COMPARISON OF THE PERCEPTION OF OVERT AND COVERT OPTIONS IN IPSAS FINANCIAL STATEMENTS BY INTERGOVERNMENTAL ORGANIZATIONS

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Abstract

Since 2012, the European Commission has embarked on the ambitious project to harmonize public sector accounting rules on all levels of government within Europe, mainly to improve the quality as well as the comparability of financial data. Although International Public Sector Accounting Standards were deemed not to be suitable for a simple take-over because of various reasons, they nevertheless shall function as a primary reference point for developing European Public Sector Accounting Standards. A total of 21 out of 28 central governments have already reformed their accounting standards to accrual accounting, and some of them have also relied on IPSAS in this exercise. Apart from governments, various international and supranational governmental organizations have also since the end of the 2000’s been reforming their accounting system to accrual accounting, and have in the same way relied on existing IPSAS. This paper explores accounting practices found in ten intergovernmental organizations (Commonwealth Secretariat, Council of Europe, European Commission, IAEA, INTERPOL, ITER, NAPMA, OECD, International Criminal Court, WFP) whose statements are prepared in compliance with IPSAS. It analyzes how overt and covert options contained in IPSAS with relevance to the activities of intergovernmental organizations are exercised and evaluates in which areas of accounting material differences in accounting practices can be found, which may hinder the comparability of financial statements prepared on the basis of IPSAS.

Keywords

International Public Sector Accounting Standards (IPSAS) • intergovernmental organizations • options in IPSAS • overt options • covert options • comparability of financial statements

1. Introduction

Since the beginning of the 2000 years, various international organizations have undertaken major reforms of their accounting systems (Bergmann, 2010; Deloitte, 2013; International Public Sector Accounting Standards Board, 2016). Reasons for this are improvement of transparency, accountability and governance as well as comparability (e.g. between United Nations System or North Atlantic Treaty Organizations) (Bergmann, 2010; Biraud, 2010; International Federation of Accountants, 2015). Not surprisingly, nearly all of these international organizations decided to either directly adopt or refer to International Public Sector Accounting Standards (IPSAS) in reforming their own accounting standards as IPSAS are the only internationally accepted standards for accounting by public sector entities. IPSAS are, where possible and appropriate, based on International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), but also deal with public sector specific issues not covered by IFRS (International Federation of Accountants, 2015). The emergence of common international accounting frameworks such as the IFRS for profit-oriented entities and IPSAS for public sector entities has led to debates regarding the possible benefits of international accounting standards (Crawford, Morgan, Cordery, & Breen, 2014). This paper examines the 2015 financial statements of ten intergovernmental organizations: Commonwealth Secretariat (COMSEC), Council of Europe (CoE), European Commission (EC), International Atomic Energy Agency (IAEA), International Criminal Police Organization (INTERPOL), ITER International Fusion Energy Organization (ITER), NATO Airborne Early Warning & Control Programme Management Agency (NAPMA), Organisation for Economic Co-Operation and Development (OECD), World Food Programme (WFP) and International Criminal Court (ICC). The aim of this paper is to firstly examine the comparability of information presented in IPSAS general-purpose financial statements and to secondly take stock of the differences in reporting practices that prevail in IPSAS usage by intergovernmental organizations. Two research questions are answered by this case study. The first research question is how overt and covert options embedded in IPSAS are exercised by organizations included in the research sample. The second research question is whether the common or diverting exercise of options hinders a substantial measure of

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formal as well as material comparability of financial statement information between these organizations.

2. Literature review

As to date, there is no comparative literature on the impact of applying IPSAS on financial statement comparability, neither for governmental entities nor for intergovernmental entities. Most studies on IPSAS focus individually or comparatively on the implementation of IPSAS in specific countries or groups of countries (Bellanca & Vandernoot, 2014; Brusca, Gómez-Villegas, & Montesinos, 2016; Brusca, Montesinos, & Chow, 2013; Christiaens, Vanhee, Manes-Rossi, Aversano, & van Cauwenberge, 2015; Roje, Vašiček, & Vašiček, 2010; Sour, 2012; Tiron-Tudor, 2010) or on specific topics of IPSAS implementation such as e.g. project management or consolidation (Bellanca & Vandernoot, 2013; Pontoppidan, 2010). Instead, the focus is largely on the status of IPSAS accrual accounting at different levels of government as well as on compliance of national accounting systems with IPSAS. In regard to international organizations, there is even more limited research available, which lays its focus on individual organizations (Alesani, Jensen, & Steccolini, 2012, on the World Food Programme; Biraud, 2010, on United Nations system organizations; Grossi & Soverchia, 2011, on the European Commission: Whitefield & Savvas, 2016, on UN agencies in Kenya) or on specified topics (Bergmann, 2010, on voluntary contributions, as well as Bergmann & Fuchs, 2017).

