



Conceptual Examination of the Need to Prepare Consolidated Financial Statements in the Public Sector

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Article	Abstract
<p>Article history: Received: 01th August 2022 Received in revised form: 22th August 2022 Accepted: 24th August 2022</p> <p>Keywords: Financial, Accrual, Standards, Legislative institutions</p>	<p>In recent years, the public sector has undergone various changes; the changes have significantly affected the progress of the accounting and reporting system in the public sector. The research shows that the most critical point arising from these changes is the need to prepare statements finance is consolidated in the public sector. The most challenging topics are in international research, and always between international legislative institutions and governments have been disputed. However, the present study examines the need to prepare consolidated financial statements in the public sector and create an appropriate context for legislative institutions to publish proper standards regarding this issue. As a result, to achieve this goal, the present study will review the scientific literature and the steps taken by the legislative bodies regarding the publication of international standards related to consolidated financial statements. The study emphasized the importance of presenting consolidated financial statements by the public sector, explaining the relationship between the consolidated financial statements prepared by the general department and the department's private pay. The main result of the current conceptual study is the sector's institutions. The general public should prepare consolidated financial statements; in this way, governments and legislative institutions play a fundamental role in introducing and developing this category of financial reports.</p>

1. Introduction

In recent years, the public sector has faced various changes. These changes have had significant effects on its accounting and reporting system. In this regard, the most critical difference in the public sector can be the transition from the cash accounting system to the accrual accounting system. All the discussed changes can be considered a revolution in public sector organizations and institutions; The changes are proposed in modern public sector management. The changes mentioned above have occurred primarily due to the increase in the level of globalization of capital markets based on the rapid development of the world economy [1].

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The discussion of accrual accounting in public sector institutions is the preliminaries to entering the new reporting system in the public sector under the preparation of consolidated financial statements. Although the preparation of consolidated financial statements in the public sector has not yet spread throughout the world, many governments and legislative institutions have made practical efforts to prepare and present consolidated financial statements at the level of public sector institutions; However, the theories related to the definition of accrual accounting and the preparation and adjustment of consolidated financial statements in the public sector are facing positive and negative opinions. Some researchers believe that copying and implementing the experiences of the private sector in the public sector is not ideal; the public sector's primary goals are always different from the main goals of the private sector. In addition, the path of using the accounting system in the public sector has also been questioned. The question of whether there is a need to follow the experiences of the private sector in the public sector without having a critical view [2]. Also, the definition of accounting methods in the private sector and the lack of a conceptual framework for government accounting, rather than solving problems, create them [3].

However, although there has been resistance to introducing private sector experiences, the need to plan them in the public sector is still considered. Suppose the public sector is viewed as a group of companies. In that case, the existence of a reporting system that can provide a general picture of the public sector will be necessary [4].

Therefore, this research aims to examine the necessity of using and presenting consolidated financial statements to explore the advantages and disadvantages of introducing and giving consolidated financial statements in the public sector to respond to the information needs in the public sector. On the other hand, in this research, accordingly, in the following, the research literature related to consolidated financial statements in the public sector was discussed. Then, the essential changes that necessitated the presentation of consolidated financial statements in the public sector were examined. After that, the next part of the research deals with the activities of the international legislative bodies regarding the publication of standards related to consolidated financial statements in the public sector, and the final part summarises the contents, stating the limitations of the research and providing future study prospects in this field.

Literature Review

The research literature on consolidated financial statements in the private sector is more extensive than those related to consolidated financial statements in the public sector. Therefore, the research literature related to consolidated financial statements in the public sector is scattered due to its emerging nature. Thus, a large part of the development of the concept of consolidated financial statements and this part of the reporting system has been expressed in the private sector research literature.

Although there are differences between these two departments, especially in their objectives, financial reporting is used. In developing research literature related to the form- experiences in the private sector can be used in the public sector as integrated economic systems, the following researchers have done practical activities. The reasons for the emergence of consolidated reports in the public sector and the characteristics of consolidation, and then examined the similarities and differences of accounting principles and standards used in the presentation of consolidated financial statements in the public sector in a sample of seven countries [5].

Walker (2009) believed in the benefits of using consolidated financial statements in the public sector. By highlighting the experiences of using consolidated financial statements in the public sector (especially in Australia), he considered their presentation to cover governance and government activities [6].

Wise (2010) tried to find an answer about the usefulness of the information contained in the consolidated financial statements, not only for decision-making but about the government's decisions about the allocation of resources (Kennan & Walker, 2011). Kennan and Walker (2011) also tried identifying the problems in Australia's experience using consolidated financial statements during the last two decades since 1988. He offered solutions to the mentioned problems according to the possible decisions of the users of this type of report in everyday situations [7].

