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Learning from International Experiences: Differentiated Accounting Standards for Public Sector Entities

ABSTRACT

Objective: Describe the main characteristics of countries' experiences that defined differentiated accounting standards for public sector entities.

Method: Documentary research of international experiences of differential reporting for public sector entities.

Originality/Relevance: Only a few studies address differential reporting in the public sector, and the full adoption of IPSAS is often pointed out as an expensive process for entities. Therefore, there is the possibility of reducing the costs of reform in the public sector by bringing this discussion to the academic and standard-setting scope, with the adoption of norms in a more uniform way, especially in small entities, contributing to the effective harmonization of international public accounting standards.

Results: The development of differentiated accounting standards in the public sector is a theme that needs further study, as the standards must ensure requirements that are proportionate to the administrative capacity and risk of the entities. This differentiation can be operationalized in different ways and carried out in measurement, recognition, and disclosure items.

Theoretical/Methodological contributions: Identify countries with differential reporting in the public sector, the differentiated treatments foreseen, the criteria used to determine which entities are eligible to apply these standards, and possible ways of operationalizing differential reporting.

Social/Management contributions: It is expected to contribute to the discussions related to the IPSAS adoption process, given that the differential reporting (IPSAS Lite) was included as one of the priority projects by the IPSASB in 2022.

Keywords: IPSAS. Accounting Standards. Small Entities. Public Sector. Simplification.

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1 INTRODUCTION

The International Public Sector Accounting Standards (IPSAS), edited by the International Public Sector Accounting Standards Board (IPSASB), have been a stimulus for the harmonization of accounting by national governments (Benito, Brusca & Montesinos, 2007; Gómez-Villegas, Brusca & Bergmann, 2020). The literature shows that harmonized accounting standards allow financial statements to be comparable between governments, bring a common frame of reference for public sector entities that seek to modernize their accounting systems, help supranational organizations to make decisions that go beyond national barriers, and allow preparers, users, and regulators of accounting information in different countries to learn from each other, among other benefits. (Brito, 2018; Cuadrado-Ballesteros, Bisogno, & Vaia, 2022; Fuertes, 2008; Nobes & Parker, 2012).

However, the literature also points out criticisms related to adopting IPSAS, especially regarding the high costs of accounting system changes (Bekiaris & Paraponti, 2022; Polzer, Grossi & Reichar, 2021). Furthermore, they indicate that these standards do not bring enough alignment with the public sector's particularities and are not sufficiently stable (European Commission, 2013; Brito, 2018; Caruana, 2021; Schmidthuber, Hilgers & Hofmann, 2022).

Thus, the adoption of IPSAS, or the harmonization of local accounting standards to this set of standards, has been a challenge for accounting governments that, over the years, took different approaches and reached different stages of adoption (Association of Chartered Certified Accountants [ACCA], 2017; Amiri & Hamza, 2020; Aquino, Caperchione, Cardoso & Steccolini, 2020; Frintrup, Schmidthuber & Hilgers, 2020; Lima & Lima, 2019; Soguel & Luta, 2021).

Some factors influence the adoption of IPSAS by governments, including the legal system in each country, the impulse of regulatory bodies, the interest and training of accounting professionals, the political and administrative environment in which accounting systems operate, and the alignment of IPSAS with business accounting standards (Benito *et al.*, 2007; Brito, 2018; Brusca & Condor, 2002; Caperchioni & Mori, 2013; Lüder, 1994; Grossi & Steccolini, 2015; Guthrie, 1998; Lima & Lima, 2019; Nobes & Parker, 2012; Schmidthuber *et al.*, 2022).

In addition to these factors, the characteristics of reporting entities have also been the research's subject, discussion, and deliberation within the scope of international standardization. Although there are public sector entities of different sizes and complexities, from central governments to small local governments, there is currently only one set of IPSAS to apply (IFAC, 2022). The matter had already been made public by the IPSASB at the Public Sector Standard Setters Forum 2016, in Norwalk, United States of America, when the IPSAS Lite project or differential reporting (IPSAS for small and medium-sized entities) was presented. The IPSASB recognized that there was no reason for requiring the application of the complete set of IPSAS for small entities since the investments for its implementation are significant and the cost-benefit ratio brought to transparency and decision-making may not be appropriate for these entities (Zitkoski & Lima, 2020). More recently, differential reporting was one of the topics proposed in the last two calls for papers released by the IPSASB Academic Advisory Group, and in 2022, it was included in the IPSASB work program as a result of the review of the Strategic Planning and Work Program 2019-2023 (IFAC, 2022).