In contrast to public sector accounting and financial reporting, a vast amount of previous research is available on the measurement and benefits of financial statement comparability of private sector entities (Barth, 2013; Franco, Kothari, & Verdi, 2011; Krisement, 1997; van der Tas, 1988). Some of this research focuses specifically on the improvement of comparability when voluntarily adopting IFRS in the private sector (Soderstrom & Sun, 2008).

None of this previous research focuses on the application of IPSAS from a comparative perspective, which is what this paper can contribute to both theory and practice. The results can also be of interest in the development of European Public Sector Accounting Standards (EPSAS), whose aim is to harmonize public sector accounting in Europe.

3. Methodology and case organizations

This paper is based on a qualitative research approach and is designed as a comparative study based on empirical data. It explores accounting practices found in ten intergovernmental organizations. The organizations included were selected according to different fields (UN, Energy, Trade, Law and Regional) of activity of intergovernmental organizations. Inclusion into the sample required that the financial statements of the organizations are publicly available and that the organization makes an unreserved statement about compliance with IPSAS in their financial statements. In the case that there are several organizations operating within the same system (e.g. UN, NATO), only one organization of these systems was included in the scope of this study. The statistical sample is limited to ten organizations, therefore the results are not representative for intergovernmental organizations as a whole, but give a first impression of which options embedded in IPSAS lead to important differences in reporting.

For the United Nations system, the World Food Program (WFP) has been included as it was the first UN organization to change its accounting system to IPSAS in 2008. The WFP declares in Regulation 26 § 2 of its Financial Regulations that its financial statements “shall be prepared in accordance with IPSAS”. As its budget is on a commitment basis, IPSAS 24 is applied to its financial statements.

As energy organizations, the International Atomic Energy Agency (IAEA), as well as the ITER International Fusion Energy Organization (IO), has been included. The IAEA changed its accounting system to IPSAS in 2011, and declares in its financial statements that they “are in accordance with IPSAS”. When there is no IPSAS, IAS or IFRS are applied. The budget of the IAEA is prepared on a modified cash basis, and IPSAS 24 is applied in the financial statements. ITER has issued their first IPSAS-based financial statements in 2008. It states in its financial statements that they are “prepared in full compliance with IPSAS”. As ITER’s budget is on a cash basis, IPSAS 24 is applied in the financial statements.

As a trade organization, the Organization for Economic Cooperation and development (OECD) is included in this paper. Article 26 of its financial regulations states that financial statements “are prepared in accordance with IPSAS”. It was the first international organization to implement IPSAS in 2000. Its budget is prepared on a cash/commitment basis and IPSAS 24 is applied, showing reconciliation between the different accounting bases.

As law organizations, the International Criminal Court (ICC) as well as the International Criminal Police Organization (INTERPOL) is included. The ICC declares in its financial statements that they “are in conformity with IPSAS”. It issued its first IPSAS financial statements for 2014. Its budget is prepared on a modified cash basis and IPSAS 24 is applied. INTERPOL states in Regulation 1.1 (2) of its financial regulations that “IPSAS are the applicable accounting standards”. Its first IPSAS financial statements were issued for the year 2010. As its budget is not publicly available, IPSAS 24 is not applied.
As regional organizations, for Europe the Council of Europe (CoE) as well as the European Commission (EC) and as transcontinental organizations the NATO Airborne Early Warning & Control Programme Management Agency (NAPMA) as well as the Commonwealth Secretariat (ComSec) have been included. The CoE states in Article 62.1 of its financial regulations that the financial statements “shall be prepared in accordance with IPSAS”. The first set of IPSAS financial statements that received an unqualified opinion were issued for 2007. Its budget is prepared on a modified cash basis and IPSAS 24 is applied. The EC changed its accounting system to IPSAS in 2005 and states in Article 143 of its financial regulations that it prepares “accrual-based financial statements that are based on IPSAS”. Its budget is also prepared on a modified cash basis and IPSAS 24 is applied. NAPMA applies NATO IPSAS Adapted Standards according to No. 1 and 2 of the NATO Accounting Framework and issued its first IPSAS financial statements for the year 2006. Its budget is on a commitment basis and IPSAS 24 is applied. ComSec states in its financial statements that they “are in accordance with IPSAS and the financial regulations authorized by Commonwealth Heads of Government”. As its budget is not publicly available, IPSAS 24 is not applied.

