The Boundary of the Public Sector in National Accounts Versus IPSAS[1]

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Abstract

The ongoing debate about the necessity of harmonized accruals-based public accounting standards and the possible implementation of an integrated reporting covering public accounts and government finance statistics (GFS) reporting, have widened the potential scope for comparative research on consolidation practices in Whole of Government Accounts (WGA) and National accounts, notably in the European Union. This development would probably add momentum to broaden the scope of reporting to WGA.

The article analyses in depth the conceptual frameworks behind financial reporting and national accounts, to better understand the differences between the definition of public sector and its boundary in national accounts as compared with financial reporting. This would form a useful input to the overall research agenda on WGA.

Keywords	***JEL code***
National accounts, GFS, IPSAS, general government sector, public sector, WGA	*H83, H11, H62, H63, E02, E62*

INTRODUCTION

Discussions about the possible implementation of an integrated reporting covering public accounts and government finance statistics (GFS) reporting, notably in the European Union, and even an integrated budgetary framework,[3] have widened the potential scope for comparative research on consolidation practices in Whole of Government Accounts (WGA) and National accounts (Heald & Georgiou, 2000).

The question "*To which extent public entities are to be consolidated*" (Lequiller, 2014) explicitly addresses the boundary of the public sector, both in terms of national accounts and financial /budgeting reporting, as an important issue to be explained and researched. Information on methodologies and practical

[1] An earlier version of this article was presented at the Conference of European Statistics Stakeholders (ESS), Rome Sapienza University, Dpt. of Statistical Sciences, November 24–25, 2014. A previous version was presented at CIGAR PHD Seminar in Kristianstadt, 8–10 September, 2014. This work is part of a broader research undertaken by the author for her doctorate thesis.

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[3] To manage economic interdependence, and also including setting EU budget and national budgets, see Van Rompuy et al. (2012).

implementation should be improved, also respecting the integrity of these two distinct reporting systems (Dabbicco, 2013a, 2013b; Eurostat, 2013c; Heald & Georgiou, 2000).

The "core entities" of government include central government, state government, local government (provinces, municipalities, etc.) and social security funds, but the scope of analysis might be greatly increased when consideration is given to the other actors through which government may achieve its fundamental role of delivering goods and services to the community.

Indeed, during the 1980s and 1990s under the influence of New Public Management (NPM) reform of the public sector (Hood, 1995; Lapsley, 1999), characterized by a new focus on economy, efficiency and effectiveness of the resources used and public services delivered, and cost accounting, decentralization and externalization of goods and services provision (Brusca & Condor, 2002; Grossi & Soverchia, 2011; Grossi & Steccolini, 2014), there was a drive to create separated entities, often through government owned and/or totally or partially controlled corporations, notably at local and extra budgetary level (Bisogno, 2014; Christiaens & Rommel, 2008; Lapsley, 1999) or through tendering procedures.

Implementation of public policy through Non Profit Institutions (NPIs), such as schools, universities and public hospitals, as well as special purposes entities, are special cases to be mentioned when drawing a reporting boundary for government. A further development concerns the implications of public-private partnerships (PPP) which in some cases represent creative accounting aimed at transferring debt (and related deficit impacts) off government balance sheets (Dabbicco, 2015; Mintz et al., 2006; Warren, 2014).

Given this broader group of entities, greater emphasis has been placed on the existing concept of government identified as the "*public sector*" and researchers need to tackle the conceptual issues related to "hybrid public- private forms" (Grossi & Newberry, 2009; Perry & Rainey, 1988; Rainey &Bozeman, 2000).

This would also need to consider the issue of determining a separate reporting entity, using a standardized boundary approach (Challen & Jeffery, 2006) to provide a *comprehensive* and *comparable* report on government activities.

The extension of financial reporting to the whole public sector "network", as an aggregation of entities[4] has been considered in the literature (see Grossi, 2009, Grossi et al., 2011) as a tool to report information on all subsidiaries, joint ventures, associates and other quasi-corporations. Notably, WGA are commonly perceived as relevant to improve public accountability and fiscal transparency (Chan, 2003, 2009; Christensen, 2009; Grossi 2009; Grossi et al., 2011), though many accountants would not consider a consolidated entity to cover all the government or the public sector.

This extension appears also driven by the ongoing debate about the needs of harmonized accruals-based public accounting standards (IPSAS/EPSAS) for EU Member States, at micro and macro level, as a prerequisite to enhance the quality of comparable statistical information and improve government decision-making.

Whilst there are several differences between the two set of reporting (statistical and IPSAS) (Dabbicco, 2013a, 2013b; IPSASB, 2012b, 2014b; IMF TFHPSA, 2006; Lequiller, 2014), the differences in consolidation boundary plays a central role and can be thought of as a starting point in reducing such differences.

In this context, WGA may be seen as a final step of a (trans) national reform programme on government accounting (Chow et al., 2008; Grossi et al., 2011) and fiscal reporting to improve comparability of public entities, enhance policy decision-making, and increase accountability (Aggestam, Chow et al., 2014).

Purposes of the paper and research method

Against that background, this paper will analyse the definition of the public sector "reporting entity" and aggregate consolidation, notably related to the way in which entities (institutional units) are grouped

[4] Including, in addition to government departments, sub-national bodies such as state governments, and government owned businesses that primarily engage in market activities.

for statistical reporting rather than consolidated by applying the concept of control, which appear to be the main conceptual issues (Hassan, 2013; Walker, 2009, 2011) for delineation of the public sector boundary and WGA.

Hence, differences in the resulting boundary will be discussed as an input to the overall research agenda on WGA, including the opportunities for convergence of financial reporting with the statistical bases.