Given this scenario, this study aims to describe the main characteristics of countries' experiences that defined differentiated accounting standards for public sector entities.

Although the international standardization process is still in progress and the differential reporting was included as one of the priority projects in the mid-term review of the IPSASB work program formalized in 2022, studies are still needed to identify what elements have been considered to characterize the target entities of differential reporting, and what will be the subject of simplification in accounting standards. Thus, this paper can contribute to filling a gap in the literature and generating inputs to the standardization process.

2 THE CONVERGENCE PROCESS TO INTERNATIONAL STANDARDS

The convergence process to international standards involves broader issues than changing the accounting regime; therefore, models have been developed to understand accounting changes in the public sector, such as the Contingency Model, the Financial Management Reform (FMR), and the Basic Requirements Model (Lima, 2017).

In Lüder's Contingency Model (2001), the legal system, the size of the jurisdiction, and the functional qualification are identified as implementation barriers. The reform process is also affected by political, social, and administrative structural variables.

In the FMR model, Lüder (2001), when reviewing his previous model, pointed out factors that impact the outcome of the reform, such as the institutional disposition, the variables related to the reform drivers, reform promoters, the stakeholders, in addition to instrumental variables about the reform concept and implementation strategy. Therefore, in this model, the legal system and the size of the jurisdiction, identified as implementation barriers in the Contingency Model, were grouped with administrative and political structural variables in the institutional disposition variable.

On the other hand, the Basic Requirements Model is more specific than the previous ones, given that it is in the process of implementing an accrual basis regime in public accounting, in developed and developing countries. The model, elaborated by Ouda (2004), recognizes international financial support in the case of developing countries, and information technology capacity among the factors impacting the outcome of the reform. The author also presents the size of the jurisdiction and the legal system as some of the implementation barriers.

Christiaens and Neyt (2014) point out that, from the perspective of Lüder's contingency theory, the implementation would be simpler and faster in small and flexible governments. However, according to the authors, other studies empirically demonstrate that larger entities end up being faster in implementing reforms for various reasons.

Similarly, Ada and Christiaens (2017) found that in Turkey, the size of the municipality has a significant positive effect on the compliance level when analyzing the factors that affect the level of compliance with accounting standards based on an accrual basis. Moreover, when comparing the annual reports of Romanian municipalities with the disclosure requirements of IPSAS 31, Bunget, Blidisel, Feleaga and Popa (2014) identified that disclosure is more complete in larger municipalities.

From this perspective, the literature also portrays that it is common for small entities, with limited administrative and financial resources, to outsource their accounting, which ends up generating a lack of connection between management procedures and entities on a day-to-day basis and, in these cases, accounting is often done to comply with a rule, not being institutionalized in entities (Araújo & Souza, 2020). Thus, as new practices are disseminated and implemented mainly through outsourced accounting services, municipal governments assume a passive posture with a limited understanding of accounting reform (Aquino & Neves, 2019).

For Baskerville and Grossi (2019), among the main reasons why national governments do not adopt IPSAS are the existence of jurisdiction-specific accounting rules, the fear of losing the standard-setting authority, and the lack of familiarity with IPSAS, highlighting that the force of deinstitutionalization must be strong enough to change the prevailing accounting culture.

According to the researchers, acceptance by countries is impossible without some level of adaptation, mentioning, as examples, the experiences of the European Union in developing the European Public Sector Accounting Standards (EPSAS) and of New Zealand (NZ IPSAS). The authors point out that this discussion of the adaptation process to the needs of countries offers a positive perspective for the future of IPSAS and opens a valuable new window for future research on 'global versus local' processes.

In addition, Baskerville and Grossi (2019) affirm that public sector financial statements are guided by fundamentally different philosophies from the private sector since, although comparability is also sought in accounting convergence at the government level, public sector accountability takes place mainly within the country borders, unlike private sector norms, which are geared toward multinational entities. Thus, in the authors' view, adoption with adaptation in countries would be preferable to no adoption at all.

Similarly, Haija, AlQudah, Aryan and Azzam (2021), when analyzing the most relevant factors for the successful implementation of IPSAS in Jordan, identified the importance of infrastructure, which must be suitable to assist the reforms, and local legislation to pave the way to the convergence process.

Amor and Ayadi (2019) and Bekiaris and Paraponti (2022) state that the costs of IPSAS reform and implementation negatively impact countries in economic crises and developing countries. Nangonzi (2019), with the scope of Uganda, found that all respondents identified the concerns about the costs of convergence to IPSAS as the biggest obstacle to its implementation.