4. Differences in reporting due to overt and covert options in IPSAS

Financial statements are a central instrument for accountability and decision-making purposes for users as they provide information about the performance, the liquidity and the sustainability of an entity. Main users of IPSAS general-purpose financial statements are service recipients as well as resource providers and their representatives (International Federation of Accountants, 2015). In regard to intergovernmental organizations, users are citizens of member states as resource providers, service recipients (if different from citizens of member states) as well as member states themselves, whose interests are represented by their representatives in the General Assembly or similar body. In order for financial statements to be useful for its users, information included in the financial statements needs to be relevant, understandable, timely, comparable, verifiable and faithfully representative, i.e. complete, neutral and free from material error (International Federation of Accountants, 2015). Comparability differs from consistency and uniformity, and is achieved if, for example, financial information about one entity can be compared with similar information about other entities for the same reporting period. The information contained in financial statements shall fairly present the financial position, performance and cash flows of an entity, which is “in virtually all circumstances” achieved by compliance with all applicable IPSAS (International Federation of Accountants, 2015). This could lead to the conclusion that IPSAS contain hardly any balance sheet-political instruments, which is true only partly. IPSAS contain explicit balance sheet-political instruments, as well as implicit choices resulting from discretionary power in regard to judgments, estimations as well as predictions and projections. This paper focuses on balance sheet-political instruments that allow designing the presentation of financial information. These instruments can be categorized into overt and covert options. Overt options are present when IPSAS allow two (or more) possible treatments that are mutually exclusive and leave it to preparers of financial statements to decide which treatment is adopted. Overt as well as covert options can be categorized into recognition, measurement and presentation options (Brösel, 2014). IPSAS only contain one overt recognition option (for tangible and intangible heritage assets), but some measurement (e.g. cost or revaluation/fair value model for subsequent measurement of intangible assets and PPE assets) and presentation (e.g. analysis of expenses in statement of financial performance) is determined by preparers of financial statements using a classification based on either the nature or function of expenses) options. Covert options do not result from explicit choices embedded in standards, but from different application possibilities of requirements contained in the standards. This includes judgements, estimations well as predictions margins. Reasons for covert options (Brösel, 2014) are that
— facts and/or consequences are only insufficiently defined
(e.g. in case of loose legal terms or vagueness included in definitions and requirements), or that
— not all possible facts and/or consequences are depicted,
— preparers of financial statements are allowed discretionary power in regard to judgments, estimations or predictions or those are imminently contained in situations of uncertainty
(e.g. in regard to future projections).

Two examples for covert recognition options are the possibility to recognize certain transactions directly in surplus/deficit because of immateriality as well as the recognition of provisions (judgment is required on the probability of outflow of resources). Two examples for covert measurement options are the determination of the best estimate for the measurement of provisions as well as the determination of the depreciation method in case of tangible, and amortization method in case of intangible, assets. In regard to covert presentation options, the structure of the statement of financial position and financial performance as well as the cash flow statement which are not codified as well as the exhaustiveness of disclosures in the notes can be named. Whilst the use of overt options can usually be easily depicted, the use of covert options is more difficult to perceive for users of financial statements.
Table 1 summarizes overt and covert options present in those IPSAS that are relevant to the activities of intergovernmental organizations.

Table 1 shows that overt options are mainly present in regard to the structure of the elements of financial statements, whilst covert options prevail in regard to accounting for certain assets, liabilities, revenues and expenses.

**Elements of financial statements**

**Statement of financial position**
Regarding the exercise of overt options contained in IPSAS 1, all of the organizations included in this study use the **current/non-current distinction** for the assets and liabilities side, and include **additional line items on the face of the statement of financial position**. The most common additional line items presented include deferred income (70%) and prepayments and advances (60%). Other additional line items a minority of organizations discloses are (short and long-term) investments (40%), employee benefits (30%), finance lease liabilities (20%) as well as assets held for sale and assets in progress (10%). It has to be noticed that none of the organizations makes additional disclosures on the face of the statement of financial position even when different classes of assets (e.g. PPE assets) are assigned different values (as recommended in IPSAS 1.92). However, all of the organizations present **further sub classifications of line items on the statement of financial positions in the notes**. The last overt option concerns the **separate disclosure of net assets/equity either on the face of the statement of financial position or in the notes** if the entity has no share capital, which is the case for all organizations included. Only one organization discloses net assets in the notes, whereas the other 9 organizations make the disclosure on the statement of financial position, with 8 of these organizations presenting additional information on net assets in the notes.