The public accounting framework developed by International Public Sector Accounting Standards (IPSAS) to find an answer to the questions mentioned in the following was tested [8]. First, what will be the achievements of using the international government accounting standards as a conceptual framework for all government accounts? Secondly, what kind of accounting information is obtained from international government accounting standards? Muller (2014), in his research, examined the effect of the requirements of international financial reporting standards on the quality of consolidated financial reporting. He states that the implementation of the provisions of international financial reporting standards not only increased the rate of consolidated financial statements (their value relationship) but also through Increasing the transparency and quality of information disclosure, has also led to the better implementation of the corporate governance principles of the Organization for Economic Development and Cooperation (OECD) [9].

Grossi (2009) analysed the effect or possible effects of using consolidated financial statements in the reporting system of governorates in Italy [10]. He believed consolidated financial statements are a possible incentive for governments to use accounting and reporting in a comprehensive study. Grossi and Reichard identified the following common issues and problems that have prevented the implementation of consolidated financial statements at the level of Italian provinces:

- lack of experience regarding consolidated reports, lack of workforce and lack of suitable software
- lack of uniformity in the way of accounting of governorates and municipal companies
- Lack of ease in obtaining necessary data and documentation over time
- The absence of applicable laws limited the transparency of annual financial statements of local governments

The state of reporting of consolidated financial statements of the public sector in Switzerland shows among the reasons for not presenting consolidated financial statements in the public sector, mentioned things such as lack of interest and political will, high costs in they pointed out the use of consolidated financial statements, the lack of binding laws and technical problems [11].

In our country, few types of research have been done about consolidated financial statements [12]. In his study, he investigated the various factors of non-use of consolidated financial statements by managers of about 30 companies admitted to the Tehran Stock Exchange. His results show that the managers have some knowledge of the consolidated financial statements. Still, the complexity of the techniques related to the preparation of the said statements and their insignificance from the point of view of the legal authorities had caused the consolidated financial statements not to be used in the managers' decision-making.

Puddu et al. (2012) examined the use of consolidated financial statement information compared to the knowledge of the leading company's financial statements. They believed that the users of the financial statements of the central business unit for economic decisions need information about the group's financial status, financial

performance and cash flows. Need that this need is met through consolidated financial statements. The above researchers investigated the use of consolidated financial statement information compared to the original company's financial statement information using regression models based on EBO evaluation approaches and information content. The results of The fitting of the models to test the hypothesis of their research showed that the information of the consolidated financial statements is not more helpful than the knowledge of the financial statements of the leading company [13].

Dang et al. (2017) did an empirical investigation of profit management in the consolidated financial statements and the financial statements of the leading company. Their main goal was to examine whether the ratio of earnings management in the consolidated financial statements is different from the financial statements of the leading company or not. The results of their hypothesis test at the industry level and the total sample level showed that Profitability is applied in both financial statements in a meaningful way. However, this ratio is higher in the parent company's financial statements than consolidated financial statements [14].

Also, Maimunah (2016) examined a study's theoretical examination of government units and accrual accounting. He believed that the correct and timely fulfilment of the responsibility of guilt and its evaluation is related to the actual measurement of annual incomes and expenditures and their complete reflection in the financial reports of public sector institutions. Applying the accrual basis in recording the economic events of government units is very effective, significantly facilitating the judgment and accurate assessment of the accountability of the public sector. Therefore, an analytical examination of the advantages and disadvantages of this approach seems necessary because the basis used in government accounting can be based on affected financial information and decisions based on this information [15].

Fennel essential oil was purchased from Barij Essence Company. During three stages (day 0, before feeding the essential oil, day 8 and day 16), five birds were selected from each treatment (group) and blood was taken from them through the wing vein. Blood sampling from this site reduces the risk of hematoma. Blood samples were placed in tubes without anticoagulant at room temperature for 20 minutes to coagulate. After centrifugation (for 10 minutes at 3000 rpm), the serum was separated from the clot by a sampler and placed in a microtubule. 2.5 ml numbered bags were placed separately. Isolated serum samples were stored in a freezer at -20 ° C until the measurement of serum parameters was measured. Measurement of serum parameters including aspartate aminotransferase (ALP), alkaline phosphatase (ALP), alanine aminotransferase (ALT), uric acid, creatine kinase and HDL were performed by a biochemical autoanalyzer (Abbott alcyon300 - Made in USA) with the help of Biochemical kits of Pars Azmoun Company and the results were statistically analyzed. The obtained information is analyzed with SPSS software version 19. In the descriptive statistics section, the mean and standard deviation of data in three treatments of control, gavage and feed in three different sampling days were calculated. Then, one-way ANOVA test was used to evaluate the differences and the Duncan test was used to compare the scores of the three treatments.