Furthermore, accounting reforms imply costs, previous studies indicate that both these costs and the benefits of implementing IPSAS have not yet been adequately evaluated (Gomes, Brusca, Fernandes & Vilhena, 2022; Neves & Gómez-Villegas, 2020; Redmayne, Laswad & Ehalaiye, 2021).

Figure 1 summarizes the elements identified in the literature that can be associated with the trajectory of the process of adopting differentiated accounting standards for public sector entities.

Based on the elements mentioned, it is considered that the process of harmonizing IPSAS by governments does not only represent challenges of an accounting nature but also presents difficulties in carrying out the necessary processes for these changes to be applied correctly (Abdulkarim, Umlai, & Al-Saudi, 2022; Jorge, Nogueira & Ribeiro, 2020; Lima & Lima, 2019).

Finally, although there might be an idea that differential reporting for public sector entities may negatively impact the level of harmonization, it should be considered the reality portrayed by the literature that IPSAS are not always adopted in their entirety, being common partial adoptions and adaptations of certain standards (Bekiaris & Paraponti, 2022; Polzer *et al.*, 2021). Moreover, it should be considered that there will hardly be a perfect standardization of the national rules in force in each country to international standards due to the specificities of the jurisdictions (Baskerville & Grossi, 2019).

Polzer *et al.* (2021) address the possible reasons for this, highlighting the existence of dual moving targets since IPSAS and country standards are constantly updated and, consequently, there is a requirement that there be a continuous adaptation so that these norms are also perfectly convergent. Thus, the costs associated with these frequent regulatory changes must be considered in addition to the operational difficulty. For these authors, another factor that influences these accounting differences between countries' standards and IPSAS, and even the choice not to adopt these standards, refers to the view that IPSAS are not economically viable, as they present a disproportionate cost of implementation and operationalization or both.

Elements discussed in the literature associated with the process of adopting differentiated accounting standards for public sector entities	**Feature**	**Reference**
The legal system, size of the jurisdiction, functional qualification	Resistance factors to accounting reforms	Contingency Model - Lüder (2001); Ouda (2004)
Institutional disposition, variables related to reform drivers, reform promoters and stakeholders, and instrumental variables related to the reform concept and implementation strategy	Factors that impact the outcome of the reform	Model FMR - Lüder (2001)
International financial support, information technology capability	Factors that impact the outcome of the reform	Basic Requirements Model - Ouda (2004)
Entity size	Speed in the implementation of reforms	Ada and Christiaens (2017); Bunget *et al.* (2014); Christiaens and Neyt (2014)
Limited administrative and financial resources; outsourcing of accounting in small entities	Difficulty institutionalizing reforms	Aquino and Neves (2019); Araújo and Souza (2020)
Existence of jurisdiction-specific accounting rules, fear of losing standard-setting authority, and lack of familiarity with IPSAS	Resistance factors to accounting reforms	Baskerville and Grossi (2019)
Possibility of adapting IPSAS to consolidated local practices	It favors the acceptance of reforms	Baskerville and Grossi (2019)
Adaptation of local legislation	It favors the acceptance of reforms	Haija *et al.* (2021)
Costs of IPSAS reform and implementation	Resistance factors to accounting reforms	Amor and Ayadi (2019); Bekiaris and Paraponti (2022)

Figure 1. Elements associated with the process of adopting differentiated accounting standards for public sector entities

Therefore, it is essential to continue the debate on differential reporting for public sector entities, considering the cost-effectiveness of accounting reforms and that any deviations between IPSAS and national standards are inevitable (Polzer *et al.*, 2021). It is necessary to emphasize that these discussions must always be guided by the assurance of transparent information that enables accountability.

3 METHODOLOGY

In order to describe the main characteristics of countries' experiences that defined differentiated accounting standards for public sector entities, documentary research was carried out with emphasis on the identified experiences of countries that had initiatives to define a differential reporting model for public sector entities. In addition, queries were made to the websites of international entities related to the convergence of accounting standards.

The choice of countries to be analyzed in this research was based on the study prepared by the EPSAS Working Group in 2016, entitled EPSAS issue paper on relief for smaller and less risky entities (Ernest Young [EY], 2016), which presented a discussion on accounting standards for smaller and less risky entities, describing the simplification and reducing of accounting requirements in five Member States of the European Union, as well as in three non-member countries. In addition, the availability of access to information that would allow elucidation of the following points was considered: (i) institutional disposition of the country, addressing the form of state, administrative structure, and how IPSAS are used (whether it is full adoption or if national standards are based on international standards); (ii) motivations for adopting differentiated reporting; (iii) the planned differentiated treatments; and (iv) to whom these differentiated accounting standards apply. These points were defined from the table contained in Figure 1, which presents elements identified in the literature that can be associated with the trajectory of the process of adopting differentiated accounting standards for entities in the sector public.

