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PMM CIGAR Annual Issue 2022, *Public Money & Management*, Vol. 42, No. 7 (October 2022)

Editorial: After PFM reforms' implementation—the divergence between announcements and realizations

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This second CIGAR annual issue consolidates the agreement with *Public Money & Management* (PMM) to publish one issue per year presenting articles originating from the activities organized by the CIGAR Network (<https://cigar-network.net>), thus reflecting areas of research that CIGAR scholars are engaging with.

Continuing in the perspective of comparative public sector accounting research suggested by Chan et al. (1996), the articles in this annual issue focus on the effects of some public finance management (PFM) reforms. Based on empirical research, the articles provide the reader with interesting insights on what happens once reforms have been implemented.

This year we have a new addition to the CIGAR annual issue, an important 'minitheme' follows the main contributions. Guest edited by Jens Heiling, Susana Jorge, Sotirios Karatzimas and Caroline Aggestam-Pontoppidan, the minitheme looks at public sector accounting education (PSAE). The guest editors have supplied an editorial explaining what needs to be done (Heiling et al., 2022). They conclude that there is a long way to go before PSAE becomes an established discipline. Business schools do not assign the same importance to PSAE as they do to business accounting teaching, so public sector accounting professionals often do not have the necessary skills when starting their professional careers. They are calling on the accountancy profession to work towards harmonizing PSAE.

The main CIGAR issue: Decoupling

While following different nuances, all of the articles included in the main CIGAR annual issue are connected with a common theme: 'divergence'. Divergence, or 'decoupling', is the gap between policy and practice (Oliver, 1991). Despite the reformers' intention, the actual behaviour does not always follow suit. This phenomenon is not new, as the divergence between the use of accounting information and the motivations surrounding the implementation of related reforms has already been investigated in the literature (for example van Helden et al., 2016; van Helden & Reichard, 2019). The novelty of the articles included in this issue lies in the empirical evidence supporting this divergence in particular instances.

There are several possible underlying reasons for such decoupling, and the articles hosted in this CIGAR annual issue provide significant examples, illustrating and documenting the divergence between announcements, plans and realizations.

The article in this issue by Bisogno et al. (2022) discusses the unintended effects of the attempt to support auditors in Italian local governments in their duties. Standardized audit reports were introduced, consisting of several sections focusing on different 'issues considered particularly challenging for municipalities', and aiming at 'improving efficiency and effectiveness of the local governments'. Despite the aims, this led auditors to protect themselves from criticism or judicial action. Standardization resulted in limiting auditors' discretion, and giving them a possibly too easy way out to comply, just formally, with their tasks. Thus, despite the initial intentions, the quality of the audit reports decreased.

Another example is offered in this issue by Malkogianni and Cohen (2022), who document the existence of earnings management in public hospitals. When it becomes too difficult to meet tight financial obligations, the manipulation of net income is seen as a way out; which, of course, contradicts the declared reform's aims. Dealing with the same topic (earnings management in the public sector), the article in this issue by Boll et al. (2022) documents that enterprises disciplined by public law tend to use more discretion when compared with their commercial law counterparts. Therefore, while elected members of municipal councils serving on the supervisory boards of municipally-owned enterprises are supposed to represent the interests of citizens, the more fragmented ownership structure evident in these firms leads to a more intense use of 'the discretionary scope within accounting rules in a strategic sense'.

Columbano et al. (2022), in this issue, add to this list of unforeseen consequences by showing that the alignment between governmental accounting (GA) and Government Finance Statistics (GFS) 'declines substantially when examining long-term accruals such as capital expenditure and provisions... probably because the GFS follows the accrual principle only selectively'. As a consequence, 'where the accounting for capital investments, provisions and debt

cancellations is concerned ... GFS is relatively more inspired by a cash than an accrual basis'. Thus, a transition to accrual accounting 'would not suffice to eliminate the need for GA-GFS alignment'. Columbano et al. (2022) present more empirical evidence to support the prior literature on this unintended divergence.

Contrary to popular discourse, Adam et al. (2022), in this issue, show that the IPSAS do have an element of prudence; however, the consideration of this principle in IPSAS is somewhat different from its consideration in some national accounting standards. Public sector accounting reforms have been implemented in different countries, mainly leading to accrual-based accounting systems. Nonetheless, differences still persist, being strongly rooted in the national accounting traditions. Adam et al. (2022) discuss how the prudence principle embedded in the German accounting standards for public administrations may partially differ from the approach followed by the IPSAS, not only as expressed in the IPSASB Conceptual Framework, but more specifically in reference to the accounting treatment suggested for specific assets.