The paper is based on participant observations and documental analysis. It also includes knowledge based on previous work experiences and analysis of the relevant literature on the issues arising from the examination of the public sector boundary.[5]

1 DIFFICULT AREAS IN ENTITY'S CLASSIFICATION AND DEFINITION OF PUBLIC-PRIVATE BOUNDARY IN NATIONAL ACCOUNTS /GFS VERSUS FINANCIAL REPORTING/IPSAS

1.1 Entity classification and public-private boundary issues in National Accounts/GFS[6]

According to the National Accounts principles and definitions underpinned by the European System of Accounts (ESA 2010) (EC, 2013a), the elements which influence the classification of entities and the delineation of public-private boundary in ESA, particularly between the general government sector and the corporations sector, hence, the sector where they should be to consolidated, are:

I. Nature (public/private);
II. Status of institutional unit;
III. Control over entities/assets;
IV. Type of output – market/non market.

The analysis of the last element, alongside the concept of control, is fundamental for classification issues since the analysis of public sector entities distinguishes government controlled units that are engaged in *market* production from those who are engaged in *non-market* production (see ESA, 2010, chapter 20).

The concept of economically significant prices is used for the market- non market output analysis to direct the delineation of the public sector, notably to differentiate between the general government sector and the corporations sectors.

To identify a market or non-market producer, the ESA 2010 indeed suggests to develop an analysis based on the institutional unit and local kind-of-activity unit (KAU) that has produced the output, and take into account the type of consumers of the goods or services subject to analysis, assessing for example whether the public sector is the only provider of the goods or services, as well as suggesting several criteria which seek to assess the existence of market circumstances and sufficient market behaviour by the producers. These are collectively known as "qualitative criteria".

As for (empirical) quantitative criteria, according to ESA 2010 paragraph 3.39 the analysis for the distinction between market and non-market producers should be carried out with reference to the ratio of sales

[5] The method includes empirical material such as agendas and proceeding of meetings, reports on on-going projects, and public consultation papers of the organisations which play a relevant role in public sector standard-setting (i.e. IPSASB, Eurostat, the Chartered Institute of Public Finance and Accountancy (CIPFA), Le Conseil de normalisation des comptes publics (CNoCP), other international institutions (i.e. OECD, IMF) and large audit firms with specific expertise in the field of public sector accounting. The literature review also includes ESA 2010 and IPSAS conceptual frameworks, accounting and statistical manuals (MGDD, EC, 2014; GFSM 2014, IMF 2014), recommended practice guidelines, other non-binding documents and studies. The author's participative observation is notably related to several Eurostat task Forces on IPSAS/EPSAS and participation in a series of seminars and conferences (i.e. OECD accrual symposium, Eurostat conference Toward EPSAS, EGPA, CIGAR) in the field of the research.

[6] For a literature and standards review on statistical information and definitions under ESA 2010 see Appendix. *"A literature and standards review on methodological approaches to the public sector boundary"* section I *"Statistical information and the System of European Accounts (ESA) framework"* which is reflected throughout this paragraph.

to production costs when the producers sells goods to other corporations or households at *economically significant prices*.[7]

Therefore, the ESA 2010 has developed a further important interpretive element to be used by experts for delineation of the general government sector from public corporations which is free competition on the market (see more in ESA 2010 paragraph 20.25–26), drawing on the literature and evidences about the "market" and "hierarchical" context (for a comparative literature review see Perry and Rayney, 1988).[8]

In the sectoral classification of public entities the determination of the degree of risk assumed by them in the exercise of their activity is also important. In many cases, the business risk is reduced due to the fact that the unit operates in the market with financial support in terms of subsidies or guarantees from the State, so that it could be argued that, in fact, it is acting on behalf of the Government, although this element alone may be not conclusive.

One might consider that, in the implementation of the recommendations and definitions of national accounts, one basic principle is to ignore the formal appearance, in terms related to legal, administrative or accounting nature, in favour of economic substance of transactions.[9] In this context, the construction of complex structures, such as may occur through the use of corporate legal forms, makes the interpretation of these operations only possible by analysing the complex transactions that they put in place.

However, the concept of economically significant price, apparently simple, might be a source of considerable interpretative doubts, and therefore difficult to implement in practice.

In a straightforward sense, economically significant prices might refer to the prices that the market is willing to pay for various types of goods and services, and it would be assumed that the price is economically significant when the producer is private.

But in the market, for political and regulatory purposes, there may also be found administered or "political" prices, prices which are lower than market prices. In particular, government often controls units to involve them in production that the market is not willing to offer at the required amount and/or prices. These entities may receive subsidies in the forms of various contributions, current or capital, from the State or other public authorities that control them, which could reduce their exposure to market pressures.[10] Whether or not the unit has the ultimate ability to choose its own business policy may be difficult to judge in these cases.

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[7] This analysis is based on the "50% criterion" checking if the sales cover a majority of the production costs (including depreciation and cost of capital) (ESA 2010 3.33 ss.). It is also necessary to verify, where production is sold to another government entity, that the entity is not an ancillary service (see ESA 2010 par. 3.12): in these cases, the units are named "ancillary units". In the case of units producing *ancillary services* which are controlled by governments, according to ESA 2010 rules they should be considered as integrated into the unit who controls them if analysing its activity it is clear that is intended to provide services only for the benefit of that government unit. This should be done unless it competes with a private producer on the market and its price satisfies the general criteria for being economically significant.

[8] Another aspect to take into consideration is the type of activity that the entity carries out: it appears quite self-evident that if the principal activity of the entity is a typical activity of government and if it is carried out under a monopoly condition imposed by government, this unit might be classified in the sector of "General Government".