Due to the availability of access to the information necessary for this research, the experiences of four countries were analyzed: Australia, New Zealand, Portugal, and Spain.

In this sense, firstly, an attempt was made to describe the institutional characteristics of these countries, given that the literature review shows their influence on accounting reforms and differentiated accounting standards. Subsequently, an attempt was made to identify the existing criteria on what could be considered a target entity of differentiated reporting for the applicability of the differentiated standards. Finally, possible ways to operationalize the simplification of accounting standards applied to the public sector were presented.

The analysis also explored the study made by the EPSAS Working Group, and the results discussed at the meeting held between the members of the IPSASB in September 2022, in Lisbon, Portugal (IFAC, 2022), which dealt with Differential Reporting. Furthermore, it was necessary to explore the general characteristics of the IFRS for Small and Medium-Sized Entities (IFRS for SMEs) issued by the International Accounting Standards Board (IASB), considering that this standard is considered a reference in the development of differential reporting within the scope the public sector, as detailed in the following topic.

4 RESULTS

By surveying the experiences on the issue of differentiated standards, it was possible to observe actions developed by the committees and regulatory bodies responsible for elaborating and applying international accounting standards, both in the private and public sectors.

In the private sector, the IASB developed the IFRS for SMEs, which brought simplifications related to (i) the exclusion of topics considered not relevant for typical small and medium-sized companies, (ii) simplification of recognition and measurement principles provided for in the complete IFRS standards and (iii) substantial reduction of disclosure requirements. Interestingly, revisions to the IFRS for SMEs are not expected to be made more frequently than once every three years (EY, 2016). Furthermore, the IFRS for SMEs defined small and medium-sized companies based on their nature, with no size criteria being established. According to Pacter & Wells (2013), the IASB understood that establishing a size criterion would not be feasible, an option compatible with the approach based on principles.

In the case of Australia, the accounting standard used, edited by the Australian Accounting Standards Board (AASB), is based on IFRS and applies to both the public and private sectors. Australia is a federal state with three levels of government (national, regional, and municipal), and there are two tiers of accounting standards in the country: tier 1, which is based on full IFRS, and tier 2, which reduces the requirements for disclosure to eligible entities, to meet the needs of users and observe the cost-effectiveness of preparing the financial statements.

Application of tier 1 standards is mandatory for the Australian Government and state, territory, and local governments (AASB, 2020). For the application of tier 2 standards, Australia uses the public accountability criterion (AASB, 2020), covering both public sector entities and private sector entities that administer amounts within limits established by the standard. The concept of public accountability is derived from IFRS, in which an entity has a public accountability obligation if: (a) its debt or equity instruments are traded on a stock market or it is in the process of issuing such instruments for trading in a public market, or (b) t holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses, as is the case with public sector entities (IFAC, 2022).

In the case of New Zealand, the New Zealand Accounting Standards Board (NZASB) is also applicable to the private and public sectors. The country adopts the unitary state form, dividing into central and local government, and its accounting standard has a multilevel approach so that there are two tiers of adoption for for-profit entities and four tiers for public benefit entities to align the benefits with the cost of preparing financial statements and meeting the needs of users (External Reporting Board [XRB], 2022). Public benefit entities are entities whose primary purpose is to provide goods and services to the general public or for the public good rather than making a profit (Redmayne *et al.*, 2021).

The four tiers applicable to public benefit entities are established as follows: (i) tier 1: standards that are substantially based on IPSAS, including standards based on NZ IFRS and local standards; (ii) tier 2: these are the standards of tier 1, but with reduced requirements related to the disclosure; (iii) tier 3: there is the application of different norms, depending on whether the public utility entity is classified as public sector. Thus, in the public sector, the simplified format defined in the Simple Format Reporting Standard – Accrual (Public Sector) (PBE SFR-A (PS)) is adopted; (iv) tier 4: there are also separate norms, depending on whether the public benefit entity is from the public sector or not. However, in both scenarios, the use of cash basis is allowed (IFAC, 2022).

Still, in New Zealand, differentiated rules are applicable based on the criterion of size, which considers the total expenditure, and public accountability (XBR, 2022). It should be noted that the concept of public accountability, in general, is in line with what the IFRS defines for SMEs.

In the Iberian countries, as in the case of Portugal and Spain, similarly to other countries in continental Europe, there is a strong legalist tradition. Thus, accounting standards are established by laws and decrees or both, and the influence of the accounting profession is considered weak (Brusca, Dasí, Gimeno-Ruiz & Montesinos, 2021).

