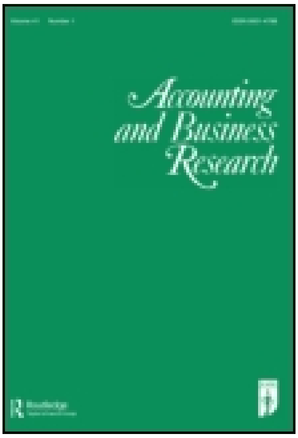

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Conceptual framework issues: perspectives of Australian public sector stakeholders

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Conceptual framework issues: perspectives of Australian public sector stakeholders

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Recent international developments have refuelled the debate on public sector conceptual framework issues. Drawing on the Australian experience, this study surveys stakeholders of public sector financial reports to examine issues of concern in the development of concepts, definitions and principles pertinent to a public sector conceptual framework. The empirical evidence reveals varying degrees of consensus to questions relating to the objectives of financial reporting, the boundaries of financial reporting and financial statement elements. Respondents are generally not supportive of a single conceptual framework for both private and public sectors. The study also draws on the practices from other countries to provide a more insightful analysis. The study informs the progress of the development of a public sector conceptual framework by highlighting areas that need attention and identifying challenges that exist for standard setters in the further development of a conceptual framework that meets the needs of the public sector.

Keywords: conceptual framework; public sector; users' needs

1. Introduction

The development of a conceptual framework for the public sector has long been a controversial topic, with differences in opinions expressed on issues ranging from the applicability of a single framework for both the private and public sectors to the attributes of a public sector conceptual framework. Until now, the development of conceptual frameworks for the public sector has been largely left to individual countries to decide, which has resulted in various practices being adopted by different countries to suit their national interests. However, in December 2010, the International Public Sector Accounting Standards Board (IPSASB) released Conceptual Framework Exposure Draft 1 (*Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*) for public comment. The IPSASB's project not only reinvigorates the conceptual framework debate, but moves the attention away from a national perspective and places it firmly in the international arena.

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This conceptual framework project has potential wide-reaching consequences, as the framework will provide the platform of concepts, principles and definitions to guide the development of international public sector accounting standards (IPSASs) (IPSASB 2010a). Additionally, these IPSASs are meant to be applicable across the range of countries that adopt these standards. Nonetheless, the IPSASB recognises the diversity in practices across countries and asserts that it takes into consideration '… the objectives, environment and circumstances of governments and other public sector entities …' (IPSASB 2010a, p. 3) in developing definitions, concepts and principles.

Against this backdrop, our paper draws on the Australian experience to address conceptual framework issues. Through an extensive survey of stakeholders of public sector financial reports, we provide empirical evidence of these stakeholders' perspectives of the major characteristics of a conceptual framework that are considered relevant for the public sector.

Australia provides a relevant context from which to reflect on conceptual framework issues. The country adopts a single conceptual framework for both the private and public sectors but, although the move occurred in the 1990s, it continues to attract much attention from those involved in public sector financial management as well as prominent researchers (e.g. Newberry 2003, Challen 2004, Barton 2005, Challen and Jeffery 2005), with debates continuing as to whether a separate public sector conceptual framework would more appropriately meet the needs of the public sector. Our study provides a picture of areas of concern. To provide a more insightful analysis, we also draw on the practices of other countries to compare and contrast our results with developments in other jurisdictions.

Our study contributes to the development of a public sector conceptual framework and informs the progress of the current and future phases of the IPSASB project. First, our study identifies issues of concern in the development of the concepts, definitions and principles of a public sector conceptual framework and ties together these findings with the practices of other countries for comparison. As acknowledged by the IPSASB, its conceptual framework will benefit from lessons learnt from other countries' experiences (IPSASB 2006a). Second, the issues of concern identified in our study are obtained by surveying the stakeholder groups relevant to public sector financial reports. While a considerable body of literature has provided useful discussion of public sector conceptual framework issues, this literature has been predominantly normative in nature and lacking in empirical support. The need for empirical research was highlighted by Jones (1992, p. 260) who, in his commentary on public sector conceptual frameworks, attributed the 'radically different conclusions about accounting information' to the lack of empirical evidence. Thus, our study provides the empirical support to complement normative discussion.

The remainder of this paper is structured as follows. Section 2 outlines the development of the conceptual framework in the international arena. Drawing from the theoretical and normative literature, the nature of the public sector and various conceptual framework issues are then discussed in Sections 3 and 4. The research method is in Section 5 and an analysis and discussion of the survey results follow in Section 6. The final section of this paper presents our conclusions, limitations and areas of interest for future research.

2. Development of conceptual framework

2.1 *IPSASB conceptual framework*

The IPSASB is currently developing a Public Sector Conceptual Framework for the preparation and presentation of general purpose financial reports for public sector entities (IPSASB 2010a, 2010b, 2011). The project has been ongoing since 2006 in recognition of the need to articulate explicitly the concepts, principles and definitions underlying the accounting standards (IPSASs) currently issued by the IPSASB. The project is led by the IPSASB in collaboration with a number of national standard setters from different countries, including Australia, Canada, France, New Zealand, the UK, the USA, and other European and Asian countries. The framework considers elements specific to government, including: government objectives, the definition and measurement of financial statement elements, performance reporting, budget reporting and financial information on the long-term sustainability of government programmes (IPSASB 2006a, 2010a). The project is being developed in several phases. The first phase addresses the objectives of financial reporting, the scope of financial reporting, the qualitative characteristics of financial information and the characteristics of a reporting entity. A consultation paper was released for comment in September 2008 (IPSASB 2008) and an exposure draft, *Role, authority and scope; Objectives and users; Qualitative characteristics; and Reporting entity*, was subsequently released in December 2010 (IPSASB 2010a). The second phase relates to the definition and recognition of the elements of financial statements. A consultation paper, *Elements and recognition in financial statements*, was issued in December 2010 (IPSASB 2010b). Measurement issues are addressed in the third phase of development, with a further consultation paper, *Measurement of assets and liabilities in financial statements*, published in December 2010 (IPSASB 2010c). Consideration for the last phase on presentation and disclosure is in progress.

While the IPSASB's conceptual framework draws on the experience of the conceptual framework jointly developed by the International Accounting Standards Board and the US Financial Accounting Standards Board (the IASB/FASB Conceptual Framework),[1] the IPSASB notes that its conceptual framework project 'is not to interpret the application of the IASB Framework to the public sector' (IPSASB 2010a, p. 4), rather the intention of the IPSASB is to develop its own framework. However, this is not without controversy. Submissions to the 2008 Consultation Paper from some constituents raised concerns about the potential reliance of the IPSASB Framework on the private sector framework. For example, the French Ministry for the Budget, Public Accounts and Civil Service argued that a conceptual framework for the public sector should not 'focus on common ground with the rules of private sector except in encouraging convergence based on the sharing of common principles' (French Ministry for the Budget, Public Accounts and Civil Service 2009, p. 2). Similarly, the US Governmental Accounting Standards Board (GASB) and the Canadian Ministry of Finance presented different views on the categories of public sector report users and the objectives of financial reports, citing the differences between the public sector and the private sector. The Australian Accounting Standards Board (AASB), on the other hand, suggested that the IPSASB Framework should be based on the IASB Framework with modifications made where necessary to address specific public sector issues. The diverse views pose significant challenges for the IPSASB to develop a conceptual framework that can adequately address the needs of the public sector across countries.