[9] Whilst legal criteria are useful means to define a kind of *identikit* of the unit, the leading classification criteria are not linked to the legal form that entities assume, indicating the existence of a *practical trade-off* between the "economic behaviour" and the "legal forms" to identify economic substance and ownership (Grossi, et al., 2011; ISTAT, 2005a). See ESA 2010, 20.308, Eurostat Manual on Government Deficit and Debt (MGDD I.2.2 (7) (EC, 2014)). As an example, an entity may have the legal status of a corporation but may not be a market producer and therefore is classified in the GGS.

[10] A verification tool for "economic significance" might be given, for example, by microeconomic analysis of the curve of marginal and average costs for a single enterprise, by business break- even analysis or financial analysis based on return on equity (ROE) of the enterprise in the market. It would be, however, a difficult analysis from the statistical point of view, due to the lack of appropriate data and complexity of calculations. In addition it may be argued that such analysis would be not totally applicable to the case of a public entity which may receive government financial support. Furthermore, in some cases the classification is made by examining business plans, which target costs, margins and objectives for the future.

The review of the criteria for the identification of the boundary between the public (market) corporations and government sectors would also imply a definition of which is the notion of a profit relevant for the public interest (see Perry & Rainey, 1988; Rainey & Bozeman, 2000).[11]

The government sector classification is reported in a separate presentation of the activities of government with the GFS giving an integrated picture of government accounts and measures of government economic activity (ESA 2010, 20.1, 20.68). Whilst the general government sector simply represents the aggregation of units, some have wondered if it could be assimilated to a separate "reporting entity" with its own logic and strategy.

1.2 The differences and similarities between private and public sector and the problematic notion of government "reporting entity"[12]

Literature available on differences and similarities between private and public sector do not show satisfactory findings on the reasons and conditions on which public entities differ from private. The various studies and empirical researches[13] focussing on *multidimensional* definitions – based mainly on the public interest, public goods and market failures, control/hierarchy and ownership/funding – have argued that differences lie in organisational environments and structure, goals, constraints, incentives, formalisation of personnel procedures, purchasing processes and other administrative (bureaucratic) procedure, motivation and culture, while in some cases have disputed that distinction between public and private entities (for a comparative literature on public versus private organisations see Perry & Rainey, 1988, and also Rainey & Bozeman, 2000; for analysis relating to statistical reporting see ISTAT, 2005a, 2005b).

However, it appears that such studies, described as often limited in scope and representativeness, have not resolved the categorisation issue, especially with regard to the "grey area" between the two extremes of "bureau" and "private" enterprises (Perry & Rainey, 1988, pp. 195–196).

As for the definition of a government reporting entity, a key characteristic according to the literature is that of providing accountability for the use of resources for management decision making (Chan, 2003). The emphasis for a reporting entity is not only on financial needs, such as for profit entities, where they are traditionally related to investors and the distribution of profit. In fact, for government entities there is no market (see Perry & Rainey (1988); Rainey & Bozeman (2000))[14] and the control relationship usually does not take the form of equity.

Even in the case of legislation used to solve such boundary issues (for example the case of the Italian list of general government entities relevant for Excessive Deficit Procedure (EDP) purposes, which has been used to address the perimeter of application of the Law which reforms Italian public finances and accounting (L. 196 of 31 December 2009), see MEF, 2010) there would be a need to specify the underlying concepts to be adopted in delineation.

1.2.1 The specific classification issues in the IPSASs

Although the IPSASB has not consciously addressed the aspect of control in its conceptual framework (CF) work, it has updated its definitions and concepts of control in Financial Reporting at standards level

[11] Which might be interpreted under ESA 2010 as *operating profit*, which excludes holding gains and losses, investment grants and other capital transfers, and equity purchases (but does include net interest, which has been added to the 50% test under ESA 2010).

[12] For a literature and standards review on financial reporting, definitions and the IPSAS framework see Appendix. *"A literature and standards review on methodological approaches to the public sector boundary"* section II *"Financial reporting and the IPSAS framework"* which is reflected throughout this paragraph.

[13] Such studies draw on economics and political sciences and on organization theory.

[14] However, recent trends show the importance of investors in certain capital market for specific public entities or some ministry departments (i.e. defense). See Newberry (2014).

with the new IPSASs on Separate Financial Statements, Consolidated Financial Statements, Investments in Associates and Joint Ventures, and Joint arrangement (IPSASs 34–37).[15]

As in the ESA 2010 context, the IPSAS's concept of control in the public sector poses challenges to determine the boundary at the level of an entity and of a group of entities, and avoiding misclassification.

It appears that the IPSAS's criteria of control have not solved the issue of determining a separate reporting entity, using a standardized and comparable approach at international level.

Given that the assessment of control in IPSAS 35, compared to the IPSAS 6, appears less restricted by conditions with the IPSASB stressing in many points that "an entity shall consider all facts and circumstances when assessing whether it controls another entity", substantial judgements are needed through a case by case analysis.

Notably, control is based on the aspects of "power" and "benefits" (as in IPSAS 6), but the definition has changed to focus on an entity's ability to influence the nature and amount of benefits through exercise of its power.

In other word, IPSAS 35 assumes that an entity controls another entity when it is exposed to variable benefits (or holds rights in such benefits) and at the same time has the ability to affect the nature and amount of those benefits by exercising their power.

The (explicit) link between power and the benefits is the new element introduced (as in International Financial Reporting Standards (IFRS) 10),[16] which in fact, requires the entity to have the "ability to use its power ... to direct that other entity to work with it to further its objectives" (IPSAS 35, paragraph 36, IPSASB, 2015).

In summary, three elements – power, variable benefits and the link between power and benefits - need to be investigated for a better understanding of their definitions and to determine, accordingly, the consolidation scope, taking into account that IPSAS 35, as the ESA 2010, (and SNA 2008, UN et al., 2009), mentions judgmental analysis and analysis of more than one factor to be considered in complex cases. (Bergman, 2009; Bisogno, 2014; Eurostat, 2013 b; IPSASB 2012a, 2013c, 2015; Grossi et al., 2011; Grossi et. al, 2014).