In the case of Portugal, there is a specific accounting standard for the public sector. The country is unitary and has a central government and local governments. In 2016, the Portuguese government published the Public Accounting Standard – Small Entities (NCP-PE), applicable to small entities or micro-entities (SMEs), provided that these entities do not opt for the application of the Accounting Standardization System for Public Administrations (SNC-AP), which is generally applied in Portuguese public entities (Rocha, 2020). The team leading the SNC-AP project understood that such an application might not be appropriate in terms of cost-effectiveness when dealing with smaller entities and low risk (Marques, 2003), which is why Decree-Law No. 192/ 2015, which instituted the SNC-AP, already provided that these entities could benefit from a differentiated and simplified public accounting regime (article 5). With that, Ordinance No. 218/2016 was published, establishing the Simplified Regime of the Accounting Standardization System for Public Administration.

In practice, Ordinance No. 218/2016, along the lines of the IFRS for SMEs, brings the procedures based on the accrual basis in a summarized perspective. The Simplified Regime of the Accounting Standardization System for Public Administration is based on the budgetary expenditure paid. According to the referred Ordinance, small public entities are those that present, in the last two financial statements, a global amount of budgetary expenditure paid more than €1,000,000 and less than or equal to €5,000,000; and micro-entities are those in which these amounts are less than or equal to €1,000,000, in which case only a report with budgetary information is required.

In Spain, public administration is organized into three levels of government: national, regional, and local. Although the country is unitary, it works more like a federation (Pina & Torres, 2005). The General Government Accounting Plan (GGAP), applicable to all public sector entities, was developed with the IPSAS as a reference. Following this general pattern, adaptations are issued for different levels of government. Thus, within the scope of the Spanish local government, given the concern with the complexity of the reports, there are three different models of accounting standards, depending on the volume of budget resources and the population: (i) basic model, which allows the use of the cash and financial reports are exclusively budgetary; (ii) simplified model, which uses the accrual basis, but allows some simplifications in the presentation of financial statements and in some principles of measurement and recognition of assets and liabilities; and the (iii) normal model, which is similar to that applied by the central government and based on the GGAP (Brusca *et al.*, 2021).

Still, in Spain, there are more than 8,000 municipalities, which present a great diversity in size and economic activities, and 84% have less than 5,000 inhabitants (Brusca *et al.*, 2021). Therefore, the basic regime only considers the criterion of budget revenues, which must be less than €300,000, and the simplified model can be applied to entities with a budget of less than €3,000,000 and less than 5,000 inhabitants. However, in cases where the budget exceeds €3,000,000 or the number of inhabitants exceeds 5,000, the regular regime is used.

Thus, Figure 2 presents a summary table with the main characteristics of the analyzed experiences.

As for the study made by the EPSAS Working Group, entitled EPSAS issue paper on relief for smaller and less risky entities (EY, 2016), there is a concern with the fact that the costs of applying the IPSAS for small government entities are high in terms of benefits, which could lead to poor quality or disharmonious standards compilation approaches. The idea presented in the study is that this effect would be avoided by reducing the accounting requirements for smaller and less risky entities. Thus, the document sought to address the best way to reduce the burden on these small entities and its consequences (EY, 2016).

One of the study's findings above is that, for local governments, the number of inhabitants is the best indicator of the size of an entity (EY, 2016). For example, in France, there is a differentiated treatment for municipalities with less than 3,500 inhabitants (EY, 2016). It should also be considered that generally smaller entities enter into simpler and more routine transactions and, therefore, are exposed to less risk (EY, 2016). In this sense, the group proposed three possible approaches for risk identification: (i) based on transactions, (ii) based on complexity, and (iii) based on indicators.

The transaction-based approach consists of verifying whether the entity enters transactions that could significantly impact its financial position and performance, for example, transactions in financial instruments that fall in the scope of IPSAS 28-30, such as swaps, options, and other derivatives (EY, 2016).

On the other hand, the complexity-based approach is related to the operating model's complexity, which is presumed to be directly related to risk, although this correlation may not be true in all cases. For example, if a government entity provides limited services, it is considered to have simple/standard business, financial reporting, and information technology processes and vice versa (EY, 2016).