2.2 *Practices in other jurisdictions*

Some countries (e.g. Australia, New Zealand and the UK) have embraced the view of a single conceptual framework for both public and private sector entities (McGregor 1999, Pallot 2001, Ellwood and Newberry 2006). For example, the UK's Accounting Standards Board (ASB) issued, in 1999, the *Statement of Principles for Financial Reporting* (SoP), which was for the private sector. Subsequently, the ASB issued an exposure draft on the *Statement of principles for financial reporting: Proposed interpretation for public benefit entities* in 2005, and the final statement (SoPpbe) in 2007. The SoPpbe was largely based on the same principles as the SoP (ASB 2007). The Board was of the view that a common set of accounting principles should be applicable to all entities including public benefit entities, with only a re-expression of some principles necessary to make them relevant to the public sector (ASB 2007). Ellwood and Newberry (2006) criticised this, suggesting that a reinterpretation of commercially-based principles was inappropriate. Despite the criticism, the UK government moved to require central government departments and other entities in the public sector to prepare their accounts on the basis of the International Financial Reporting Standards (IFRS) as adapted for the public sector from the 2009–2010 financial year (HM Treasury 2008, para.C.103). Local authorities were expected to adopt IFRS from the year 2010–2011. There is currently a set of Statements of Recommended Practices for local authorities, but these do not significantly depart from UK GAAP (PricewaterhouseCoopers 2008).

There are also variations in practices in other European countries. For example, in France, the French State has a major influence on the government accounting rules (Lande 2000). The government accounting standards are legislated but the conceptual framework is not. The conceptual framework for French central government accounting follows business practices except where specific government activities need to be addressed. In order to be consistent with international developments, the French framework has drawn from not only French accounting regulations, but also the IPSASs and the IASB Standards (MODERFIE 2008). In Germany, the financial management reform has mainly focused on local governments. The accrual accounting system primarily adapts private sector accrual accounting to the public sector (Ridder *et al*. 2005).

In the USA, after a period of controversy regarding accounting for non-business organisations, separate frameworks were adopted for the business sector, state and local governments and the federal government (Figlewicz *et al*. 1985). Following Anthony's (1978) study, the FASB appeared to embrace the view that separate conceptual frameworks for different types of organisation were unnecessary. Nevertheless, the FASB's effort to move towards a single framework failed, given that federal, state and local governments had the power to develop their own frameworks. In 1984, the GASB was established, which soon developed a conceptual framework through the issue of concept statements applicable to state and local governments (Figlewicz *et al*. 1985, Jones 1992). The federal government has also been working on its own conceptual framework since the early 1980s. In 1990, the Federal Accounting Standards Advisory Board (FASAB) was established to develop the conceptual framework and accounting standards for the federal government (Figlewicz *et al*. 1985, FASAB 2010). Support for the recognition of differences in users' information needs between the public and private sectors still continues (GASB 2006).

In Australia, the conceptual framework is applicable to all types of entities, including private and public sector entities, as a result of the 'sector-neutral' approach pursued by the Australian standard setter (McGregor 1999). Currently, the Australian conceptual framework is harmonised with the IASB Framework except for the first two concept statements (*SAC 1 Definition of the reporting entity and SAC 2 Objective of general purpose financial reporting*) which do not have an equivalent IASB version. This harmonisation process has placed the AASB in an important position to address government issues that are not dealt with by the IASB framework. The Australian conceptual framework, including the two existing concept statements and the harmonised framework, together with the Australian version of the IFRSs, are applicable to both the private and the public sectors.

Although the adoption of a common conceptual framework in Australia has been controversial since the 1990s (e.g. Carnegie and Wolnizer 1995, Micallef and Peirson 1997, Newberry 2003, Barton 2005), it has recently been given greater attention by the Financial Reporting Council. Under public pressure to address the information needs of public sector users, the Financial Reporting Council commissioned the Simpkins (2006a) report in 2005. The report highlighted the importance of meeting public sector users' information needs and the implications for the conceptual framework with regard to the recognition of the differences between the public and private sectors.

Debate surrounding the relevance of two accounting systems (the Australian GAAP and GFS[2] frameworks) further highlights the conceptual framework contention in Australia. The two systems are based on different conceptual frameworks, and until the release of AASB 1049 *Whole of Government and General Government Sector Financial Reporting* in 2007, the Australian public sector was obliged to prepare two sets of whole-of-government budget financial statements which resulted in two sets of different budget figures. AASB 1049 was an attempt to harmonise the GAAP and GFS systems, thus eliminating the need to prepare two different sets of financial statements. However, AASB 1049 is primarily based on the private sector conceptual framework. The Commonwealth government, being concerned about the usefulness of budget information, decided to prepare its 2008–2009 budget financial statements using GFS as the primary conceptual framework and incorporate relevant aspects of AASB 1049 (Barton 2009, 2011). The move by the Commonwealth government reflects the on-going controversy of the appropriate accounting concepts underpinning government financial reports.

3. Nature of the government sector

Many researchers (e.g. Barton 2004, Carnegie and West 2005, Challen and Jeffery 2005) have presented views about the nature and operations of government, and its differences from the private sector. The differences between the two sectors can be summarised from the perspectives of political science and economics. Political science and the related public policy view focuses on collective decision-making through which public resources are allocated. This collective decision-making process is effected through the institutions of the state which commonly include the parliament, government and other agencies. In contrast, participants in the private sector make individual decisions through the market. In a democratic society, citizens delegate the resource allocation power to the government through the election of governments by citizens. Hence, a major concern of this collective decision-making process is accountability by government to the citizens for their actions (O'Faircheallaigh *et al.* 1999, Barton 2004).

A central focus of economics is the efficient allocation of scarce resources (O'Faircheallaigh *et al.* 1999). Governments are entrusted to provide essential goods and services for public interests, and thus the focus is on the maximisation of social welfare and the efficient distribution of resources across sectors (IPSASB 2011). The private sector, however, aims to earn a profit for financial viability and growth. The economics perspective also emphasises the role of government in the correction of market failure, ensuring the provision of goods and services which businesses are inefficient in or incapable of providing in the private market, including social welfare or public goods, such that the consumption by one person does not preclude the consumption by other persons (Barton 2002, 2011). These theoretical perspectives highlight the need for relevant information to reflect the nature of government operations and government accountability.

Accountability has been the central focus of government operations and public sector accounting research (e.g. Stewart 1984, MAB 1993, Mulgan 2000, Barton 2005). Conceptually, different notions of accountability tend to be applied for public policy, management, accounting, and reporting purposes. In a general sense, accountability takes the form of obligations and responsibilities within a certain set of relationships, e.g. superior/subordinate, principal/agent and supplier/client. In such relationships, one body is to be accountable for its performance to another body (Mulgan 2000). Accountability is often argued to be more complex and salient for governments than businesses (Mulgan 2000, Barton 2005). In a democratic society, the public sector has a greater reliance on accountability mechanisms since there is a need to be accountable for the use of public money. Chan (2003) suggests that government accounting is particularly important for accountability under a democratic government as financial reports are subject to public scrutiny in a democratic society.

4. Conceptual framework issues

A conceptual framework for the public sector, in a broad sense, can be referred to as a framework that 'establishes the concepts that underpin general purpose financial reporting by public sector entities' (IPSASB 2010a, p. 10). In consideration of a conceptual framework for the public sector, the key areas of debate include the boundary of financial reporting, objectives of financial reporting, elements of financial statements and other issues specific to the public sector.

4.1 *Boundary of financial reporting*

The delineation of the boundary of financial reporting for governments necessitates an understanding of the nature of the public sector and the information needs of the users of public sector financial reports. Discussion in respect of the nature of government in the previous section of this paper highlights the differences in the operations between the public and private sector organisations. Recognising the unique characteristics of the public sector, the IPSASB's proposed conceptual framework makes reference to the 'operating characteristics' of the public sector (IPSASB 2010a, 2011). While not directly describing the specific characteristics of the public sector in its proposed objectives of financial reporting, the unique characteristics are more explicitly used as a basis for developing concepts for the elements of financial reporting, such as the recognition of the government's power to levy a tax and its obligation to provide social benefit (IPSASB 2010b, 2011).

In the USA, differences in the information needs between government and business are explicitly recognised through the standard setting structure, with separate standard setting bodies for the private and the public sectors. Both the US GASB and FASAB believe there are fundamental operational differences between the public and private sectors.[3] However, this view is not put into practice by all standard setters. For example, the Australian framework makes no distinction between the public and the private sector. Both the Australian and UK experiences highlight the discontent associated with the application of a commercial accounting model to the public sector without due consideration to the unique nature of the government (e.g. Heald and Georgiou 2000, Ellwood and Newberry 2006).

