIC	Capitalised investment costs
CIPFA	Chartered Institute of Public Finance Accountants
CL	Comment letter
COFOG	Classification of the functions of government
COV	Current operational value
CP	Consultation Paper
DAK	Specific Asset Registration
DPA	Asset Premise Registration
DRC	Depreciated replacement cost
EC	European Commission
ED	Exposure Draft
EPSAS	European Public Sector Accounting Standard
ESA	European System of National and Regional Accounts
eTapp	Land database
EU	European Union
FASAB	Federal Accounting Standards Advisory Board
FGAB	Finnish Government Accounting Standards Board
FMAP	Financial Management Act of Parliament
FRS	Financial Reporting Standard
GAAP	Generally Accepted Accounting Principles
GASB	Government Accounting Standards Board
GFS	Government Finance Statistics
GPFS	General purpose financial statements
HA	Heritage asset
HAM 2	Harmonised Accounting Model — 2nd Generation
HAM 1	Harmonised Accounting Model

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IAS	International Accounting Standard
IFAC	International Federation of Accountants
IFMIS	Integrated Financial Management Information System
IFRS	International Financial Reporting Standard
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standard
IPSASB	International Public Sector Accounting Standards Board
IRD	Inland Revenue Department
ITAS	National accounting standards for the Italian public sector
IVR	Interventionist research
IVS	International Valuation Standards
LG	Local government
MGDD	Manual of Government Deficit and Debts
MoF	Ministry of Finance
NFP	Not-for-Profit
NPISHs	Non-profit institutions serving households
NZ	New Zealand
NZASB	New Zealand Accounting Standards Board
NZAuASB	New Zealand Auditing & Assurance Standards Board
OAG	Office of the Auditor-General
OCI	Other Comprehensive Income
OECD	Organisation for Economic Co-operation and Development
OIC	Organismo Italiano di Contabilità
PPE	Property, plant and equipment
PSE	Public sector entity
PVNR	Present value of the future net returns
QC	Qualitative characteristic
RQ	Research question
SFS	Separate financial statements
SMC	Specific matter for comment
SNA	System of National Accounts
SPA	Moveable Asset Management System
SPPII	Project Management System
SSB	Standard Setting Board
TPATA	Immovable Asset Management Procedure
VAT	Value Added Tax
VDAS	Victorian Digital Asset Strategy
XRБ	External Reporting Board

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# Foreword

Accounting is often technical and it can easily become dull. Still, accounting can be provocative, provide food for thought, and challenge ideas that are taken for granted. This book falls in the second category. It is a book about trying to understand and rationalise the ‘whys’ and ‘what ifs’ behind the routine accounting process that is related to measurement.

This book comes at the right moment. Now that the International Public Sector Accounting Standards (IPSAS) are updating their conceptual framework and measurement methodologies. Now that European Public Sector Accounting Standards (EPSAS) are in the process of development. Now that national public sector regulators are drafting their national IPSAS-like accounting standards and gathering ideas and inspiration also from international practice. Now that many governments are in the process of preparing their first balance sheets; struggling with the preparation of a proper fixed assets register; and are puzzled about how to treat heritage assets. Now that governments face the challenge of preparing consolidated financial statements. Now that we scholars try to understand the similarities and the differences between the public and the private sector and draw an informed line.

It is therefore a timely book that can provide a useful means to answer a series of reasonable ‘whys’ in the minds of all those interested in understanding the multifaceted tool of measurement in the public sector. Those that clearly comprehend that valuation in the public sector is not synonymous for ‘public value’. Those that try to understand why different methodologies end up with different information content for decision-making and accountability. Why the prudence principle has become such a controversial issue in public sector standard setting. Why accrual accounting and national accounts diverge when it comes to measurement and provide different bottom lines. Why concluding on the value of public sector entities’ equity calls for diligence in the measurement of assets and liabilities. Why putting a value on heritage can be more than challenging. Why the use of the notion of assets for heritage items is not self-evident.

The book has been co-edited by my dear colleagues Josette Caruana, Marco Bisogno, and Mariafrancesca Sicilia, who are active contributors of important research works in the public sector accounting and financial accounting academic community. They have envisioned and successfully co-edited a book that takes a holistic stance on the topic of measurement in public sector accounting and reporting and includes a series of chapters written by well-known scholars that

envisage the topic from several fronts that go from theory to practice and cover not only assets but also liabilities, expenditures, and income.