Considering the above elements of control, the term "benefits" used, which is an explicit element of the control under IPSAS,[17] might be subject to interpretation. For example, it might refer to financial and non-financial benefits, which may include returns or other advantages.[18]

Furthermore, the guidance over how to decide who has the ultimate "power to govern", i.e., the current ability to direct the relevant activities of an entity, discusses economic dependence in the public sector[19] as an important element to be considered in assessment of control. It explains that economic dependence, alone, does not give rise to power but need to be assessed with other rights which may occur in conjunction. But the new standard in that assessment retains the concept of whether an entity has discretion to take funding from or do business with another public sector entity. Whilst it clarifies that discretion may be exercised in accepting or not funding from a government, or in the manner in which those funds are to be used, these assumptions appears somewhat hypothetical, difficult to assess in practise.

In other words, application of the control criteria may lead for categories of entities to different and unstable interpretations of the definition of the government reporting entity within jurisdictions and

[15] The effective date for the application of this standard starts on January, 1, 2017 (but early application is encouraged). It may be argued that one possible reason why the concept of control hasn't been included in IPSASB CF (2014c) is because at the time of CF release the ongoing process to update IPSAS 6–8 may have required an immediately subsequent amendment.

[16] Applied by the private sector.

[17] Whilst only implicit in the ESA.

[18] Guidance on all these meanings has been provided with IPSAS 35, along examples of benefits to assist in initial assessment of whether control over other entities exists. See Appendix.

[19] Including an example of economic dependence.

over time (Challen & Jeffery, 2005) which, obviously, reduce the compatibility of public entities' financial statements.

In terms of what entities to allocate within the public sector boundary, some entities such as agencies, securitization entities, trusts, housing agency, insurance schemes, some financial institution directed to government agencies, PPPs schemes, Pension schemes, or other special purposes entities may require a carefully approach when testing control/boundary and can be controversial in consolidation (Challen & Jeffery, 2005; Laking, 2005; Walker, 2009).[20]

As an example, this would be the case of government owned banks whose consolidated assets and liabilities would potentially swap government balance sheets owing to their size, but which would be of interest if government has a substantial power of control over them.

On the other hand, it should be noted that the IPSASB in respect of specific types of controlled entities which should not be consolidated (IPSAS 35 BC10–12) identifies difficulties in separately identifying categories of entities on a consistent basis across jurisdictions and over time. This is, for example, for entities rescued from financial distress or Government Business Enterprises (GBEs), based on the differences in the way the definition is being applied in practice in different jurisdictions and on the fact that similar activities can be conducted by a variety of entity types both within and across jurisdictions.

In other words, it may be argued that the IPSASB reasoning is that differences in application of definitions for some categories of entities among jurisdictions cannot be solved.

Furthermore, the Board's position is that proposals for different accounting treatments for such categories of entities "might lead to consistent treatment for a group of entities within a jurisdiction, which might not result in comparable accounting for similar activities" (IPSAS 35 BC10–12).

To meet user needs for information for consolidation of *all* controlled entities, having regard to the complexity of government involvement with other entities, i.e. particularly at the whole of government level, the IPSASB mentions the costs of the consolidation process on a line by line basis, which are high when the number of controlled entities is high and may be perceived to outweigh the benefits of consolidating those entities.[21]

The IPSASs do not define the notion of *public sector*, whereas a definition is given by the ESA 2010 (chapter 20 paragraph 303) to include the general government and public corporations.

It must also be observed that while IPSAS has adopted the criteria of control as the rationale to determine the scope of reporting, other standard setters have adopted as a primary test the notion of financial accountability, assuming a different perspective based on the relevance of the budget rather than power and benefits[22] (Bisogno, 2014; GASB, 14, 1991; IPSASB, 2015; Walker, 2009).

2 THE DIFFERENCES BETWEEN IPSAS AND ESA/GFS AND THE SCOPE OF REPORTING

The comparison of ESA/GFS concept of control seems broadly *not inconsistent* with the IPSAS concept of control, although there would be still be some room for both GFS and IPSAS to remove the "unnecessary" differences in order to achieve a better reconciliation of these two sets of reporting.