4.2 *Objectives of financial reporting*

Prior research has argued the importance of emphasising accountability as a major objective of public sector financial reporting (Barton 1999, 2002, Ellwood and Newberry 2006). The debate intensified when the IPSASB's 2008 consultation paper proposed accountability and decision-making objectives for resource allocation, political and social decisions as key objectives of public sector financial reporting. Submissions to the consultation paper largely embraced the accountability objective, but opinions regarding the decision-making objective remained diverse (IPSASB 2008). The subsequent exposure draft on objectives appears to consider the complementary use of both accountability and decision-making objectives. It highlights that the provision of information is for 'accountability purposes and for decision-making purposes' (IPSASB 2010a, para. 2.1), and further explains that information provided 'for accountability purposes will contribute to, and inform, decision making' (IPSASB, 2010a, para. 2.13).

The Australian conceptual framework (Concept Statement SAC2, paras. 43, 44) takes a different stance, stating that financial reports should be useful for the purposes of decision-making by users and for management to discharge its accountability. The existing primary objective of general purpose financial reporting relates to the provision of information useful to users for making resource-allocation decision, with a focus on information about financial performance and the position of an entity.

Australia's stance differs from that of the USA. The GASB's Concept Statements reflect the primary focus of governments and their stakeholders on accountability,[4] and the types of information necessary for social, economic and political decisions. Similarly, the FASAB concept statements set out four reporting objectives in the areas of budgetary integrity, operating performance, stewardship and systems and control (FASAB 2010). These objectives recognise the unique characteristics of government to be accountable for taxation monies and compliance with appropriations, the government's emphasis on service efforts and cost and the impact of the government's operation on the nation. Correspondingly, the UK SoPpbe, in its interpretation of SoP to make it applicable to public benefit entities, recognises stewardship as an objective of the public sector. Similarly, the stewardship issue was also raised in a discussion paper by the European Financial Reporting Advisory Group (PAAinE 2006).

In a submission responding to the IASB/FASB Conceptual Framework Discussion Paper, the Monitoring Group of the five ASBs in four countries (Australia, Canada, New Zealand and the UK) supported the accountability and stewardship objectives for government and argued that it should be included in the conceptual framework as an additional objective or within a single objective (Simpkins 2006b). Though it is in the business context, Whittington's (2008) presentation of an 'Alternative World View' to the IASB/FASB model also supports stewardship and accountability as the main features of a conceptual framework, which would appear to narrow the gap between the private versus public sector argument.

4.3 *Elements of financial statements*

The concepts of the elements of financial statements, including assets, liabilities, expenses, revenue and equity, as depicted in the conceptual framework, have been subject to continuous debate because of the specific nature of public sector assets (e.g. Mautz 1988, Pallot 1990, Carnegie and Wolnizer 1995, Burritt *et al*. 1996, Robinson 1998, 2002, Barton 2002, 2004, Carnegie and West 2005, Challen and Jeffery 2005, Ellwood and Newberry 2006, Wise 2006).

In its consultation paper (IPSASB 2010b), the IPSASB highlights its recognition of the unique characteristics of the public sector. It views an asset as a resource, and considers the meaning of a number of concepts that can be associated with a public sector asset. For example, these aspects include economic benefits, service potential, net cash inflows, control and access to rights. The consultation paper attempts to differentiate between economic benefits that attach to cash flows from other aspects of benefits. However, at this stage, it appears that the benefits specific to the public sector is only interpreted as embedded in the term 'economic benefits' rather than explicitly included in the definition of an asset.

The discussion in the IPSASB consultation paper (IPSASB 2010b) draws on the existing conceptual framework models from various countries, including Australia, UK and USA. The Australian conceptual framework defines assets as resources controlled by the entity and from which future economic benefits are expected to flow to the entity (AASB 2004, para. 49). This definition becomes controversial when applied to non-traded public sector assets such as heritage and community assets given their public goods' nature and the lack of market. These assets are argued to be resources to produce public benefits rather than to produce future economic benefits in terms of cash flows (Barton 2005, Simpkins 2006b, IPSASB 2011). Their valuation in terms of either cost or market value is also arguable, often due to the lack of a market for that particular item or the item's non-exchangeable nature (Mautz 1988, Pallot 1990, Carnegie and Wolnizer 1995, Burritt *et al*. 1996, Carnegie and West 2005, IPSASB 2011). Debate also extends to the issue of maintenance of such assets. Information about maintenance is argued to be more useful than asset valuation, but maintenance information is not required to be separately disclosed in the financial statements, nor acknowledged in the conceptual framework (Mautz 1988, Burns 1990).

In contrast, both the US FASAB and the GASB conceptual framework focuses on the concept of 'resource' as a key characteristic of most of the financial statement elements. For example, assets are defined as 'resources with present service capacity that the government presently controls' (GASB Concepts Statement No. 4 *Elements of financial statements*, para. 8). The definition mirrors the specific characteristics of the public sector and clearly identifies the service capacity which the government can utilise to provide services to the public.

Apart from the asset issues, an emerging and significant issue in the public sector which does not exist in the private sector relates to the measurement and disclosure of liabilities occurring as a result of a government's social policy obligations (Cameron 2006). Social policy obligations are long-term government obligations to citizens that arise from a government's obligation to meet current and future commitments to not only citizens who currently meet eligibility criteria, but also to citizens who in the future will satisfy the entitlement criteria. In this context, the issue arises as to whether the definition of liabilities should capture such social policy obligations and how to incorporate this unique government feature. The IPSASB's consultation paper (IPSASB 2010b) is considering how to incorporate social policy obligations into the conceptual framework as an element of liability. This move is likely to have an implication on those standard setters which have not addressed this issue, such as the Australian framework.

The concept of equity in the public sector is also debatable. Barton (2004) raised concerns about the use of the business concept of 'equity' and argued that the equity amount does not reflect the financial performance of a public sector entity, nor is the government an owner. Nevertheless, the IPSASB's consultation paper (IPSASB 2010b) views the concept of net assets (or equity) as assisting users in assessing a government entity's short-term financial capacity and its long-term sustainability.

In defining equity as an element of the conceptual framework, one of the issues is whether equity represents the residual amount (that is, the difference between assets and liabilities). Barton (2005) argued that this broad definition appeared to be applicable to both the private and public sectors; however, the sources from which the residual interests were derived were quite different between the two sectors. Both the Australian framework and the UK SoPpbe define equity as residual interests. In contrast, in the USA, the recently released Concepts Statement No. 4 by the GASB avoids the use of the term 'equity' or 'net assets'. Without changing the fundamental nature of residual interest, the Concept Statement instead uses the term 'net position', which can have a positive or negative balance (Concepts Statement No. 4, para. 37). Although not explicitly explained, this statement recognises that a negative net position for government does not imply insolvency due to the government's power to tax.

4.4 *Other issues*

In Australia, at the individual government department level, internal budgeting is another fundamental issue underpinning good financial management and government accountability. The relationship between internal budgeting and financial reporting is highlighted by the Australian National Audit Office (ANAO 2009, p. 29), which considers 'financial management and reporting as a continuous process that encompasses budget allocations through to the preparation of monthly financial reports and annual financial statements'. The issue arises as to whether government financial reports should be directly comparable with information prepared for internal budgeting purpose and whether budgetary information should form part of the financial report.

4.5 *A separate or a common conceptual framework?*

The IPSASB's conceptual framework stems from a recognition that differences exist between the private and the public sectors, and the project aims to explicitly acknowledge the concepts relevant to the public sector (IPSASB 2011). A number of researchers (e.g. Barton 1999, 2002, 2005, Newberry 2003, Ellwood and Newberry 2006, Christiaens and Rommel 2008, Holder 2011) have argued that a single conceptual framework for both the private and public sectors may not be feasible since the nature of operations of the two sectors is quite different.[5]

Australia adopts a single conceptual framework for the private and the public sectors. However, this has not been without contention. In 2005, the Australian Financial Reporting Council invited public comments on the issues of the information needs of users of the public sector and having a conceptual framework that was applicable to all types of entities. Nearly all submissions acknowledged a certain degree of differences between the public and private sectors. However, there were diverse views in relation to the use of a single conceptual framework and to approaches in dealing with sector differences.