Characteristics/Countries	Australia	New Zealand	Portugal	Spain
Form of State	Federal State	Unitary State	Unitary State	Unitary State but works as a federation
Administrative Structure	Three levels of government: national (Commonwealth), regional (states and territories), and municipal (local governments)	Central and local government.	Central and local government.	Three levels of government: central, regional, and local
Adoption or adaptation of international standards	Adaptation: developed national standards based on IFRS	Adaptation: developed national standards based on IPSAS	Adaptation: developed national standards based on IPSAS	Adaptation: developed national standards based on IPSAS
Motivation for differentiated reporting	Meet user needs and meet cost-effectiveness	Meet user needs and balance reporting costs and benefits	The cost-effectiveness of applying the overall SNC-AP scheme may not be the most suitable for small, low-risk entities	Minimize the complexity that the new accounting system incorporated in the management of smaller local entities
Different treatments	Tier 2 retains the recognition and measurement requirements of the full standards adopted in Australia but requires disclosures that are substantially reduced	Tier 2 reduces disclosure requirements; Tier 3 uses a simplified standard for recognition, measurement, and disclosure, based on the accrual basis; and Tier 4 uses a simplified format reporting standard based on the cash basis	Small entities use the accrual basis and have simplifications regarding disclosure, measurement, and recognition. For micro-entities, the use of the cash basis is allowed	The basic model allows the use of the cash basis, and the simplified model uses the accrual basis but allows for simplifications in disclosures and some principles of measurement and recognition of assets and liabilities
To whom the differentiated rules apply	For-profit entities (except for-profit entities with public accountability), not-for-profit private sector entities, and non-government public sector entities may apply Tier 2 (but also have the option to apply Tier 1)	Criteria of public accountability and total expenses are used to fit tiers 2, 3 and 4	Small entities and micro-entities are classified based on budgetary expenditure	Local government, based on budget and population

Figure 2. Main characteristics of countries' experiences that defined accounting standards for public sector entities.
Note. the quoted tiers are not based on common criteria but on definitions of the rules in force in each country in the context of the convergence process to IPSAS.

The indicator-based approach contemplates defining a limit value of financial ratios to characterize the entity as being low-risk. An example of a financial ratio that would indicate an entity's risk would be the level of debt compared to the balance sheet total or the number of contingent liabilities compared to total debt (EY, 2016).

Still, in the mentioned study, the EPSAS Working Group presents the possibility of applying three approaches for the adoption of EPSAS in small entities: (i) simplification, which consists of reducing some accounting requirements; (ii) creation of a different standard; similar to the Public Accounting Standard – Small Entities (NCP-PE) of the Government of Portugal; and (iii) exclusion of the requirement, in which entities considered small and low risk would be excluded from the scope of EPSAS.

Finally, the IPSASB, in a meeting held in September 2022, initiated discussions related to the Differential Reporting project, recognizing that in less complex public sector entities, the cost of complying with the full IPSAS may not outweigh its benefits. After presenting an overview of the types of differential reporting adopted in some jurisdictions, the IPSASB identified three options for providing relief: (a) in measurement and recognition items; (b) in disclosure items; and (c) in both items "a" and "b" (IFAC, 2022). The experiences of Australia, New Zealand, and England were detailed regarding the categorization of entities and simplification criteria. In addition, the results of an initial survey of nine responding countries (Brazil, China, Germany, Japan, Philippines, South Africa, Sweden, Switzerland, and Tanzania) were released, and only two of them, the Philippines and Switzerland, responded that they had differential reporting for public sector entities. In the case of the private sector, only South Africa did not indicate the existence of simplified standards.

5 DISCUSSION OF THE RESULTS

Despite the importance of the initiatives presented, there is still a long way to go when it comes to differentiated reporting in the public sector, both regarding which entities it should be applied to, as well as the recognition, measurement, and disclosure requirements to be simplified.

The categorization of entities and, consequently, the determination of the categories to which simplified rules apply is based on size and other criteria, such as public accountability (obligation to render public accounts).

The definition of a small entity can be based on two fundamental characteristics: (i) the number of inhabitants and (ii) the amount of managed resources (expenses, revenues, and assets). Therefore, size is a factor to be considered when seeking to achieve the cost-effectiveness of accounting information. However, it is not easy to define a criterion that fits all countries, given their differences in terms of political-administrative structure.

In the case of unitary countries, where small entities are consolidated into a single reporting entity, it is expected that there will be a centralization of decisions on the operationalization of accounting standards, including the use of the same accounting system. However, this is not the case in federated countries, such as Brazil, where several small municipalities are not consolidated into the central government's financial statements and must have their accounting systems. As such, costs for smaller entities can be significantly different in countries with unitary and federated systems.

It is curious to observe that in unitary countries, such as Portugal, New Zealand, and Spain, the simplification covered not only the disclosure criteria but also recognition and measurement, including the maintenance of the cash basis for some entities. Although the differentiation in recognition and measurement criteria brings complexity to the consolidation process, especially concerning transactions between parties of the same reporting entity, the benefit of the information generated from specific requirements does not seem to outweigh its cost.