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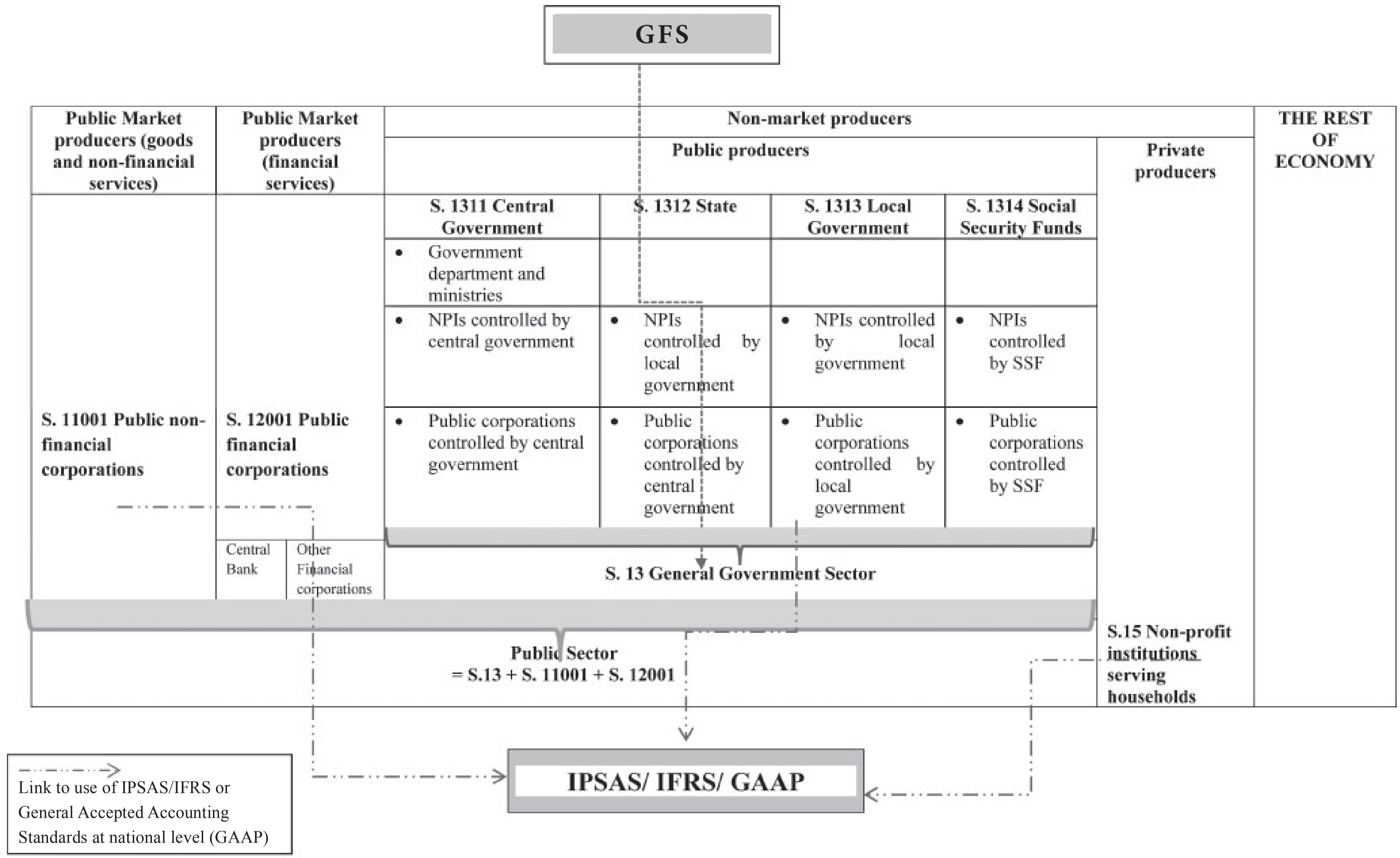
[20] The IPSASB in the process to finalize the IPSAS 35 examined the issue of consolidation of entities rescued from financial distress or controlled by financial intervention and the issue of consolidation exception for "investment entities" which may have only one investment or only one investor (IPSASB, 2013c, 2015).

[21] The IPSASB also indicated for this issue alternatives provided by statistical reports and separate financial statements. IPSAS 34, which has been issued concurrently with IPSAS 35, provide guidance in accounting for investments in controlled entities, joint ventures and associates when an entity elects, or is required by regulations, to present separate financial statements (IPSASB, 2015) on the basis of fair value through profit or loss, These may be presented as the only financial statement, or in addition to consolidated financial statements, or in addition to financial statements in which investments in associates or in joint ventures are accounted for using the method of equity.

[22] For IPSASB considerations on the non-appropriateness of the Budget's entity approach for general purpose financial reporting see IPSAS 35 BC 13.

Figure 1 The boundary of the public sector in GFS versus financial reporting



Source: Elaboration on ESA 2010

Most of the differences derive substantially from the ESA 2010 institutional sector approach, which aggregates the entities into sectors as they were a single institutional unit, whereas the IPSASs follow an approach based on the consolidated reporting entity on the basis of the control line by line.

The statistical and accounting communities have been indeed active over the last decade in promoting such harmonisation and contributing to public accounting standard setting (Eurostat 2013c, 2013d; IPSASB, 2012b, 2013b, 2014b; 2015; IMF TFHPSA, 2006).

Nonetheless, a fundamental difference in approach remains, since the IPSASs would not consolidate the accounts of two government entities where there is no link of control to each other, compared to the GFS which consolidate all "governments entities" based on their economic nature, whether control exists or not (Dabbicco, 2013b; Eurostat, 2013b, 2013c; Lequiller 2014; IPSASB, 2012b, 2014b).

This is particularly relevant for local entities and for other decentralized governments which would under IPSAS not be included within the consolidated accounts of another reporting entity if there is no control link.

In addition, central government is treated under ESA/GFS as being a single unit encompassing most of the ministries, departments, agencies, boards, legislative bodies and other executive entities which do not have the status of institutional units and are therefore grouped within the overarching authority which "controls" them, whereas they may be not considered separate reporting entities in IPSAS.[23]

However, it may be noted that IPSAS 35, in the context of assessing the scope of a decision maker's decision-making authority, has introduced as factors to be considered the purpose and design of the other entity being assessed for control, and assessments of whether an entity is acting as a principal or an agent.

Furthermore, IPSASs encompass a significant exclusion from scope of reporting for GBEs.[24] This because they sells goods and services, normally assuming the risk of the business and are not reliant on continuing government funding, therefore they may find it appropriate to apply IFRS in place of specific public accounting standards. Nevertheless, GBEs should be consolidated in Consolidated Financial Statements of another public sector entity when they are "controlled" by them.

Therefore, the public sector accounting consolidation may have a larger area compared to the GFS consolidation, because GFS consolidates all government controlled entities including all public corporations when these corporations are "non-market" (and resident), but controlled market public corporations are outside the perimeter of general government (Dabbicco, 2013a, 2013b; Eurostat, 2013b, c; IPSASB, 2015; Lequiller, 2014).[25]

The IPSASB's approach to the definition of consolidation in the IPSASs is to prepare the related financial statements and reports on either a compulsory or voluntary basis, with standards for both individual and consolidated accounts. This is another key aspect when compared with the ESA, which *require* in Europe the identification and classification of each (government) institutional unit (resident in a country) to a macroeconomic (*general government*) sector, for which economic flows and stocks can then be demonstrated.