5. Research method

5.1 *Questionnaire development*

A questionnaire was used to garner opinions on issues pertaining to the conceptual framework.[6] The questionnaire was separated into two sections, the first of which asked specific questions relating to the conceptual framework and the usefulness of particular financial statement elements for internal budgeting purposes and financial reporting purposes, while the second section sought biographical data from the respondents.

The questions relating to the conceptual framework were developed from prior literature related to the objectives of financial reporting, its boundaries and the elements of financial statements. The questionnaire sought respondents' opinions on matters such as the scope of a conceptual framework for the public sector, the definitions of concepts such as assets and equity and other key characteristics for a public sector conceptual framework. Respondents were provided with nine statements on these issues[7] and asked to convey their views using a five-point Likert scale, ranging from [1] 'strongly disagree' to [5] 'strongly agree'. Respondents were also asked for their views on the appropriateness of a single conceptual framework that was applicable to both the private and public sectors. As this was a general question, in addition to rating their response on a five-point Likert scale, respondents were also given an opportunity to submit written comments in support of their stance.

To further explore the issues relating to the elements of the financial statements, the questionnaire also sought perceptions on the extent of usefulness of various elements for internal budgeting purposes and for financial reporting purposes from the perspective of a department. These items reflect on-going issues related to assets, liabilities and equity (e.g. the acquisition costs of assets, the market value of non-financial assets and of non-traded assets, employee leave liabilities and superannuation liabilities).[8] These accounting issues illustrate the debate of the current conceptual framework's approach in the definition and recognition of financial statement elements. An analysis of the usefulness of these items provides further evidence of whether the conceptual foundation of the financial statement elements is appropriate for governments. Responses were gauged on a five-point scale, ranging from [1] 'not useful' to [5] 'very useful'. Respondents were asked to select the 'not applicable' option for any items that did not apply to their circumstances.[9]

To seek feedback on terminology and on the clarity of the questionnaire, a pilot test of the questionnaire was conducted using a group of academics familiar with the operations of the public sector and several senior government officials who had responsibilities for accounting and reporting in the public sector.

5.2 *Sample*

Australia has three levels of government: federal, state[10] and local governments. The federal government and each state government have departments and authorities responsible for different functions and they are accountable to their respective federal and state parliaments. On the other hand, local governments are under the control of the state. Currently, the same conceptual framework and set of accounting standards are applied across all levels of government. Each level of government also formulates its own guidelines for accounting and reporting within the accounting standards requirements and other additional requirements. This paper only focuses on issues relating to the government departments at the federal and state levels.

Seven hundred and eight questionnaires were distributed to a sample of public sector stakeholders across all federal and state departments.[11] Specifically, the sample consisted of: (i) 179 individuals from the governing bodies of governments; (ii) 433 senior managers from all 110 departments across Australian federal and state governments and (iii) 96 chief financial officers (CFOs) of government departments.[12]

These stakeholder groups were selected for the following reasons. Governing bodies are regarded as primary users of public sector financial reports within the IPSASB's exposure draft (IPSASB 2010a). These bodies serve as representatives of service recipients (e.g. citizens) and resource providers (e.g. taxpayers, lenders) of public sector entities. In this capacity, these bodies use information provided by general purpose financial reports to assess government accountability (IPSASB 2010a). The governing bodies group in our study fulfils this capacity and comprises government officials in Treasury and Finance departments, and Public Accounts Committee members in federal and state governments. Treasury and Finance departments develop government financial management frameworks, provide financial, governance and policy advice to government agencies as well as Members of Parliaments who represent citizens. They are likely to be interested in how public sector financial information develops and how this information is used as inputs for policy advice. Public Accounts Committees act on behalf of the Parliaments and citizens to oversee the financial matters of governments and assess government's accountability for the use of public monies. The advisory and overseeing roles of these bodies demonstrate that they act, directly or indirectly, as representatives of the interests of the Parliaments and citizens, which are consistent with the IPSASB's proposed primary user groups of public sector financial reports.

The senior managers of government departments in our sample comprise heads and deputy heads of departments and general managers. These managers were selected because individuals at these positions are expected to be responsible for the effective financial management of the public sector entities[13] (ANAO 2009). Prior literature has also found public sector managers as a key user group of the financial reports, which signalled their interests in financial information issues (Mack and Ryan 2006). CFOs were also targeted as they are seen to be the key players of the financial management of the public sector entities (McPhee 2010) and have knowledge and expertise in public sector accounting issues.

Approximately 4 weeks after the initial distribution, we conducted a follow-up. Since respondents were not asked to identify themselves, the follow-up required a repeat to the whole sample. A number of questionnaires were returned unopened because of wrong addresses or because the addressee was no longer at that department. We were also contacted by some departments, primarily representing the senior manager group, indicating that they did not wish to complete multiple questionnaires for different individuals within the same department and would, instead, provide one combined response.[14] After adjusting for these situations, our final sample was 591. We received 123 responses in total, which represents a 21% response rate.[15] A profile of the respondents is provided in Table 1. Table 1 reveals that respondents had,

Table 1. Profile of respondents.

	Total	Senior managers	Governing bodies	CFOs
Initial sample	708	433	179	96
Less: survey returned to sender and combined responses	117	94	20	3
Final sample	591	339[a]	159	93
Number of responses received	123	30	28	65
Average public sector managerial experience	11 years	13 years	10 years	11 years
Average public sector financial management experience	13.5 years	14 years	11 years	14.5 years
Private sector experience				
Proportion	45%	32%	50%	48%
Average years	9 years	9.5 years	8 years	9 years
Employer				
Commonwealth	17%	13%	18%	19%
State	83%	87%	82%	81%

[a]Given the common practice of combining responses from departments, the final sample for senior managers could be as low as 110 (the number of federal and state government departments in Australia).

on average, 11 years of public sector managerial experience and 13.5 years of public sector financial management experience. Thirty-two percent of senior managers had experience in the private sector, while closer to 50% of individuals of governing bodies group and CFOs had worked in the private sector. Most of the respondents (83%) were employed by state governments.[16]

6. Results and discussion

Conceptual framework questions pertaining to the objectives of financial reporting, its boundaries and the elements of financial statements and the responses to these questions are presented in Table 2. The table reports the descriptive statistics for the total number of responses received and also by group (senior managers, governing bodies and CFOs). Tests of differences in opinions across the groups were conducted using Mann–Whitney *U* tests,[17] and any significant differences (at $p < 0.050$) are also reported in the table.

Results on the usefulness of the various elements pertaining to assets, liabilities and equity for internal budgeting purposes and financial reporting purposes are presented in Tables 3–5. Table 3 summarises the results for the perceived usefulness of the elements for internal budgeting purposes, while Table 4 provides the results on the perceived usefulness for financial reporting purposes. In both Tables 3 and 4, the descriptive statistics for the total number of responses received and also by group (senior managers, governing bodies and CFOs) are provided. Tests of differences in opinions across the groups were conducted using Mann–Whitney *U* tests, and significant differences (at $p < 0.050$) are reported in the table. In Table 5, we present the results of analyses directly comparing the perceived usefulness of each element for internal budgeting and financial reporting purposes. Tests of significance were measured using Wilcoxon signed rank tests.

The ensuing discussion of the results focuses on the broad conceptual framework issues presented in Table 2 and incorporates the results of specific financial statement elements from Tables 3–5, where applicable.

Table 2. Conceptual framework issues.