In the case of Australia, which is a federation, the public accountability criterion has a greater weight than size, and there is a reduced application of differentiated reporting for public sector entities since many of them hold assets under fiduciary conditions before a third-party group serves as one of its core businesses; this is a consequence of adopting a single standard, both for the private and public sectors, which does not seem to fit the specificities of the public sector. However, assets in fiduciary conditions are a common characteristic of public sector entities. Therefore, other criteria must also be observed, such as the relevance of the information for decision-making and accountability and the costs associated with its generation.

The criteria of the number of inhabitants and volume of managed resources have the advantage of being objective. However, based on reported experiences, other factors such as public accountability, the complexity of transactions executed by entities, and types of entities (for example, universities and hospitals) should be considered.

Although it is possible to use the approach based on indicators in a combined way (size and public accounting, for example), this definition at an international level may not be feasible. Regardless of the criteria chosen, its definition should adopt a principled perspective in an international standard. Each country would establish specific limits for each category, for example, the number of inhabitants or the amount of expenditure, given the diversity of countries as to its characteristics.

Despite having the IPSAS, inspired by the IFRS, as the basic normative set of the convergence process, the experiences of the four countries analyzed revealed different criteria and levels of simplification of differential reporting for small entities in the public sector.

Thus, in terms of what should be simplified, there is a diversity of criteria, but most reported experiences present simplification in terms of disclosure, recognition, and measurement. In particular, the measurement criteria are technically more complex and require more resources for implementation. Therefore, they could be prioritized regarding the relief to be given to entities. Furthermore, the reduction in disclosure only does not seem adequate since if accounting systems already support the high costs associated with recognition and measurement, non-disclosure may reduce the cost-benefit ratio. However, there is a need to deepen this discussion, as usability and the use of information by users is also a relevant parameter to be considered since a greater volume of information is not synonymous with greater potential for decision-making and accountability.

Another factor to consider is that, like the IFRS for SMEs, the new standard could be updated less frequently, reducing the costs of standardization and implementation over time. The elaboration of a simplified and less frequently updated standard can contribute both to the understanding of the reform and to the institutionalization of new accounting practices and reduction of convergence costs for many entities, obstacles to accounting reform that were pointed out by the Literature (Amor & Ayadi, 2019; Aquino & Neves, 2019; Araújo & Souza, 2020; Nangonzi, 2019; Polzer *et al.*, 2021).

Thus, based on the identified experiences, a first step towards deepening the discussion on operationalization would be to identify which IPSAS are covered by these standards. Then, a survey could be conducted on the typical operations of small entities to verify whether the IPSAS identified in the previous step would be sufficient to ensure the transparency of entities' operations and accountability.

In this way, the previously selected IPSAS could be summarized in a single document, along the lines of Ordinance No. 218/2016 of the Government of Portugal, which lists the "necessary" IPSAS and pragmatically summarizes their content. In addition, as each entity may have its peculiarities, it may be included as a good practice to disclose information critical to understanding its performance.

Although the scenario in Brazil has not been the object of analysis due to the lack of objective initiatives to propose differential reports based on the accrual basis for public sector entities, especially those of small size, it is understood that the findings and reflections presented here can be the basis for the discussion and proposal of a solution for one of the significant challenges to the implementation of the accrual regime in the country. This is because Brazil is a federation in which almost 90% of the municipalities can be considered small (by the population criterion of municipalities with less than 50 thousand inhabitants), and it is expected that most of these municipalities carry out low-complexity and low-risk operations, in addition to having reduced financial autonomy, which stems from their low revenue potential and significant dependence on resources transferred by other entities (Central Government and States). Considering that the IPSASB's differential reporting project is still in its initial phase, the discussions and propositions of solutions can be relevant inputs for international standardization. Thus, in the convergence process to IPSAS, the standards would be more aligned with the national context. In addition to municipalities, verifying whether other entities should be within the scope of the simplified norms would be important.

Finally, despite the experiences presented recognizing the importance of differential reporting, results obtained by adopting differentiated accounting standards in the public sector have not yet been observed in the literature. This finding is in accordance with previous studies that indicate that both the costs of accounting reforms and the benefits of implementing IPSAS have not yet been measured (Neves & Gómez-Villegas, 2020; Redmayne *et al.*, 2021), which reinforces the relevance and relevance of discussions on the topic.