DISCUSSION AND RESEARCH AGENDA

To consider what is inside and what is outside the public sector boundary appears a sensitive interpretation task. It would imply to consider government policy over its relevant activities, notably on resource

[23] Other classification differences may be related to units which are jointly controlled by two (or more) different levels of governments (IPSAS 35; IPSASB, 2013c).

[24] This is currently under review by the IPSAS Board and a consultation paper has been issued.

[25] In the previous IPSASs there was, in addition, an exemption from consolidating controlled entities under temporary control, although the IPSAS 35 has removed this exemption, requiring additional disclosures in respect of those entities. Other conceptual differences may be found in some hybrid forms of financial institutions, in Central Bank and for entities rescued from financial distress.

allocation. Accompanying, but relevant, legislative and fiscal government entity compliance requirements, as well as (public) governance issues as a result of decentralization and externalization of government activities, also at the macroeconomic level of surveillance would also need to be considered.

The Whole-of-Government level would require the consolidation of a number of entities such as departments, agencies, GBEs, financial institutions and special purpose entities, with the core government.

The boundary consolidation or "whole of government" concept is somewhat addressed by IPSAS 22,[26] but this standard is also not compulsory, and is not considered an alternative to consolidation of all controlled entities for presentation of such information. This makes it difficult to address reconciliation needs with NA/GFS as IPSASs remain more focused on annual individual accounts or sub-sectorial consolidation (AASB, 2005, 2007; Dabbicco, 2013a, 2013b; Lequiller, 2014).

In this context, it has been proposed in the international debate that the public accounting concepts should be better aligned with GFS.[27] In the revision process with the exposure draft (ED) 49 (IPSASB 2013a, 2014a) for the new standard issue the IPSASB took into account the approach of GFS, including consideration of the indicators of control of non-profit institutions and corporations, to avoid unnecessary differences.

But the IPSAS concept of control continues to result in a different approach (IPSAS 35 BC 4) compared to the role assigned to the concept of control performed into "type of output, then control" classification approach in GFS of the new ESA 2010 (chapter 2).[28]

Considering the ESA 2010 approach, among other issues, it emerges that the work of allocation of the statistical units to the register of private or public entities might face problems in using the type of output as first criterion in analysis of the units. It is often necessary to analyse first (cross-checking the available sources), the principal characteristics of the structure of the entities, i.e. nature, legal status, and, notably, control. Only subsequently, by matching the corresponding economic data, would it be possible to identify the type of output. On the other hand, the nature of the concepts of control and economically significant prices may deserve reconsideration in the future, notably for the subjectivity observed in application.

From an IPSAS perspective, if more consideration had been given to the decentralization of government functions, and to the resulting central role assigned to the local entities dependent on them (Brusca and Condor, 2002), this would raise the need to consolidate all local entities and their dependent or delegated bodies, moving, for example, to a whole of government level.

But the IPSASB has deemed that there are scarce empirical research available on user needs and usefulness of consolidated financial information in respect of specific types of controlled entities and for WGA, and that a limited number of countries currently present consolidated whole of government financial statements (IPSAS 35 BC12; 16) (Aggestam, Chow et al., 2014).

The ongoing debate about the necessity of harmonized accruals-based public accounting standards for EU Member States, and about the feasibility of an integrated reporting, covering public accounts and GFS, may add momentum to broaden the scope of reporting to whole of Government Accounts, including opportunities for convergence of statistical and accounting reporting.

However, the issues analysed in this paper appear as key preparatory issues to be solved for the research agenda on such developments, notably singling out the need for a more systematic categorisa-

[26] Which focuses on the general government sector.

[27] The IPSASB in 2014 has issued a policy paper on "Process for Considering GFS Reporting Guidelines during Development of IPSASs" and on its agenda there is a further analysis on the issues from the 2005 research report (IFAC, 2005).

[28] In relation to this point an apparent inconsistency may be observed between ESA 2010 chapter 2 which seems notably to first require the analysis of output and subsequently the control criteria, and the dedicated government chapter (chapter 20), which seems to adopt a reversed approach of control-output. This apparent ambiguity of the chapters seems to have been solved by the relevant groups of GFS experts giving a prominence to the classification rules for the GGS in chapter 20.

tion of the public- private distinction in the research's theory to serve the delineation of the boundary of the public sector.

ACKNOWLEDGMENTS
The author thanks Jan van Helden and Susana Jorge, supervisors of the CIGAR PhD seminar, Kristianstad, 9–10 September 2014, who helped to improve an earlier version of this manuscript. She further thanks Gian Paolo Oneto, Director at ISTAT National Accounts, the participants at ESS conference in Rome (November 24–25, 2014), and two anonymous reviewers of Statistika journal for their useful comments on this article. The author alone is responsible for any errors or misinterpretations.

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APPENDIX

A LITERATURE AND STANDARDS REVIEW ON METHODOLOGICAL APPROACHES TO THE PUBLIC SECTOR BOUNDARY

I. Statistical information and the System of European Accounts (ESA) framework

1. The statistical unit

Official economic and business statistics are structured around the identification of statistical units, data on which can be aggregated together. Within the European Union, in order to ensure comparability at national and European levels, statistical units are defined in a uniform manner for all Member States by using three methodological criteria: legal, accounting or organizational criteria, geographical and activity criteria.[29]

Under these conditions, statistical information on economic activity is developed in different directions:

– at the microeconomic level, where the main unit of analysis to compile the statistics is the single entity (through its local unit), or group of entities, or holding entities, and
– at the macroeconomic level, where the ESA 2010 has been developed at European level as the brother of the worldwide System of national account (SNA 2008) with a series of adaptations to the specificities of the countries of the European Union.