The pluralism and heterogeneity both in content and structure are what make the book interesting and value-adding. The book chapters try to walk the reader through the different methodologies, implications, and information content that are related to measurement: from the traditional dipole of historical and current cost valuation, to the new current operational value; from the accounting standards to the national accounts; and from the typical fixed assets to heritage. The chapters are also different in structure. They adopt various research methodologies and include theoretical considerations, country cases, and empirical analyses. What they have in common is their critical stance on the topics analysed.

Thus, one could read this book from cover to cover or could focus only on a specific matter area (i.e. frameworks and methodologies, measuring and reporting for financial statements, and heritage-related measurement topics) and study the chapters that fall within. In any case, by using the IPSAS as a reference point in the majority of cases, the book becomes relevant to the international audience.

Different readers are, most likely, going to end up with different takeaway messages after reading the book. However, it is for sure that this book will have made them think about topics they have taken for granted for a long time; wonder about their own preferences when facing alternative options; and object to or coincide with views expressed. Some readers could use the book's ideas when implementing accrual accounting and need to proceed with measurement in a public sector entity. Others may get motivated to do research on measurement-related topics; to open provocative discussions with fellow professional accountants; and to have a broader and more receptive mind when concluding on accounting standards. Some others could just read the book and feel that accounting is not necessarily technical and dull.

Sandra Cohen  
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## Preface

*Josette Caruana, Marco Bisogno, and Mariafrancesca Sicila*

This book deals with Measurement in Public Sector Financial Reporting. Literature on the subject is available, but it is dispersed throughout various academic journals, books, and professional publications. The book aims to consolidate and update the literature with empirical evidence from practice, thus making the contents useful for academics, researchers, policy-makers, public managers, international organisations, and standard setters, who are involved in or are responsible for the preparation of public sector financial reporting and related standards. While not designed as a textbook for students, the book can be included in reading lists for university courses and used as a library reference.

The idea for this book arose from the Measurement Project of the International Public Sector Accounting Standards Board (IPSASB). Due to this project, the IPSASB launched a series of consultation papers for public comment. We (the editors of this book) currently co-chair the Academic Task Force on Public Sector Financial Management and Reporting, representing three research networks on public sector accounting, namely, IRSPM PSAAG, CIGAR, and EGPA PSG XII. The main objective of the Task Force is to analyse consultation papers related to public sector accounting (as those issued by the IPSASB) and prepare responses.

The first Consultation Paper tackled by the Task Force was on *Financial Reporting for Heritage in the Public Sector* in September 2017. The process taken to prepare the response sparked interesting and cohesive debates on the issue, even though the 17 members of the Task Force hail from different jurisdictions. The drafting of this first response laid down the foundations for future responses to more consultation papers. To mention a few, these comprised: *Accounting for Revenue and Non-Exchange Expenses* in January 2018, *Collective and Individual Services and Emergency Relief (Amendments to IPSAS 19)* in May 2019, *Measurement* in October 2019, and *Revenue with and without performance obligations and transfer expenses* in October 2020. The latter exposure drafts (ED) and responses were the actual trigger for this book.

The IPSASB has kept the Task Force very busy indeed. In April 2021, three very relevant EDs were launched by the IPSASB, namely, the Proposed update of IPSAS 17 Property, Plant and Equipment; the Proposed IPSAS on Measurement; and the Conceptual Framework Update of Chapter 7, Measurement of Assets and Liabilities in Financial Statements. Needless to say, the authors of the chapters in this book had to be aware of these developments and take them into consideration where relevant.



This book adds to existing literature because it deals with a current topic about which an international debate is ongoing. The objective of this book is to present a constructive and thoughtful analysis of possible valuation methodologies for the public sector context. Every chapter seeks to provide a useful contribution to both theory and practice. The authors of the chapters represent a mix of practitioners and academics. The intention of book is to provide a holistic perspective on the subject. In line with the aim of this Book Series, the book attempts to develop discussions and consolidate connections between policy-makers, practitioners, and academics.