Statement	Total: Disagree (%)	Total: Agree (%)	Total: Mean (SD)	Total: Median	Senior managers: Disagree (%)	Senior managers: Agree (%)	Senior managers: Mean (SD)	Senior managers: Median	Governing bodies: Disagree (%)	Governing bodies: Agree (%)	Governing bodies: Mean (SD)	Governing bodies: Median	CFOs: Disagree (%)	CFOs: Agree (%)	CFOs: Mean (SD)	CFOs: Median	Significance: Manager *vs.* Governing	Significance: Managers *vs.* CFOs	Significance: Governing *vs.* CFOs
Boundary: A conceptual framework should acknowledge differences in the nature of operations between the public and private sectors	8.3	82.6	4.18 (0.94)	4.0	10.3	75.8	3.93 (1.03)	4.0	14.8	77.7	4.11 (1.09)	4.0	4.6	87.7	4.32 (0.81)	5.0	ns	ns	ns
Objectives: For the purposes of government financial reports, a conceptual framework should give primary importance to ‘accountability’ over ‘decision-making’ purposes	9.9	43.8	3.48 (0.90)	3.0	10.0	40.0	3.37 (0.77)	3.0	11.1	40.7	3.44 (0.89)	3.0	9.4	46.9	3.55 (0.94)	3.0	ns	ns	ns
Elements: Public sector assets are resources controlled by the public sector entity	15.3	66.1	3.68 (1.09)	4.0	17.2	62.0	3.69 (1.04)	4.0	19.2	57.7	3.46 (1.14)	4.0	12.7	71.4	3.76 (1.09)	4.0	ns	ns	ns
Elements: Public sector assets generate future economic benefits which flow to the public sector entity	25.8	48.4	3.28 (1.16)	3.0	26.7	43.4	3.27 (1.17)	3.0	26.9	38.5	3.12 (1.07)	3.0	25.0	54.7	3.36 (1.20)	4.0	ns	ns	ns
Elements: For the purposes of government financial reports, a conceptual framework should take into account the renewal and maintenance of heritage and infrastructure assets	7.5	70.0	3.83 (0.2)	4.0	3.3	56.6	3.67 (0.76)	4.0	11.5	73.1	3.81 (1.02)	4.0	7.8	75.0	3.91 (0.96)	4.0	ns	ns	ns
Element: For the purposes of government financial reports, a conceptual framework should take into consideration accounting for social policy obligations	15.8	54.2	3.49 (1.02)	4.0	6.9	48.2	3.52 (0.79)	3.0	22.2	51.8	3.44 (1.01)	4.0	17.2	57.8	3.50 (1.13)	4.0	ns	ns	ns
Elements: The accumulated surplus and equity reported in government financial statements is an appropriate measure of government financial performance	52.5	20.5	2.56 (1.07)	2.0	53.3	20.0	2.63 (1.07)	2.0	33.3	25.9	2.89 (0.97)	3.0	60.0	18.5	2.38 (1.10)	2.0	ns	ns	0.03
Other: Government financial reports should be directly comparable with information prepared for internal budgeting purposes	17.2	59.8	3.69 (1.16)	4.0	23.3	46.7	3.40 (1.13)	3.0	25.9	55.5	3.59 (1.37)	4.0	10.8	67.7	3.86 (1.06)	4.0	ns	ns	ns
General: It is appropriate to have a single conceptual framework that is applicable to both private and public sectors	55.7	27.9	2.61 (1.21)	2.0	60.0	26.7	2.70 (1.15)	2.0	51.9	33.3	2.67 (1.21)	2.0	55.4	26.2	2.55 (1.25)	2.0	ns	ns	ns

Notes: Scale: [1] strongly disagree–[5] strongly agree. In this table, ‘disagree (%)’ represents those who responded either ‘1’ or ‘2’ on the response scale; ‘agree (%)’ represents those who responded either ‘4’ or ‘5’ on the scale.

Table 3. Usefulness of information for department's internal budgeting purposes.

	Total				Senior managers				Governing bodies[a]				CFOs				Significance
Item	Not useful (%)	Useful (%)	Mean (SD)	Median	Not useful (%)	Useful (%)	Mean (SD)	Median	Not useful (%)	Useful (%)	Mean (SD)	Median	Not useful (%)	Useful (%)	Mean (SD)	Median	managers *vs.* CFOs
Acquisition cost of assets	4.4	82.2	4.34 (0.99)	5.0	10.3	68.9	3.97 (1.21)	4.0	–	–	–	–	1.6	88.5	4.52 (0.81)	5.0	0.020
Market value of non-financial assets	58.5	22.0	2.39 (1.24)	2.0	52.0	16.0	2.48 (1.09)	2.0	–	–	–	–	61.4	24.5	2.35 (1.32)	2.0	ns
Market value of non-traded assets (e.g. heritage or community facilities)	63.3	19.1	2.22 (1.20)	2.0	42.1	36.9	2.79 (1.27)	3.0	–	–	–	–	71.4	12.2	2.00 (1.10)	2.0	0.018
Depreciation of non-financial assets	23.3	59.3	3.53 (1.36)	4.0	20.0	64.0	3.60 (1.23)	4.0	–	–	–	–	24.6	57.4	3.51 (1.42)	4.0	ns
Maintenance expenses for non-financial assets	3.5	84.9	4.31 (0.90)	5.0	25.9	74.0	4.07 (1.00)	4.0	–	–	–	–	3.4	89.8	4.42 (0.84)	5.0	ns
Employee leave liabilities	14.0	76.4	4.17 (1.18)	5.0	16.7	76.6	3.97 (1.25)	4.0	–	–	–	–	12.7	76.2	4.27 (1.14)	5.0	ns
Employee superannuation liabilities	20.0	69.3	3.84 (1.28)	4.0	20.0	72.0	3.72 (1.24)	4.0	–	–	–	–	20.0	68.0	3.90 (1.31)	4.0	ns
Operating accrued and prepaid expenses	9.8	77.2	4.16 (1.03)	4.5	6.9	75.9	4.07 (1.03)	4.0	–	–	–	–	11.1	77.8	4.21 (1.03)	5.0	ns
Accumulated surplus or deficit	34.1	56.1	3.37 (1.52)	4.0	32.1	53.5	3.32 (1.34)	4.0	–	–	–	–	34.9	57.1	3.40 (1.60)	4.0	ns
Operating surplus or deficit	19.4	72.0	3.99 (1.36)	5.0	26.7	60.0	3.47 (1.31)	4.0	–	–	–	–	15.9	77.7	4.24 (1.33)	5.0	0.001

Notes: Scale: [1] not useful–[5] very useful. In this table, 'Not useful (%)' represents those who responded either '1' or '2' on the response scale; 'Useful (%)' represents those who responded either '4' or '5' on the scale.
[a]Governing bodies' views on this part were not sought.

Table 4. Usefulness of information for financial reporting purposes.