To this end, the ESA 2010 defines some *standard* types of statistical units: - the *institutional unit* (ESA 2010 paragraph 2.12), - the *local kind-of-activity unit (KAU)* and - the *unit of homogeneous production (UHP)*.[30]

The different types of statistical units correspond to the different purposes for which they may be used. However, they are connected to each other since there is a hierarchical relationship between institutional units and LKAUs (a unit may have one or more LKAUs): for example, structural business statistics data refer to "enterprises" which represent a main source on which to base national accounts estimates.

In practice, the three types of statistical units are obtained by grouping or de-grouping microdata collected with reference to the unit responding to statistical surveys.

Institutional units to serve to the need of macroeconomic (aggregate-level) information are grouped into *sectors* and *subsectors*, *on the basis of the uniformity of their economic behaviour,* related to their core functions and type of production.[31]

The Government Finance Statistics (GFS) framework, referring to the General Government Sector (GGS), requires that data be produced for (i) each level of government (for example, central, state and local government) and (ii) the combined GGS.

It might also happen that some institutional units control others and this makes it necessary to consider a group of entities as a separate entity.[32]

2. The government controlled entities and the GGS in ESA 2010

According the ESA 2010 "The General Government Sector includes all institutional units which are nonmarket producers controlled by government, whose output is intended for individual and collective consumption, and are financed by compulsory payments made by units belonging to other sectors; it

[29] Council Regulation 696/93 of March 15, 1993. For the resulting list of statistical units of the production system see Annex, section I. (ISTAT, 2005a).
[30] Institutional unit is characterized by ownership, autonomy of decision, accountability and set of accounts. On such definitions see more in ESA 2010 2.03, 2.144–2.154.
[31] For definition of institutional sectors see ESA 2010 2.45 2.134; ISTAT 2005b.
[32] On definition of groups see ESA 2010 ch. 2 par. 2.13; 2.15-16, and Reg. 696/93. This definition is under revision by the Eurostat working group on ESSNET on International Profiling large and complex MNEs.

also includes institutional units principally engaged in the redistribution of national income and wealth, which is an activity mainly carried out by government".[33]

The first step to identifying general government units is to establish if a unit is public or private. For "core entities" the criteria to classify them in the "General Government" sector do not give rise to particular problems.

However, in addition to these entities, there are a number of other entities who have decision-making autonomy and a full set of separate accounts, which are created for carrying out specific functions, such as construction and management of roads, health or educational services, and which are often called extra-budgetary units or special purpose entities. They might be controlled by another public unit and are classified to the General Government sector, unless they are considered as market-producers (financed by their own sales), in which case they are included in the (public) non-financial (or financial) corporations sector.[34]

3. Notion of control in the ESA 2010

As delineation criteria ESA 2010 defines control over a financial or non-financial corporation as the ability to determine the general policy or programme of that entity" (ESA 2010 paragraph 20.18), for example choosing board directors.

In some cases, such as for corporations, the control results from an equity link, but the relationship between government units usually does not take the form of equity so that control might result from other forms of ownership.

Therefore, to identify a production unit according to ESA 2010 as government controlled it is needed to assess that is (a) owned (for example on the basis of the voting shares) or (b) controlled (e.g. on the basis of the control of appointment and removal of Directors) by general government. If neither of these conditions is applicable, the unit is private, so it must be included in the other institutional sectors (represented by financial and non-financial corporations and quasi-corporations or households or Non-profit institutions serving households (NPISH)).

A number of additional criteria should be taken into account as indicators of control according to ESA, although the two criteria above in most cases would be sufficient to determine the nature of a unit.[35]

An entity controlled by government could be profit-seeking (and able to distribute any profit to its owners), or may be a unit that does not aim for distributable profits (non-market producer).

As for boundary of government and the (public) *financial corporations*, i.e. those institutional units principally engaged in financial intermediation activity, the same criteria for control which are to be applied for non-financial corporations are used. However, the market/non market criteria are generally not relevant and, instead, the qualitative criteria are prominent, i.e. whether they behave as a "normal" financial intermediary (See MGDD, I.2.3, EC, 2014).[36]

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[33] For definition of "General Government" sector see ESA 2010 par. 2.111 and par. 20.05 et ss.

[34] In ESA 2010 separate subsectors for public-controlled corporations: S.11001 ("public non-financial corporations") and S.12001 ("public financial corporations") are established, although the compilation of separate accounts for these subsectors has been in the past on a voluntary basis. In this context, public *market* corporations are currently classified in the S.11 ("non-financial corporations") or S.12 ("financial corporations"), depending on their activity. However, in consideration of increasing interest in public corporations, and their potential impact on government finances, there has been a noticeable expansion of data collected for them in the European Union.

[35] The ESA 2010 includes eight indicators of control of corporations and five indicators of control of non-profit institutions. It also explains that in other cases a number of separate indicators may collectively indicate control. For more detail see ESA 2010 20.38–20.39 and MGDD, I.2.3 (EC, 2014).

[36] As examples of public financial corporations which are not a financial intermediaries one may mention financial auxiliaries such as stock markets or independent financial regulators.

Non Profit Institutions (NPI) classified to the general government sector are a special case of entities identified with indicators of the government control, similar to those of (public) corporations (ESA 2010 par. 20.15). Proceeding from this, the degree of financing by government, meaning *predominant public funding* might not be sufficient to consider the NPI as being controlled by government if it remains able to determine its policy or programme. The application of these criteria – beyond the appointment of officers – is therefore not conclusive, because, in many cases, a single indicator is not sufficient to establish, beyond any doubt, if the control is private or public. It is necessary, therefore, to consider the criteria as a whole and the decision will be judgmental (ESA 2010 par. 20.15).