6 FINAL CONSIDERATIONS

Based on the literature review, it can be noted that research on differentiated accounting standards for public sector entities is still incipient but demonstrates its relevance when especially considering the reality of small entities and their limitations, as well as the possibility of reducing the costs of accounting reform, with the adoption of standards more uniformly, contributing to the effective harmonization of international standards in the public sector.

From the analysis of the experience of the countries covered by this study, it was possible to observe the concern with the costs and benefits of the reform as a justification for the development of differentiated standards. However, there was also considerable variation between the pronouncements of jurisdictions that simplified and modified their accounting and reporting requirements for public sector entities, thus requiring further discussions on the best ways to operationalize this simplification.

The results indicate no consensus on which set of entities differential reporting applies, but its definition can be supported by different factors - size, public accountability, the complexity of transactions, risks, and types of entities. However, the size criterion seems essential for the benefits to outweigh the costs of producing information since the number of users and the usability and use of information can be reduced in smaller entities.

Although the size criterion presents objectivity as an advantage, it is understood that this definition at an international level may not be feasible, either because the limits of each category could be arbitrary or become outdated over time or because of the concern that specific limits could not adjust to different jurisdictions.

In terms of the scope of differentiated standards, experiences explicitly directed at public sector entities indicate that recognition and measurement criteria should be simplified, and there is a consensus that disclosure criteria should be reduced. In the latter case, there are reductions even if the recognition and measurement criteria are maintained. Therefore, it is necessary to deepen the analysis to understand the factors that justify this option, for example, regarding the needs of users of accounting information.

Implementing IPSAS has been the subject of several studies in the area, but usually, the object of analysis is the governments configured as entities that report, that is, controlling entity and at the national level. However, even in this case, knowledge about the implementation of specific rules and requirements needs to be expanded, which is more pronounced in the case of the proposal of rules on differential reporting.

The experiences of the analyzed countries revealed the urgency of differentiating accounting standards for public sector entities, especially the small ones, but they were not enough to identify their practical implications. The convergence of public sector accounting standards is still ongoing (in the Brazilian case for more than ten years), and the difficulties surrounding the proposition of other standards should not be overlooked, even if the aim is a regulatory simplification. It is also necessary to consider the implications of efforts already undertaken to disseminate the IPSAS and the investment of resources and adaptations already made.

As a suggestion for future research, it is recommended that surveys be conducted to identify typical operations of small entities and to indicate possible simplifications of IPSAS rules and procedures, and the implications of potential changes. It is also suggested that studies be carried out with users of accounting information in small entities, aiming to assess the degree of understanding and use of information since the recipients of accounting information generated by public entities must be considered in reforms that impact such information.

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REVISTA CONTABILIDADE, GESTÃO E GOVERNANÇA
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Aprendendo com as Experiências Internacionais: Normas Contábeis Diferenciadas para Entidades do Setor Público

RESUMO

Objetivo*: Descrever as principais características das experiências de países que realizaram a diferenciação das normas contábeis para entidades do setor público.*

Método: *Pesquisa documental das experiências internacionais de diferenciação de normas contábeis para entidades do setor público.*

Originalidade/Relevância: *Não há muitos estudos abordando a diferenciação de normas contábeis no setor público e a adoção integral das IPSAS é frequentemente apontada como um processo dispendioso para as entidades. Portanto, entende-se que ao trazer essa discussão para o âmbito acadêmico e normatizador há a possibilidade de redução dos custos da reforma no setor público, com a adoção de normas de maneira mais uniforme, especialmente nas entidades de pequeno porte, contribuindo para a efetiva harmonização das normas internacionais de contabilidade pública.*

Resultados: *O desenvolvimento de normas contábeis diferenciadas no setor público é um tema que carece de aprofundamento, pois é necessário que as normas assegurem exigências proporcionais à capacidade administrativa e risco das entidades. Essa diferenciação pode ser operacionalizada de diferentes maneiras e ser realizada em itens de mensuração, reconhecimento e divulgação.*

Contribuições Teóricas/Metodológicas*: Identificação de países que já adotam normas diferenciadas no setor público, dos tratamentos diferenciados previstos, de critérios utilizados para fins de aplicabilidade dessas normas e de possíveis formas de operacionalização do reporte diferenciado.*

Contribuições Sociais/para a Gestão: *Espera-se contribuir para as discussões relacionadas ao processo de adoção das IPSAS, tendo em vista que o reporte diferenciado (IPSAS Lite) foi incluído como um dos projetos prioritários pelo IPSASB em 2022.*

Palavras-chave*: IPSAS. Padrões Contábeis. Entidades de Pequeno Porte. Setor Público., Simplificação.*

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