Within these accounting reforms, addressed to implement accruals, the adoption of a standardized chart of accounts may offer several benefits, including accuracy, comparability, and understandability. Echoing a call by Cohen et al. (2021) for reform towards harmonized accrual-accounting in the European Union, Jorge et al. (2022), in this issue, underline that each crisis creates a stronger need for accurate financial reporting on the adopted policies. The development of a standardized chart of accounts at national level is crucial for this purpose.

This issue also hosts two debate papers that touch upon a basic building block in public sector accounting; that of asset definition. Christiaens (2022), in a provocative debate article, argues that, quite often, the solutions adopted in different public sector contexts seem to mimic private sector approaches and definitions; however, practical implementations collide with the specific features of public entities. The discussion surrounding the definition of assets in IPSAS and the information to be provided in relation to societal capital goods requires due attention. On the same topic, the debate article by Anessi-Pessina et al. (2022) offers an additional analysis related to the definition of public-sector assets, examining the implications due to the concept of 'service potential'.

The phenomenon of divergence is typical in social sciences and has been described as an unintended consequence of a purposeful action (Merton, 1936; von Hayek, 1967). Although not new, we believe that a deeper investigation is required, especially when the divergence is hidden, or difficult to spot. Under these conditions, divergence may go unnoticed by politicians, professionals, and the public at large. Decisions, assessments and evaluations are made, assuming that things are as stipulated, when the reality is significantly different.

The comparative research approach (Caperchione et al., 2021) may be of great help here. Research is needed to analyse the reforms' outcomes, the actual reports, the real meaning of the various labels. If this is not done, comparing monetary values may become rather difficult and ineffective. For example different concepts of prudence

may hinder pairwise comparisons between entities based in different jurisdictions (Adam et al., 2022). In other words, a comparative approach will avoid uninformed generalizations, and will allow putting things in perspective. Accounting standards and standardized audit reports are useful in principle; however, behaviour and actual choices may follow a different path from that intended. The drivers of these divergences, and their extent, deserve close observation and scrutiny.

In the meantime, it must be clearly stated that the education and training of public service officials, accountants, politicians, and media industry professionals, would be of great relevance, in order to allow the preparation of higher quality audited financial reports and their dissemination to the general public. The important role of public sector accounting education is an under-researched topic, for which the minitheme at the end of this issue offers a fundamental contribution (Heiling et al., 2022).

PFM reform

Going back to the main body of this CIGAR annual issue, the articles deal with other research issues. PFM reforms always have a starting point, but somehow they never seem concluded. Fine-tuning is required, as challenges and open issues continue to emerge, not only during the implementation of reforms but also (and perhaps even more) when the new tools and logistics are in place. In this realm, researchers can contribute towards PFM improvement by delving in-depth; by looking at details and questioning what seems straightforward at first glance. In this way, like the articles in this issue, research can reveal problems which are relevant both for academia and for practitioners.

SDGs

Caruana and Dabbicco (2022) discuss the challenges for the accounting profession resulting from the need for public administrations to actively promote and co-operate to achieve the UN's Sustainable Development Goals (SDGs): 'The accountancy profession has a much more tangible role to play than just designing commentaries'. To play this role, accountants need to engage 'with other professionals who embrace different schools of thought'. The challenge for accountants is not only designing accounting systems that will support comprehensive SDG reporting—the real challenge is to actually use accounting tools to instigate a series of events that culminate in the achievement of SDGs.

It is worth mentioning that a new scenario is emerging in the debate on sustainability reporting and SDGs for public sector entities. A recent consultation paper prepared by the IPSASB (2022) investigates the need for specific standards that may guide public organizations in disclosing their plans and actions, the resources invested, and activities designed toward this global challenge. The consequences of climate change need a common effort by government and public sector entities as a whole, and accounting can help in disclosing what has been done, involving citizens in taking a stance. Furthermore,

accounting (and particularly management accounting) is forward-looking, and can assist policy-makers in allocating resources aimed at mitigating the damage we have done to our world over time.

Study implications for multiple stakeholders

Various groups of practitioners will find interesting suggestions and recommendations in this CIGAR annual issue: policy-makers (Columbano et al.; Malkogianni & Cohen); standard-setters (Adam et al.; Christiaens; Jorge et al.) and regulators (Bisogno et al.); members of supervisory boards of municipal enterprises (Boll et al.); and accounting professionals (Caruana & Dabbicco).