	Total				Senior managers				Governing bodies				CFOs				Significance		
Item	Not useful (%)	Useful (%)	Mean (SD)	Median	Not useful (%)	Useful (%)	Mean (SD)	Median	Not useful (%)	Useful (%)	Mean (SD)	Median	Not useful (%)	Useful (%)	Mean (SD)	Median	Managers *vs.* governing	Managers *vs.* CFOs	Governing *vs.* CFOs
Acquisition cost of assets	13.4	59.7	3.75 (1.16)	4.0	10.7	53.6	3.75 (1.14)	4.0	14.3	71.4	3.89 (1.13)	4.0	14.3	57.1	3.68 (1.19)	4.0	ns	ns	ns
Market value of non-financial assets	38.4	43.8	3.05 (1.38)	3.0	32.0	28.0	3.00 (1.22)	3.0	39.3	51.7	3.25 (1.51)	4.0	40.7	44.1	2.98 (1.40)	3.0	ns	ns	ns
Market value of non-traded assets (e.g. heritage or community facilities)	46.4	30.9	2.66 (1.31)	3.0	33.3	22.2	2.83 (1.20)	3.0	60.7	21.4	2.29 (1.33)	2.0	43.1	39.2	2.80 (1.33)	3.0	ns	ns	ns
Depreciation of non-financial assets	14.8	58.3	3.57 (1.18)	4.0	8.3	41.7	3.42 (0.93)	3.0	10.7	71.4	3.86 (1.15)	4.0	19.0	58.7	3.49 (1.27)	4.0	ns	ns	ns
Maintenance expenses for non-financial assets	11.3	61.7	3.74 (1.08)	4.0	7.7	57.7	3.65 (0.85)	4.0	10.7	67.8	3.89 (1.10)	4.0	13.1	60.6	3.70 (1.16)	4.0	ns	ns	ns
Employee leave liabilities	10.7	70.5	3.98 (1.12)	4.0	6.9	58.6	3.76 (1.02)	4.0	7.1	82.1	4.25 (0.93)	4.5	13.8	70.8	3.97 (1.22)	4.0	0.050	ns	ns
Employee superannuation liabilities	14.4	66.4	3.92 (1.23)	4.0	12.5	54.2	3.63 (1.10)	4.0	7.1	82.2	4.39 (0.96)	5.0	19.2	63.5	3.81 (1.37)	4.0	0.006	ns	ns
Operating accrued and prepaid expenses	9.0	68.8	3.91 (1.04)	4.0	3.4	58.6	3.79 (0.86)	4.0	7.1	75.0	4.11 (1.07)	4.0	12.3	70.7	3.88 (1.11)	4.0	ns	ns	ns
Accumulated surplus or deficit	17.5	61.7	3.66 (1.29)	4.0	7.4	55.5	3.70 (1.03)	4.0	17.9	67.9	3.82 (1.36)	4.0	21.5	61.6	3.57 (1.37)	4.0	ns	ns	ns
Operating surplus or deficit	9.9	73.6	4.02 (1.20)	4.0	3.4	58.6	3.79 (0.98)	4.0	7.1	85.7	4.36 (1.13)	5.0	14.1	75.0	3.97 (1.31)	4.0	0.007	ns	ns

Table 5. Differences between information useful for internal budgeting purposes and for financial reporting purposes.

	Total			Senior managers			CFOs		
Item	For internal budgeting, mean (SD)	For financial reporting, mean (SD)	Significance	For internal budgeting, mean (SD)	For financial reporting, mean (SD)	Significance	For internal budgeting, mean (SD)	For financial reporting, mean (SD)	Significance
Acquisition cost of assets	4.34 (0.99)	3.75 (1.16)	0.000	3.97 (1.21)	3.75 (1.14)	ns	4.52 (0.81)	3.68 (1.19)	0.000
Market value of non-financial assets	2.39 (1.24)	3.05 (1.38)	0.000	2.48 (1.09)	3.00 (1.22)	0.042	2.35 (1.32)	2.98 (1.40)	0.003
Market value of non-traded assets (e.g. heritage or community facilities)	2.22 (1.20)	2.66 (1.31)	0.001	2.79 (1.27)	2.83 (1.20)	ns	2.00 (1.10)	2.80 (1.33)	0.001
Depreciation of non-financial assets	3.53 (1.36)	3.57 (1.18)	ns	3.60 (1.23)	3.42 (0.93)	ns	3.51 (1.42)	3.49 (1.27)	ns
Maintenance expenses for non-financial assets	4.31 (0.90)	3.74 (1.08)	0.000	4.07 (1.00)	3.65 (0.85)	ns	4.42 (0.84)	3.70 (1.16)	0.000
Employee leave liabilities	4.17 (1.18)	3.98 (1.12)	ns	3.97 (1.25)	3.76 (1.02)	ns	4.27 (1.14)	3.97 (1.22)	ns
Employee superannuation liabilities	3.84 (1.28)	3.92 (1.23)	ns	3.72 (1.24)	3.63 (1.10)	ns	3.90 (1.31)	3.81 (1.37)	ns
Operating accrued and prepaid expenses	4.16 (1.03)	3.91 (1.04)	0.015	4.07 (1.03)	3.79 (0.86)	ns	4.21 (1.03)	3.88 (1.11)	ns
Accumulated surplus or deficit	3.37 (1.52)	3.66 (1.29)	ns	3.32 (1.34)	3.70 (1.03)	ns	3.40 (1.60)	3.57 (1.37)	ns
Operating surplus or deficit	3.99 (1.36)	4.02 (1.20)	ns	3.47 (1.31)	3.79 (0.98)	ns	4.24 (1.33)	3.97 (1.31)	ns

6.1 *Boundaries of financial reporting*

In light of prior commentary that the public and private sectors differed in their nature and operations (e.g. Guthrie 1998; Barton 2002; Carnegie and West 2005), we asked respondents whether a conceptual framework should acknowledge such differences. Of all the statements, this statement received the highest level of agreement, with the vast majority of respondents (82.6%) agreeing that a conceptual framework should acknowledge differences in the nature of operations between the two sectors. While the percentage was high across all groups, the strongest support came from the CFOs (mean = 4.32). This might reflect CFOs' greater familiarity with the accounting issues arising from the differences in the nature of operations. The resounding support for a conceptual framework that acknowledges differences between the two sectors is comparable to the IPSASB's reference to the operating characteristics of the public sector entities in its exposure drafts and consultation paper (IPSASB 2010a, 2010b, 2011). The finding is also consistent with observations made by Guthrie (1998), Barton (2005), Challen and Jeffery (2005), among others, and suggests the need for standard setters to consider ways to recognise such differences within the conceptual framework.

6.2 *Objectives of financial reporting*

To gauge perceptions on the objectives of financial reporting, we asked whether a conceptual framework for public sector financial reporting should give primary importance to 'accountability' purposes rather than 'decision-making' purposes. From Table 2, it can be seen that approximately 44% of all respondents agreed that 'accountability' should be given importance over 'decision-making'. This level of agreement was fairly consistent across all groups. Interestingly, only a small proportion (9.9%) disagreed with the statement and, again, this proportion was consistent across all groups. Thus, there were a high proportion of respondents who were neutral on this question. Possibly, respondents did not see one purpose as being more important than the other and may have perceived that a conceptual framework should embrace both 'accountability' and 'decision-making' purposes.

While the IPSASB emphasises accountability, it also allows decision-making purpose as complementary to the accountability purpose. Our results appear to agree with this view. The results also lend support for the views of the Monitoring Group of the five ASBs, which recommended placing more emphasis on the accountability objective without diminishing the importance of the decision-usefulness objective, thus facilitating the incorporation of both purposes as objectives of a conceptual framework.

The decision-making objective as stated in the Australian and the IASB/FASB framework is seen to be primarily for investors' investment decisions and has been challenged regarding its relevance for the public sector. In the public sector context, the decision-making objective is viewed as an integral part of accountability. As discussed earlier, governments make collective decisions; they are accountable to the public through efficient allocation of scarce resources so as to achieve maximisation of social welfare and effective delivery of government services (Barton 1999, 2002, O'Faircheallaigh *et al.* 1999). The importance of the 'accountability' objective in public sector financial reporting has also been supported by the GASB, the FASAB and researchers such as Barton (2002), Chan (2003) and Ellwood and Newberry (2006).

6.3 *Financial statement elements*

A series of questions about the elements of financial statements were also asked. The questions are separated into two parts. The first part (reported in Table 2) relates to conceptual framework issues and the second part focuses on specific accounting issues. The second part (reported in Tables 3–5) provides evidence on the relationship between accounting concepts and the related accounting policies.

We asked respondents for their views on the treatment of public sector assets. As to whether public sector assets are considered resources controlled by the public sector entity, the majority of respondents were of the opinion that they were (66.1%), although there were more CFOs agreeing with this statement (71.4%) compared with respondents from governing bodies (57.7%). However, there was less agreement for the statement that public sector assets generated future economic benefits, with 48.4% of total respondents agreeing with the statement. The breakdown by groups shows the variation in agreement, ranging from 54.7% for CFOs to only 38.5% for respondents from governing bodies. The IPSASB views an asset as a resource, but are considering the interpretation of control and economic benefits for the public sector. Our results would be relevant for the IPSASB's consideration. The finding might reflect the view that public sector assets are unique (e.g. Mautz 1988, Burritt *et al*. 1996, Carnegie and West 2005) and provide support for the adoption of the US's broader definition of 'assets'.