IPSAS 1 contains two covert options relating to the statement of financial position. The first option concerns the **determination of the basis for classifying assets and liabilities as current**, which can be based on either expected realization or settlement date or purpose of holding the asset/liability. None of the organizations includes specific explanations on this covert option in the notes. The second option relates to the **format of the statement of financial position**, which is not prescribed by IPSAS 1. The analysis resulted in all 10 organizations using the report format.

**Statement of financial performance**
Regarding the statement of financial performance, options contained in IPSAS 1 only include **overt options**. The first option relates to the **analysis of expenses using a classification based on either the nature of expenses or their function**. Whilst 9 organizations use the classification based on the nature of expenses, one organization uses a mixed classification based on the mode by which expenses are managed in regard to transfers and the nature of expenses for all other types of expenses. In regard to the two other covert options found, all of the organizations provide **additional line items on the face of the statement of financial performance** as well as **further sub classifications of line items of the statement of financial performance in the notes**, albeit in a varying degree of detail.

**Cash flow statement**
Options in regard to the cash flow statement also include only overt options, as is the case in regard to the statement of financial performance. The first option relates to using the **direct or indirect method for reporting operating cash flows**. The majority of intergovernmental organizations analyzed make use of the indirect method for operating cash flows (8 organizations), whereas only a minority is using the direct method (2 organizations). If the direct method is applied, entities are encouraged to provide a **reconciliation of surplus/deficit with cash flows from operating activities**. One organization applies this option, whereas the other organization that applies the direct method does not provide the reconciliation. The second option concerns the **assignment of interest and similar cash flows to either operating, investing or financing activities**. Half of the organizations (5 organizations) do not provide any information on the exercise of this option, whereas 4 organizations assign interest cash flows to operating and 1 organization assigns interest cash flows to financing activities. The last option concerns the **reporting of certain cash flows on a net basis** if these cash flows are made on behalf of third parties or cash flows relate to items for which the turnover is quick, the amounts are large and maturities are short. Only one organization provides a disclosure in the notes that certain cash flows are reported on a net basis, whereas all other organizations (9 organizations) do not provide any disclosures in regard to the use of this option.

**Intangible assets**
Regarding overt options in IPSAS 31, all of the intergovernmental organizations apply the cost model for **subsequent measurement**. In regard to the option to recognize **intangible heritage assets**, none of the organizations included any information in the notes.

Covert options relating to intangible assets consist firstly of explanations about the **recognition criteria applied** (probability of future economic benefits or service potential and reliability of measurement). This study reveals a diverse picture. Whereas 7 organizations did not include any information about the recognition criteria in the notes, 2 organizations made a general reference to the recognition criteria as included in IPSAS 31...
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and 1 organization included a reference to own accounting rules in the notes which were not further elaborated. The second covert option relates to the determination of initial costs of intangible assets. 7 organizations did not include any information about the determination of initial costs in the notes, whereas 3 organizations included explanations either in regard to costs of acquired or internally developed intangible assets in the notes. Thirdly, disclosures about amortization were evaluated. A majority of 8 organizations use the straight-line amortization method, one organization uses the reducing balance method and one organization did not include information about the amortization method applied in its notes. Regarding the determination of the useful life of intangible assets, the results are diverse. Useful life of intangible assets ranges from 2 to 5 years, with the majority of organizations applying useful lives around 3 years. One organization did not include any information about the useful life of intangibles in the notes. Regarding the application of materiality considerations in the form of recognition thresholds the picture is again diverse. Recognition thresholds vary from 1,000 € to 5,000 € for acquired intangible assets in case of 6 organizations, whilst 4 organizations did not include information on their recognition thresholds. In regard to internally developed assets, 7 organizations did not include information in the notes, one organization has a recognition threshold of 20,000 € and two organizations apply thresholds of more than 20,000 € for internally developed intangibles.

Property, plant and equipment, accounting for borrowing costs and impairment

Overt options in IPSAS 17 consist of the option to recognize heritage assets and of the option to measure PPE subsequently at cost or at revalued amount. Heritage assets in intergovernmental organizations consist mostly of donated works of art. Whilst 6 organizations do not provide any information on the recognition of heritage assets, 4 organizations state that they do not recognize heritage assets. In regard to the subsequent measurement option, all of the organizations included chose the cost model for PPE assets, with the exception of property assets. 3 organizations apply the revaluation model for valuing their property assets. Revaluation intervals vary from 2 to 5 years in those organizations applying the revaluation model.