An important point is that the articles included in this issue deal with topics of great relevance that have been traditionally scrutinized in the private sector, but are under-investigated in the public sector context—for example earnings management. A study by Dechow et al. (2010) reviewed more than 300 papers on earnings management in the private sector; while a recent literature review by Bisogno and Donatella (2022) found 78 relevant articles for the public sector, with the vast majority focusing on state-owned enterprises. The relevance of earnings management is increasing, and this issue contributes to the ongoing debate with two articles (Boll et al., 2022; Malkogianni & Cohen, 2022). Despite the different focus and perspectives, both articles emphasize that the context being investigated matters, and public sector peculiarities should be considered. For instance, in Malkogianni and Cohen's (2022) analysis, earnings management behaviour is due to the need 'to meet the financial targets required by the supervisory authorities', as changes in subsidies could affect the financial situation of public hospitals. Boll et al. (2022) find that public law-based enterprises are more liberal in their application of earnings management strategies than commercial law-based public enterprises.

Another example is the prudence concept. The debate regarding asymmetric prudence versus cautious prudence dates back several decades in the private sector. Adam et al. (2022) observe that 'limited academic debate has taken place on the role of the prudence principle in public sector accounting', despite its significance in the ongoing reform movement concerning public sector accounting.

Revisiting the private–public dichotomy

This CIGAR annual issue intends to stimulate the debate around these topics, in addition to mitigating an underlying potential risk that exists also due to scant research. The lack of studies in the public sector context often leads to private sector approaches and findings being used, neglecting important public sector features. As scholars, we should avoid falling into the same trap that regulators and standard-setters sometimes do, and lose sight of the actual use and users of the accounting information being prepared. Thus, we urge colleagues to flag considerable differences, as well as similarities, in their public sector

study findings with those in the private sector, in order to facilitate an appropriate bridging of the two worlds; but also to make sure that evidence-based differences are kept when necessary.

The perspective of comparative public sector accounting research also has relevance to the private sector. While multi-disciplinarity is a proclaimed way forward for accounting (Carnegie, 2019), perhaps before getting there, we should try to capitalize on the two-way directional flow of the private–public sector accounting research. Currently, only public sector accounting research seems to be informed by private and public sector research methodologies and approaches. Private sector accounting research needs to become more inclusive and benefit from the same pool of frameworks, models and evidence, blurring unnecessary border lines. Thus, it may be time for the 'C' in CIGAR to get broader. The CIGAR network encourages studies that cover informed comparisons between the profit and not-for-profit sectors in accounting, financial and sustainability reporting. At the end of the day, sharing approaches and experiences; tapping into the power of communication, collaboration and innovation, can only result in better solutions for everyone.

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19TH CIGAR BIENNIAL CONFERENCE TO BE HELD IN TOKYO, JAPAN FROM 28 TO 30 JUNE 2023

The 2023 CIGAR Biennial Conference will be on 'Public accountability and democracy in times of crisis: an interdisciplinary dialogue'. The conference will be held in onsite and online hybrid format. The venue is the International Conference Center at Waseda University in Tokyo. Papers are invited that take interdisciplinary approaches and present comparative studies. Submissions at the interface of accounting, economics, public policy and administration, management, and sociology are particularly welcome. For example:

- How have governments responded to Covid 19 and other recent disasters in budgeting and accounting?
- Do government reports on spending properly measure outcomes?
- Does public accountability promote trust in government?
- Is there any trade-off between public accountability and performance measurement, budgeting and reporting?
- How does integrated reporting enhance accountability in public and hybrid organizations (such as nonprofit organizations, public-private partnerships, state-owned enterprises and social enterprises)?
- Do citizens use financial and performance information in voting, monitoring and participatory decision-making?
- Can accounting promote policy success and deliberative democracy?
- What are the future roles and practices of public sector accounting, auditing and accountability?

Research that advances traditional topics and practices of public sector accounting research in the fields of accrual accounting, management accounting, management control, budgeting and auditing are also welcome. As usual, there will be a PhD symposium, which will be held on June 28.

Extended abstracts (two A4 pages) or full papers should be submitted to www.cigar2023tokyo.jp by 31 January 2023 for double-blind review by the academic committee. Authors will be notified of the committee's decision by the end of February 2023 and full papers will have to be submitted by the end of April 2023.

Enquires to the organizing committee chair: Mari Kobayashi at mariky@waseda.jp