The appropriateness of the conceptual framework's definition and recognition of assets is further evidenced by the perceived usefulness of information on assets for internal budgeting and financial reporting purposes. Tables 3–5 reveals that while the acquisition cost of assets was perceived to be useful for both purposes, it was considered to be more so for internal budgeting purposes (mean of 4.34 compared with 3.75). The market value of non-financial assets and non-traded assets, however, were rated quite low in terms of their usefulness for internal budgeting purposes (means of 2.39 and 2.22, respectively) and financial reporting purposes (means of 3.05 and 2.66, respectively). Interestingly, a large proportion of respondents from governing bodies (60.7%) indicated that the market value of non-traded assets had low usefulness for financial reporting purposes. This is consistent with their disagreement with the notion that future economic benefits flow to the entity.

Our mixed results echo the controversy surrounding the development of FRS 30 *Heritage Assets* (ASB 2009) in the UK. FRS 30 requires recognition of heritage assets on the balance sheet, though it also permits an option of not reporting the valuation of heritage assets on the ground of unavailability of cost and value information. This approach appears to be a compromise, and the usefulness of the valuation of heritage assets remains a key concern. Instead of requiring valuation in monetary terms, the US FASAB requires heritage assets to be measured in physical units on the grounds that such non-financial information is necessary to satisfy the stewardship objective as stated in its conceptual framework. Given the mixed findings in our study, perhaps this approach might appeal to those respondents who oppose placing a market value on heritage assets.

We also sought respondents' views as to whether a conceptual framework should take into consideration the renewal and maintenance of heritage and infrastructure assets. Seventy percent of all respondents agreed with this statement. This percentage, however, is largely driven by respondents from governing bodies (73.1% in agreement) and CFOs (75.0%), rather than senior managers (56.6%), thus suggesting that respondents from governing bodies and CFOs are more supportive of the incorporation of this aspect of heritage and infrastructure assets into the conceptual framework. The support for this item is also evidenced from the usefulness of maintenance expenses for non-financial assets in Tables 3–5. Both senior managers and CFOs considered maintenance expenses as highly useful for internal budgeting purposes (means of 4.07 and 4.42, respectively), and these expenses were also considered useful for financial reporting purposes. Currently, renewal and maintenance issues are not discussed in the IPSASB's consultation paper (IPSASB 2010b), but the support for the consideration of maintenance of heritage and infrastructure assets suggest that this is an important issue and their recognition needs to be considered. In particular, it implies the need to broaden the notion of liability and expense in the conceptual framework.

Another issue relates to social policy obligation, which could have an implication on liability recognition. When asked if a conceptual framework should take into consideration social policy obligations, 54.2% agreed with the statement. While there were no significant differences among the groups, there were more CFOs (57.8%) and respondents from governing bodies (51.8%) agreeing with this statement compared with senior managers (48.2%). There appeared to be more neutral responses from senior managers. Taken as a whole, the results for this question suggest some support for the need to recognise social policy obligations in a conceptual framework. The finding is in line with the IPSASB's consideration of incorporating this issue in its conceptual framework.

In response to the question on the appropriateness of the accumulated surplus and equity item as a measure of government financial performance, a large proportion of the respondents either disagreed with the statement or were neutral. Fifty-two-and-a-half percent of total respondents did not agree that this item was an appropriate measure of financial performance. The breakdown by group revealed some variation between the groups. In particular, there was a greater proportion of respondents from governing bodies who expressed a neutral view, whereas senior managers and CFOs were more firm in their views (i.e. 53.3% and 60.0% disagreement, respectively). The Mann–Whitney *U* test also revealed a significant difference between the opinions of respondents from governing bodies and CFOs ($p = 0.03$). CFOs (60.0%) tended to disagree more with the statement than respondents from governing bodies (33.3%). The level of dissention on the appropriateness of the accumulated surplus and equity item as a measure of financial performance lends weight to Barton's (2004) contention that this item is misleading. While the IPSASB is discussing this issue, further research should explore why public sector stakeholders believe this to be an inappropriate measure and examine what measures are considered more appropriate to reflect government financial performance.

Interestingly, though, the results of Tables 3–5 reveal that information about the accumulated surplus/deficit is considered relatively useful (mean across respondent groups of 3.66). Compared with senior managers (mean = 3.70) and CFOs (mean = 3.57), respondents from governing bodies (mean = 3.82), in particular, found this item to be useful for financial reporting purposes. This, however, is inconsistent with the results from Table 2. Perhaps respondents perceived that, although information about the accumulated surplus/deficit is not an adequate measure of overall financial performance, this item does nonetheless provide some informational content. This possibility is supported by a CFO who provided additional insights by including in his/her response a comment that suggested that the accumulated surplus/deficit figure had no direct impact as profit generation was not an objective, but the amount did facilitate year-to-year comparisons.

6.4 *Other issues*

We also asked a question on another issue pertaining to the characteristics of a conceptual framework for the public sector, specifically, whether government financial reports should be directly comparable with information prepared for internal budgeting purposes. This issue has not been addressed in the IPSASB's conceptual framework project. Our results show that 59.8% of total respondents agreed that they should. Although there were no significant differences between the groups, CFOs (67.7%) tended to agree with this statement more than senior managers (46.7%) and respondents from governing bodies (55.5%). Overall, these results suggest support for the need for comparability of financial reports. This overall view can be further analysed by a breakdown of specific items in Table 5. Comparing the responses between information that was useful for the purposes of internal budgeting and for financial reporting, responses across all respondents showed that significant differences existed for five of the items. The acquisition cost of assets ($p = 0.000$), maintenance expenses ($p = 0.000$) and operating accrued and prepaid expenses ($p = 0.015$) were perceived to be significantly more useful for internal budgeting purposes, while the market value of non-financial assets ($p = 0.000$) and the market value of non-traded assets ($p = 0.001$) were perceived to be significantly more useful for financial reporting. Despite these differences, senior managers appear to be more supportive of the usefulness of these items for both internal budgeting and financial reporting.

6.5 *A separate or a single conceptual framework?*

We concluded the set of questions by asking about the appropriateness of having a single conceptual framework applicable to both the public and private sectors. The results for this question are reported as part of Table 2. It is perhaps not surprising that more than half the respondents thought that a single framework was not appropriate (55.7%). This was a consistent perception across all groups. Our results suggest that senior managers (60.0%), respondents from governing bodies (51.9%), and CFOs (55.4%) generally do not believe that a single conceptual framework is appropriate for both sectors. To obtain further insights into the reasons for their beliefs, we asked respondents to provide written comments in support of their stance.

Respondents who did not think that a single framework was appropriate cited differences in the objectives and outcomes of the two sectors and in the issues faced by the two sectors as the main reasons for their stance. These sentiments are consistent with the views expressed by earlier researchers (e.g. Guthrie 1998, Barton 1999, 2002, 2004, Pallot 2001, Challen and Jeffery 2005). Comments from respondents included:

> Public sector . . . deals with a range of accounting issues that are not experienced in the private sector e.g. assets. (Senior manager)
>
> There are some similarities but accountabilities are different as are incentives for action. (Senior manager)
>
> While nice in theory, assets are maintained for the public good which may not necessarily achieve financial objectives of the private sector. (CFO)
>
> Not until the value of such things as land under roads, national parks and trees etc can be realistically valued. (Senior manager)
>
> Because the private sector does not have the same responsibilities/obligations as the public sector. (Respondent from a governing body)
>
> While it is conceptually possible, the framework would need to be compromised too heavily to be equally applicable to both sectors. (Respondent from a governing body)

Respondents who believed that a single framework was appropriate gave reasons such as similarities in basic concepts or transactions and that a single framework would facilitate comparability and consistency. The following comments are examples provided in support of the adoption of a single conceptual framework:

> There is commonality between sectors but a conceptual framework must also deal with the points of difference between public and private sectors. (CFO)
>
> Basic principles should be the same – just need additional guidance on unique characteristics. (Senior manager)
>
> Appropriate, but there are issues e.g. valuation of assets where they have no commercial purpose. (Respondent from a governing body)

> Based on transactional neutrality not sector neutrality. Sectors are different but most transactions similar. (Respondent from a governing body)

> Both operate as business type entities with government responsible for social obligations. This fact should not limit a single conceptual framework. (Respondent from a governing body)

In general, based on the sentiments expressed, while there were some differing views, the majority of respondents' believed that a single conceptual framework was inappropriate. This conclusion is consistent with the results reported in Table 2. Furthermore, for those respondents who indicated a preference for a common conceptual framework, a recurring comment was that the framework needs to take into account the unique aspects of the public sector. The results lend support to the IPSASB's effort to address issues specific to the public sector.