Covert options relating to PPE assets consist firstly of explanations about the recognition criteria applied (judgment on the probability of future economic benefits or service potential and reliability of measurement). Whereas 9 organizations did not include any information about the recognition criteria in the notes, 1 organization made a general reference to the recognition criteria as included in IPSAS 17. The second

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covert option relates to the determination of initial costs of property, plant and equipment. 6 organizations did not include any information about the determination of initial costs in the notes, whereas 2 organizations included specific explanations in the notes and another two organizations included a general reference to IPSAS 17 in the notes. Thirdly, disclosures about depreciation were evaluated. The majority of organizations (9 organizations) use the straight-line depreciation method and one organization uses a mix of the straight-line as well as the reducing balance method for different classes of its PPE assets. Regarding the determination of the useful life of the different classes of PPE assets, the results are diverse. Useful life of

- (Permanent) buildings range from 10 to 100 years, with the majority of organizations applying useful lives around 40 to 50 years;
- Fixtures and fittings range from 5 to 25 years;
- Furniture range from 4 to 12 years;
- Computer equipment range from 2 to 5 years, with the majority of organizations applying useful lives around 3 to 4 years; and
- Motor vehicles range from 4 to 10 years, with the majority of organizations applying useful lives around 5 years.

It has to be noted that the definition of asset classes used by the organizations differ, therefore it is difficult for users of financial statements to compare the useful lives applied as it is not always clear which assets are contained in which asset class because detailed explanations about asset classes used are lacking in the notes. In regard to the application of the component approach, 3 organizations included information in the notes, while the other 7 organizations did not include any information. Of the 3 organizations that did include disclosures, 2 applied the component approach for buildings and one did not apply the component approach.

Regarding the application of materiality considerations in the form of recognition thresholds the picture is again diverse. Recognition thresholds vary from 1,000 € to 5,000 €+ for tangible assets for 7 organizations included, and 3 organizations did not include any information on the recognition thresholds applied.

In regard to accounting for borrowing costs, IPSAS 5 leaves the overt option of applying the expense or capitalization model. None of the organizations applies the allowed alternative treatment provided in IPSAS 5. 4 organizations apply the benchmark treatment of expensing borrowing costs, one organization does not include any information on how it accounts for borrowing costs and in the case of 5 organizations, this Standard is not applicable because they are either not allowed to borrow or because borrowings are not present in the financial year analyzed.

In regard to measuring impairment losses for non-cash generating assets, IPSAS 21 leaves two covert options for entities. The first option relates to the assessment of the existence of indications for impairment. IPSAS 21 contains as a minimum several external and internal indications for the assessment of impairment, which are not exhaustive. Therefore, it is up to the discretion of the entity to define other, additional indications for impairment of assets. 5 organizations do not provide any information on concrete impairment indications in the notes, whereas 3 organizations make a general reference to impairment indications contained in IPSAS 21 and 2 organizations provide further explanations about specific indications for impairment applied in the notes.

The second covert option relates to the determination of fair value less costs to sell and/or value in use of an impaired asset. None of the organizations included specific explanations in their notes, 2 organizations made a general reference to the explanations in IPSAS 21 and 8 organizations did not provide any information in the notes.

Financial assets

Regarding the accounting for financial instruments, IPSAS 28-30 include several overt as well as covert options. In regard to the activities of intergovernmental organizations, only two options are further analyzed in this paper. This concerns firstly the overt option to subsequently measure financial assets at their fair value and the recognition of gains/losses either in surplus/deficit or net assets, which is based on the classification of financial assets upon initial recognition. Whereas the majority of organizations analyzed hold as financial assets only assets within the category of loans and receivables (6 organizations), which are subsequently to be measured at amortized cost, 3 organizations recognize assets at fair value through surplus/deficit for which gains/losses are to be recognized in surplus/deficit for the period concerned and 2 organizations recognize financial assets in the category of available-for-sale financial assets for which gains/losses are to be recognized directly in net assets/equity. The second covert option relates to the determination of impairment losses on financial assets within the category of loans and receivables. Concerning this option, 6 organizations do not provide any information on the determination of impairment losses for loans and receivables, whereas 3 organizations provide specific explanations on the reasons for and the amount of impairment losses for loans and receivables in their notes; for one organization included, this standard is not applicable.

Inventories

Concerning accounting for inventories, IPSAS 12 contains two options. The first relates to the assignment of costs to interchangeable inventories, which is an overt option and allows the assignment by using the first in, first out (FIFO) or weighted average cost formula. Of the 10 organizations
analyzed, this standard is not applicable to 2 organizations that do not hold inventories. 3 organizations did not disclose information on the cost formula used in the notes, whilst 2 organizations use the FIFO cost formula and 3 organizations use weighted average cost formulas. The second, covert option relates to the determination of cost of inventories. 5 organizations include specific explanations on this issue in the notes, whilst for 2 organizations this standard is again not applicable and 3 organizations do not include information in the notes.