Consolidated Financial Statements; A Necessary Need in the Public Sector

The introduction and presentation of consolidated reports in the public sector are closely related to using the accrual accounting system. Therefore, the importance of consolidated financial statements, the need to use this reporting system in the public sector and the changes that make the introduction of such a reporting system more than This is the main focus of this research. This issue has recently attracted the attention of many governments and legislative institutions, and therefore those countries that implemented the accrual accounting system started

to publish consolidated financial statements. The need for the public sector for A financial reporting system that can provide a comprehensive and accurate picture of everything having the public sector as a unit makes the importance of this issue clearer. On the other hand, a reporting system that can provide more information to users at the local, regional and central government levels is also essential [16].

The title of consolidated financial statements in public sector accounting is over and has advantages. Changes that have had a significant impact on modern management in the public sector are the transition from cash accounting to accrual accounting and copying the experiences of the private sector, and decentralization. The development and growth of decentralized institutions have raised recent debates about consolidated financial reporting, which can be mentioned as the main reason for the introduction of consolidated financial statements in the public sector [17].

All the mentioned changes have provoked existing controversies about the accounting system of the public sector. The necessity of considering the characteristics of the public sector as well as the accounting system of the public sector that provides the information needs of its surrounding environment while finding an answer to the question of whether the implementation of Low caste and without a critical view of private sector experiences by governments is necessary (Hyndman & Connolly, 2011)? His doubt was caused by the fundamental differences between the public and private sectors, their different goals and the difference in the resource allocation system. Therefore, the introduction of accrual accounting in the public sector (Chukwunedu & Okoye, 2012).

According to the materials mentioned above, it is pretty evident that the researchers were initially afraid of using accrual accounting and implementing private sector experiences in the public sector. The transition from cash to accrual accounting requires a change in the accounting system and includes a shift in concepts. This form of reporting provides a general picture of public sector institutions' financial status and economic obligations at the local, regional and central government levels.

Financial statements are the primary means of providing information to all users. Accrual accounting provides more helpful information and promotes the development of transparency in the public sector (Matis & Cîrstea, 2015). Although there are many positive points about preparing and presenting consolidated financial statements in the public sector, some believe this reporting form is not the best option for government accounting. On the other hand, accountability is one of the requirements of modern public sector management. Therefore, whether prepared separately or consolidated, financial statements are the primary tools for fulfilling accountability responsibility in front of their users.

Along with the opposing opinions, it is possible to point out the views in favour of preparing and presenting more complete consolidated financial statements regarding the overall situation, performance and quality of the public sector compared to the report. Among these views, the ability of close financial information to provide separate economic views of institutions' finance is the group's constituent and the ability to create more transparency and accountability in the public sector. As mentioned above, the attention of this information is more transparent and more understandable. It can be used in decision-making for user research, and the benefits of preparing and presenting consolidated financial statements among these benefits are producers.

Although the preparation of consolidated financial statements in the public sector, in addition to having the advantages mentioned above, causes issues such as lack of consistency or coordination between the financial statements prepared by the controlled institutions in the group, the difference between the accounting standards

of the private sector and the public sector. The lack of experts and, finally, the lack of binding rules regarding the presentation of consolidated financial statements.

International Board of Governors of Public Sector Accounting; Main Axis Development of Consolidated Financial Statements in the Public Sector

As an independent standard-setting body, the International Public Sector Accounting Standards Board is essential in establishing rules for public sector institutions.

The International Public Sector Accounting Standards Board aims to develop and increase the quality of International Public Sector Accounting Standards for public sector institutions worldwide to target the preparation of financial statements. This board has published 32 standards to improve the quality and transparency of financial reporting in the public sector. In addition, the International Public Sector Accounting Standards Board has emphasized that governments' use of international public sector accounting standards improves financial information's transparency, quality and comparability. It is reported by public sector institutions worldwide.

Therefore, legislative bodies encourage governments to use international public sector accounting standards and harmonize national laws and requirements with these standards. Unlike the International Financial Reporting Standards (IFRS), global public sector accounting standards are not mandatory for public sector institutions; however, they have been used by many governments. As a result, it can be said that international accounting standards have gradually become an accounting culture. and have become global.

The International Public Sector Accounting Standards Board "on consolidated financial statements" has published a standard that is discussed below:

Public Sector Accounting International Standard number 6 regarding consolidated financial statements and the accounting method of controlled institutions requires all significant institutions to prepare consolidated financial statements. In addition to the precise definition of the concept of control in the public sector, this standard also provides guidelines on determining control's existence.

International Standard 7 of Public Sector Accounting regarding accounting for investors in affiliated institutions states that all investments made in related institutions must be accounted for using the capital accounting method in consolidated financial statements. This standard excludes those investments acquired with the intention of transfer shortly and requires the cost accounting method in their case.