II. Financial reporting and the IPSAS framework

1. The notion of reporting entity and of groups in IPSAS

The International Public Accounting Standards Board, originally created as the Public Sector Committee (PSC) has worked for nearly 20 years in establishing accounting standards for the public sector and promoting their application.

The IPSASB, in its conceptual framework describes a public sector reporting entity as an entity that prepare prepares General Purpose Financial Reporting (GPFRs).[37]

A key characteristic of a reporting entity in IPSAS is that there are users (service recipients or resource providers) who depend on the financial statements for their information needs (for accountability or decision-making purposes according IPSASs), and this has been also highlighted in the previous literature (Challen & Jeffery, 2005; IPSASB CF, 2014c; IFAC, Study 1 and Study 8, 1996; Grossi et al., 2011; Mack & Ryan, 2006; Walker, 2009).

An additional key characteristic is that it is an entity that raise resources from, or on behalf of, its constituents, and/or use resources to undertake activities for the benefit of, or on behalf of, its constituents (IPSAS CF 4.3, 2014c).

The IPSASs concept of reporting entity appears therefore driven by the objectives of financial reporting which aim to provide information useful to users for accountability and decision-making purposes, and it is based on identification of the existence of service recipients or resource providers. As for the implications in identification of such reporting entities the ISPASB mentions professional judgment in determining reporting entities (IPSASB CF, BC4.5–4.7, 2014c).

Whilst the IPSASs do not define the notion of public sector as in the ESA 2010 a reporting entity may also be considered as a "group reporting" entity, " that present GPFRs as if they are a single entity" (IPSASB CF, 4.2, 2014c).

The criteria to be satisfied for inclusion in a group reporting entity are developed at level of standard in the ISPAS 35, where the term "economic entity" is used to define, for financial reporting purposes, a group of entities comprising the controlling entity and any controlled entities.

In a nutshell, the term economic entity has a greater relevance in the interpretation of the IPSAS framework for whole of government reporting, because it regroups a controlling entity and its controlled entities in a newly single reporting entity (Challen & Jeffery, 2005; Eurostat 2013b; IPSASB, 2012a, 2013c, 2015; Lequiller, 2014).

At this level the IPSASB has also introduced the need to take into account in economic entity's determination the constitutional arrangements in a government and "in particular the ways in which government power is limited and allocated, and how the government system is set up and operates" (IPSAS 35.17). This, notably, in the view of the author may open to the case of whole-of-government level.

[37] "The government and some other public sector entities have a separate identity or standing in law (a legal identity)…or be an organization, administrative arrangement or program without a separate legal identity" (IPSASB CF, 2014c).

2. The notion of control in IPSAS

For the purpose of financial reporting, IPSAS 35 defines control as "power over the other entity" so as to "benefit" from its involvement with the other entity and the "ability to use its power over the other entity to affect the nature or amount of the benefits from its involvement" with the other entity".

Therefore, three elements are relevant:

– the existence of power over the controlled entity,
– the exposure to the variability of the benefits achieved by the controlled entity, and
– the ability to use that power to influence the benefits of the controlled entity, which are all defined trough factors and indicators to determine the scope of consolidation under IPSAS.

The power over the other entity is characterized by the existence of (substantive) rights that give the entity the ability to perform actions that affect the determination of the benefits of the controlled entity and it is based on a capacity, independent from its effective exercise.

In considering whether the entity has the power, similarly to ESA 2010, ownership criteria and the power to appoint or remove key management personnel are adopted, and these are the same as in private sector. Binding arrangements (i.e. existing legislation, executive authority, regulation), and the design and purpose of the other entity[38] are also considered.

As for benefits, it might be mentioned distributions (i.e. dividends), or the existence of residual interests on assets and obligations on liquidation of the other entity. Benefits may be financial or non-financial benefits (returns or advantages) which have been defined under IPSASs.[39]

The link between power and the benefits of the controlled entity is a new element in IPSASs, (derived from IFRS 10) which, in fact, require that the entity should perform actions that affect these benefits, alongside the determination of whether the entity is a principal or an agent.

The Board has looked into GFS approaches to assess the extent to which there are opportunities for harmonization on the definition of control with statistical reporting, considering some documents (i.e., Exposure Drafts) comparing concepts of control in financial and statistical reporting (IPSAS 35, IPSASB 2012a, 2013a, 2013b, 2014a) , notably mentioning some of the indicators of control in GFS and explaining some differences, according the IPSASB due process of GFS issues consideration.

Entities which operate as government business entities (GBE) are currently excluded from the scope of IPSASs,[40] particularly when the government's ability to control and influence the financial and operational decision making by these entities is limited (Challen & Jeffery, 2005; IMF, 2006; IPSAS preface, IPSASB 2014a).[41]

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38 I.e. what the entity does, who directs the relevant activities, who benefit of these activities. But the ISPASs mention all facts and circumstances to be considered in assessing whether an entity has power over another entity.

39 See IPSAS 35 paragraph 32 which gives examples of benefits, and also mentions "exposure to loss from agreements to provide financial support" and other less quantifiable as "improved outcomes".

40 The IPSAS Board has started a project to examine this treatment for GBEs. For definition of Government Business Enterprises see IPSAS 1.7 (a–e).

41 The IPSASs mention that eeconomic dependence, alone, does not give rise to power over an entity, therefore for entities that are economically dependent on a public sector entity, where the "economically dependent entity retains discretion as to whether it will take funding from an entity, or do business with an entity, the economically dependent entity still has the ultimate power to govern its own financial or operating policies."