**Leasing**

In regard to accounting for leasing obligations, one covert option is contained in IPSAS 13. It relates to the determination of quantitative criteria for the distinction between operating and finance leases. Whilst only one organization included specific explanations in the notes, 4 organizations made a general reference to IPSAS 13 ("classification as finance lease in case of transfer of substantially all the risks and rewards") and 4 organizations did not include any information in the notes; in case of one organization, IPSAS 13 is not applicable as no leases (operating and finance) are present in the financial year concerned.

**Provisions (excluding post-employment benefits)**

In respect of accounting for provisions, IPSAS 19 includes two covert options and one overt option. The first covert option relates to the determination of recognition criteria for provisions (judgment on the existence of a present obligation and the probability of outflow of resources or service potential). 3 organizations made a general reference to the recognition criteria in IPSAS 19, and another 3 organizations included specific information in the notes. For 4 organizations, this standard is not applicable as no provisions are recognized. The second covert option consists of the determination of the value of provisions (best estimate to settle the obligation). In regard to determining the best estimate, of the 6 organizations to which this standard is applicable, 4 organizations made a general reference to IPSAS 19 and 2 organizations included specific explanations on how the best estimate for provisions recognized is determined.

The overt option relates to the presentation of expenses for the recognition of provisions net of expected reimbursements in the statement of financial performance. In all of the 6 cases in which this standard is applicable, no information was found in the notes.

**Post-employment benefits**

In regard to accounting for long-term employee benefits, IPSAS 25, which was effective until 31 Dec 2017, contains the overt option of recognizing actuarial gains or losses either in surplus/deficit in the period in which they occur, in net assets in the period in which they occur or in future periods by applying the corridor approach. 4 organizations analyzed apply the corridor approach, 1 organization recognizes actuarial gains or losses in full in surplus/deficit in the period in which they occur, 2 organizations recognized actuarial gains or losses directly in full in net assets in the period in which they occur, and 1 organization does not provide any information on the treatment of actuarial gains/losses; for 2 organizations, this standard is not applicable as they do not provide defined benefit schemes for post-employment benefits. IPSAS 25 also contains several covert options, of which only the determination of (financial) actuarial assumptions is analyzed in this paper. Regarding the discount rate applied, the weighted average discount rate applied is 2,9 %, with individual rates applied ranging between 2,0 and 4,9%. The average inflation rate used is 2,35%, with individual inflation rates applied ranging from 1,4 to 3,3%. The increases in rates for salary vary from 1,2 to 3,1%, with an average rate of 2,2%. A small portion (2 organizations) of the organizations provide a variance analysis of the effect of an increase or decrease of one percentage point in the discount rate applied for post-employment benefits, which is helpful for users in understanding the financial impact of a small variation in the discount rate applied.