International Standard 8 of Public Sector Accounting regarding the financial reporting of interests of joint investments has required proportional consolidation as a standard for accounting of collective assets by public sector institutions. Also, this standard considers the capital accounting method as an alternative method for joint investment accounting.

Considering that the primary goal of the International Public Sector Accounting Standards Board is to support the standards established based on the International Financial Reporting Standards, the International Accounting Standards Board (IASB) in May 2011 started to publish means similar to the standards of the International Public Sector Accounting Standards. These standards include Financial Reporting Standard number 10 entitled Consolidated Financial Statements, Financial Reporting Standard number 11 entitled Joint Contracts, financial reporting standard number 12 entitled Disclosure of Interests of Other Institutions, and International Accounting

Standard number 27, revised in 2011 (under the title of separate financial statements, International Accounting Standard number 28 (revised in 2011 (under the title of investments in affiliated companies and Joint Ventures).

Considering the standards mentioned above and considering that one of the main goals of the International Public Sector Accounting Standards Board is to support the standards established based on the International Financial Reporting Standards; as a result, the revision of International Accounting Standards number 6, 7 and 8, The public sector is essential. Therefore, the International Public Sector Accounting Standards Board has defined projects to compare the current standards with the standards published by the International Accounting Standards Board to explain and implement new points according to the requirements of the public sector.

One of these projects is revising international public sector accounting standards 6, 7 and 8 regarding preparing and presenting consolidated financial statements. As a result, in June 2011, the projects entitled revision of International Public Sector Accounting Standards number 6, 7 and 8 were approved by the International Public Sector Accounting Standards Board, whose main goals are:

Revision of International Standard number 6 of Public Sector Accounting aims to present separate and consolidated financial statements and discuss the guidelines for preparing consolidated financial statements in another standard.

International Standard number 7 of Public Sector Accounting entitled investment in affiliated institutions.

Revision of International Standard number 8 of Public Sector Accounting with the title Interests in Joint investments, and finally:

Putting all discussions related to the disclosure of the interests of other institutions in another standard. In any case, the professional legislative bodies and the governments are the central bodies that have collaborated in implementing and developing consolidated reports in the public sector.

The importance of preparing consolidated financial statements can be understood from the number of projects being implemented and the experiences of the countries that have submitted these reports.

Conclusion

Along with the recent changes in the public sector, the question "is there a need to prepare consolidated financial statements in the public sector" has always been raised. To find the answer to this question, the resident should first check the answers to other questions, such as the following:

Considering the different goals of public and private sector institutions, can the experiences of the private sector regarding the preparation and presentation of consolidated financial statements be implemented in the public sector? Or will these differences have an effect? And finally, can the standards of the private sector be applied in the public sector as well? These changes are a small part of the world community's recognition of the need to improve financial management and the quality of financial information in the public and private sectors. The issue of consolidated financial statements in the public sector is developing. At the beginning of its development and expansion, the research literature about them is not abundant and prosperous. On the other hand, professional legislative bodies and governments' role in implementing and developing integrated reporting in the public sector is undeniable. Consolidated financial statements are a valuable tool for presentation

It is a general picture of the public sector for internal and external users. Although consolidated financial statements have been prepared and presented by a few countries, they have played an essential role in public

sector accounting. Therefore, the governments of many countries believe that there are sufficient reasons to introduce and prepare consolidated financial statements. On the other hand, governments can use financial statements to take advantage of the consolidation to fulfil their economic and political accountability.

The purpose of financial statements is to present a correct and fair picture of the performance, status and flexibility of the business unit, and thus separate and consolidated financial statements show how financial management responsibilities are performed in the public sector at the level of institutions individually and then at the level of the entire government. Providing financial statements prepared based on accrual accounting, compared to financial statements based on cash accounting, provides more helpful information for their use.

As mentioned above, the international accounting standards of the public sector have been developed based on the standards of the private sector with a decision-making approach and according to the characteristics of the public sector. Of course, researchers and professionals seem interested in developing standards for the public sector. They are for the implementation of the new financial reporting system. All the points mentioned above facilitate the ability to compare countries and provide a clearer picture of the state and government management in different countries. Recent changes have fundamentally affected the accounting structure and financial reporting system. These have caused the introduction of the accrual accounting basis, the transition from the cash accounting basis and the presentation of consolidated financial statements.

Presenting a single set of consolidated financial statements that include all government activities is accepted by all researchers worldwide. Although there are difficulties in the development of consolidated financial statements, in the end, the current research has concluded that consolidated financial reports will improve and create value in the public sector reporting system regarding financial performance and accountability as much as possible regarding the public sector reporting system regarding financial performance and accountability as much as available resources. Using the experience of countries that have used consolidated reports will help introduce such reports as soon as possible.

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