7. Conclusions

In the light of the recent development of the IPSASB's conceptual framework project, our empirical findings inform standard setters and other parties interested in the review of a public sector conceptual framework. Our results reveal that much contention still exists regarding how a conceptual framework can meet the needs of the public sector, and highlight particular issues that require further consideration by standard-setters. Our empirical findings also augment the normative literature on conceptual framework issues.

While there are supporters and opponents of using a private sector accounting framework for the public sector, prior literature has pointed to the differences in the nature of operations between the private and the public sectors (e.g. Barton 1999, 2004, 2005). The distinction between the two sectors forms the foundation for identifying accounting issues relevant to the public sector. The IPSASB recognises the fundamental difference between the two sectors in the development of its conceptual framework project (IPSASB 2010a, 2010b, 2011). Our survey findings are comparable to this view, supporting the need for acknowledging the differences between the private and the public sectors in the conceptual framework, and reiterating the importance of this issue for standard setters. The USA and Canada have addressed this challenge by adopting different frameworks for the public and the private sectors, while the US standard setter has also continued to review issues that distinguish different sectors (GASB 2006). The challenge still remains, however, for countries that have opted for a single conceptual framework.

A key issue arising from the distinction between public sector and private sector practices is accounting for public sector assets. The application of accrual accounting has drawn the attention of public sector managers to proper asset management, but it has also raised concerns about how to account for public sector assets and the appropriateness of the underlying accounting concepts. Our results reflect the important but controversial nature of the concept of public sector assets, highlighting the disagreement that public sector assets generated future economic benefits, the irrelevance of the market value of non-traded assets and the usefulness of maintenance information. These findings provide insights for interested standard setters, and in particular, for the IPSASB's development of concepts for financial statement elements.

Similar to the asset issue, the appropriateness of the equity item as a measure of government financial performance remains a subject of debate. Our results reveal that the equity item can be useful for financial reporting purposes and, to a lesser extent, internal budgeting purposes. While this result might appear contradictory, we surmise that the item serves a purpose in that it provides some information for, say, comparative purposes, but does not provide an adequate measure of financial performance. Future research should examine the appropriateness of this measure, and the determination of more appropriate measures, if necessary.

The appropriateness of the conceptual foundation for the financial statement elements for the public sector is closely related to the objectives of financial statements. Prior literature has put forth mixed views on attaching the primary importance to 'accountability' or 'decision-making' objectives. Our findings support placing more emphasis on the accountability objective without diminishing the importance of the decision-usefulness objective. The lack of disagreement on this issue may be attributed to the broad concept of these terminologies rather than specific objectives for different sectors. As Holder (2011, p. 108) commented, 'concepts expressed at a sufficiently high level of abstraction could certainly be shared by [different] standard setting organisations. If one considers concepts of financial reporting at a somewhat more specific and operational level, however, then differences become apparent. Different financial reporting objectives may well imply the desirability of differing financial reporting standards to better align financial statements with sound concepts of financial reporting'.

The assessment of whether a common conceptual framework can be applied to different sectors should be guided by the characteristics and objectives of financial reporting (Holder 2011). Our findings reveal that a single conceptual framework for both the private and public sectors is not the preferred stance given the awareness of the differences in characteristics between the two sectors. This finding lends empirical support to prior literature that has argued against the use of a single conceptual framework (e.g. Barton 2002, 2005). In light of our findings, it is not surprising that the debate on the appropriateness of a single conceptual framework continues unabated.

As highlighted by the results of our study, there are still many issues to be considered by standard setters in their quest for a conceptual framework that meets public sector users' information needs. There is no quarrel that differences do exist between the two sectors and there is support for acknowledging these differences in the conceptual framework. How well the IPSASB's conceptual framework meets the needs of the public sector will be uncovered as the project evolves.

The extent to which changes in the government environment, with developments such as public partnerships (also known as private financing initiatives), public benefits corporations or social enterprises, necessitates the use of a common conceptual framework or different frameworks for different sectors remains a controversial issue. Future research into this issue will provide greater insights into the development of a public sector conceptual framework.

A limitation of our study that needs to be acknowledged is that our small sample of stakeholder groups may limit the generalisation of the results of these sample groups. In addition, our study focused only on specific groups of public sector stakeholders. We did not survey private sector interest groups or standard setters. An interesting extension of this study would be to compare the views of a broader range of stakeholder groups to add depth to the understanding of the issues. Furthermore, future research could use more qualitative approaches to disentangle the complexities of the issues.

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Notes

1. The IASB/FASB conceptual framework is a framework intended for the private sector.
2. GFS is an accounting system used for government macro-economic decision-making, analysis of fiscal policies and national statistics purposes. It is based on a framework that links to the nature and operating environment of the public sector (ABS 2005, Barton 2011).

3. For example, the government's objective is to achieve public policy goals rather than wealth creation, its major source of revenue comes from taxation, and the power to tax means that a government would not experience the same potential liquidity issues as a business. Thus, the major concerns for government are the efficient and effective provision of quality services, meeting future long-term demands for services and the cost of services (GASB 2006, IPSASB 2006b).
4. The GASB Concepts Statement No. 1 Objectives of Financial Reporting states that 'Accountability is the cornerstone of all financial reporting in government .... Accountability requires government to answer to the citizenry – to justify the raising of public resources and the purposes for which they are used ... . Financial reporting plays a major role in fulfilling government's duty to be publicly accountable in a democratic society' (para. 56).
5. Such arguments are largely applied to the general government sector (or non-trading public bodies) rather than government business enterprises (GBEs). For example, Christiaens and Rommel (2008) argued that accrual accounting which was based on the commercially oriented conceptual framework may be more suitable for government entities engaged in business-like activities (e.g. GBEs), but not for pure governmental institutions. They commented that a conceptual framework should not be 'one size fits all', but should serve specific government needs. Consistent with this argument, the IPSASB conceptual framework excludes GBEs which are required to apply IFRS.
6. This study is part of a broader project examining conceptual, technical and reporting issues in the government sector. Only questions relevant to this study are discussed in this paper.
7. The specific questions are listed in Table 2.
8. The list of items is provided in Table 3.
9. Perceptions on the usefulness of items for internal budgeting purposes were not solicited from respondents of the governing bodies group.
10. The term 'state' is used in this paper to encompass both state and territory governments.
11. Government department and parliamentary websites were searched to obtain the names and mailing addresses of the sample.
12. Ninety-six departments were sampled for this group as the names of chief financial officers were not available from the websites of some departments.
13. Senior managers at these levels of responsibility were selected because they would be more familiar with and make use of, government sector financial statements as compared with lower-level managers.
14. As a robustness test, we estimated a weighting for all combined responses and repeated all analyses using this re-weighted sample. The results were consistent with those reported in the paper on the non-weighted sample.
15. Tests of differences between earlier and later respondents revealed only one significant difference, which is less than expected by chance at the 5% significance level.
16. Supplementary analyses revealed no major differences based on these demographic factors.
17. Non-parametric tests were used throughout as the Kolmogorov–Smirnov tests revealed all data to be non-normally distributed.

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