**Segment reporting**

In regard to segment reporting, the overt option contained in IPSAS 18 relates to the disclosure of segment cash flows, which is encouraged, but not required. None of the organizations analyzed uses this option and discloses segment cash flows. Concerning covert options contained in IPSAS 18, the first option relates to the determination criteria for reportable segments. 8 organizations disclose specific explanations in their notes, 1 organization provides no information and for 1 organization, this standard is not applicable as its activities relate to a single segment only. Of the 8 organizations that disclose specific information, 1 uses geographical segments, 3 use service segments and 4 organizations use either the multiple segmentation approach of IPSAS 18.23 (combination of service and geographical segments) or an entirely different approach. In regard to the assignment of items to segments, only 2 organizations disclose specific explanations in the notes; for the majority of organizations (7 organizations), no disclosures are made in the notes. This also includes disclosures about inter-segment transfers, which are in most cases included in segment reports and for which IPSAS 18.67 requires mandatory disclosures. As said above, for 1 organization, this standard is not applicable as its activities relate to a single segment only.
Non-exchange revenues
Concerning services in-kind (consisting mainly of the provision of rent-free premises and seconded staff in intergovernmental organizations), IPSAS 23 leaves the overt option to recognize those services in the statements of financial position and financial performance. 2 organizations do not provide any information on the recognition of services in-kind, and 4 organizations each recognize and do not recognize services in-kind. Of those who do not recognize services in-kind, 2 organizations disclose information about services in-kind received without values and 2 organizations include values for services in-kind received in the notes. Furthermore, IPSAS 23 contains 3 covert options with relevance to the activities of intergovernmental organizations. The first option relates the timing of recognition of non-exchange revenues. According to IPSAS 23.31, non-exchange revenues are to be recognized when it is probable that future economic benefits or service will flow to the entity and the fair value of the asset can be reliably measured. For intergovernmental organizations, assessed and voluntary contributions are the main sources of non-exchange revenues (Bergmann, 2010). Whereas assessed contributions are in all organizations recognized in the period to which the contribution relates on the basis of collection orders issued following the agreement of contributions at the meeting of the Board or General Assembly, the recognition of revenue from voluntary contributions is different in each organization. Reasons can be that revenue from voluntary contributions is subject to the fulfillment of certain performance conditions, which constitute present obligations, so that revenues are recognized at the point in time when conditions are satisfied, or that as a principle revenue from voluntary contributions is only recognized when corresponding expenses are incurred (without the existence of present obligations connected to these revenues). Of the 10 organizations included in the analysis, 5 organizations recognize revenue from voluntary contributions in full when a binding agreement is signed and no conditions are attached to the revenue, with deferral of revenues when monies are subject to conditions. 3 organizations recognize revenue from voluntary contributions when the corresponding expenses are incurred, irrespective of whether revenues are subject to conditions or not. In the case of 2 organizations, no voluntary contributions are received; therefore this issue is not applicable. In regard to liabilities recognized in respect of non-exchange revenues received, entities need to clearly distinguish between liabilities in respect of present obligations that arise from transfers received and liabilities in respect of advance receipts of transfers. All of the organizations for which this standard is applicable (9 organizations) include a line item designated as “deferred revenue/income” either on the face of the statement of financial position or in the notes and disclose specific information in the notes. The analysis showed that this line item in one case relates to present obligations arising from transfers received, in 5 cases to the advance receipt of transfers, in 2 cases to both present obligations and the advance receipt of transfers and in one case to other items, which hinders the comparability of financial statements. In regard to the other two covert options of determining the recognition criteria of present obligations (“probability of outflows and reliable measurement”) and the determination of the value of the present obligation (“best estimate”), none of the organizations included specific explanations in the notes.

5. Summary

Uniformly applied options
As was shown in the analysis, the overt and covert options contained in IPSAS lead to differences, of which some hinder comparability of financial information whereas others do not. But also similarities in the application of financial reporting practices for which IPSAS leave options were found. Options contained in IPSAS that did not lead to differences in reporting practices consist of:

— Subsequent measurement of intangible assets (all organizations apply the cost model),
— Subsequent measurement of plant and equipment (all organizations apply the cost model),
— Classification of assets and liabilities on the face of the statement of financial position (all organizations use the current/non-current distinction),
— Format of the statement of financial position (all organizations use the report format).

When excluding those organizations that did not contain information in their notes, the following options did also not lead to differences in reporting practices:

— Accounting for borrowing costs (all organizations that disclosed information apply the expense approach),
— Recognition of heritage assets (none of the organizations that disclosed information recognizes heritage assets),
— Disclosure of segment cash flows (none of the organizations that disclosed information disclosed segment cash flows).

Divergently applied options
In summary, the main differences in regard to exercising overt options relate to:

— method used for reporting operating cash flows,
— subsequent measurement of property assets,
— subsequent measurement of financial assets depending on their classification at initial measurement which results in the recognition of gains/losses either in surplus/deficit or net assets,
— assignment of costs to interchangeable inventories,
— recognition of actuarial gains or losses from long-term employee benefits, and
— recognition of services in-kind. The differences relating to the subsequent measurement of property assets and financial assets as well as the differences in regard to recognition of gains/losses from long-term employee benefits lead to the most notable differences.

In regard to the subsequent measurement of property assets, the analysis of financial statements of intergovernmental organizations showed that in 3 cases property assets are measured at a revalued amount. In two of the cases where property assets are carried at a revalued amount, the organizations are not able to realize the revaluation gains of the property concerned either because they are forced to give the property back to the host government at the nominal price for which it was bought in case their activities cease or because it is a long leasehold property. From a users’ perspective, subsequently measuring assets that cannot be sold or otherwise exploited at fair value does dissolve hidden reserves, but the significance of these reserves is only fictional and not realizable. Therefore, recognizing these assets at fair value does not provide information that is useful for decision-making purposes of users of financial statements. On the contrary, valuing such assets at fair value could even be misleading. Therefore, it would be more appropriate from a user’s perspective to consistently classify assets according to their purpose of holding and interlink the subsequent valuation of assets accordingly (Lüder, 1991; Lüder, 1999).

In regard to the subsequent measurement of financial assets, the categorization of financial assets at initial recognition entails different treatments in subsequent measurement and surplus or deficit recognition. All financial assets that are not covered by the definition of “loans and receivables” and “held-to-maturity investments” can be classified as “at fair value through surplus or deficit”. This entails subsequent measurement at fair value with gains and losses recognized in surplus/deficit. If obligatory or voluntary classification of financial assets as “at fair value through surplus or deficit” is not applied, those financial assets are classified as “available-for-sale”. This entails subsequent measurement at fair value with gains and losses recognized in net assets. Therefore, entities can influence surplus or deficit recognition resulting from fluctuations in fair value of financial assets every time they initially recognize financial assets. The analysis of financial statements showed that whilst the majority of organizations did solely recognize loans and receivables, 2 organizations recognized financial assets “at fair value through surplus or deficit”, 1 organization recognized “available-for-sale” financial assets and 1 organization recognized both financial assets “at fair value through surplus or deficit” and “available-for-sale” financial assets. In case of the organizations that designated financial assets “at fair value through surplus or deficit”, the deficit would have been higher in 2 cases and in one case the surplus would have been higher had those assets been designated as “available for sale”.

In regard to the recognition of actuarial gains and losses from long-term employee benefits, the International Public Sector Accounting Standards Board (IPSASB) adopted IPSAS 39 in July 2016 that eliminates the corridor approach for recognition of these gains and losses, and which will be in effect from January 2018 onwards, so that the differences found in this analysis will soon be eliminated.

To summarize main differences in regard to exercising covert options contained in IPSAS is more difficult. This is because the notes do often not contain specific explanations in regard to the execution of covert options. Instances in which the notes of the majority of organizations analyzed did contain explanations that lead to differences relate to:
— the determination of useful life and recognition thresholds for intangible assets and property, plant and equipment,
— the application of the component approach for buildings,
— the determination of reportable segments, and
— the determination of (financial) actuarial assumptions for employee benefits in case of defined benefit schemes.

Non-assessable options
Issues for which it is not possible to identify differences in the execution of covert options because the notes to the financial statements do not contain disclosures encompass:
— determination of recognition criteria for intangible assets as well as property, plant and equipment,
— determination of initial costs of intangible assets as well as property, plant and equipment,
— determination of impairment losses on receivables,
— specific indications used for determining impairment losses and the determination of fair value and/or value in use,
— specific criteria used for the distinction between operating and finance leases,
— specific recognition and measurement criteria for provisions,
— assignment of items to segments for the purpose of segment reporting, and
— recognition and measurement criteria used for the recognition and valuation of present obligations in regard to non-exchange revenues (mainly in regard to voluntary contributions).

6. Conclusions
Intergovernmental organizations have undertaken major accounting and financial reporting reforms during the last decade, which were often part of wider reforms to
strengthen accountability and enhance transparency. Almost all intergovernmental organizations that have undertaken reforms relied on IPSAS when reforming their reporting systems. Before these reforms, the organizations had their own accounting standards which were neither comparable in form nor in content. One example is the UN, whose agencies and programs accounted according to the same rules (the United Nations System Accounting Standards (UNSAS)) but who weren’t able to compare the financial statements of the different agencies. This is due to the fact that UNSAS were more of a framework than an accounting standard (Bergmann & Fuchs, 2017). They consisted of around 20 pages including examples and required the presentation of four mandatory elements of financial statements (statement of income and expenditure as well as changes in reserves and fund balances, statement of assets, liabilities, reserves and fund balances, cash flow statement and statement of appropriations). Furthermore, each position of assets, liabilities, income and expenditures was only described in a few paragraphs. Under UNSAS, most assets except cash and property were expensed and non-current liabilities were also not recognized. The statement of income and expenditure was based on cash flows so not all revenues and expenditures were recognized. In addition, UNSAS left room for interpretation as they included the principle of freedom for financial managers. So, when comparing the current status to the starting point of the reforms, the common application of IPSAS in the sample did improve comparability of financial information. One example is that all intergovernmental organizations in this study are now applying in principle the same revenue recognition criteria according to IPSAS, which was not the case before reforms as every organization had their own rules. It also improved formal comparability as all financial statements now contain the same elements (statement of financial position, financial performance and changes in net assets, cash flow statement as well as notes).

Comparability is named by the IPSASB as one of the most desirable characteristics of financial reporting as it enhances the usefulness of financial statements in facilitating users' decision making. The enhancement of decision usefulness lowers the cost of acquiring information, and increases the overall quantity and quality of information available to users about the organization. On the other hand, higher comparability also indicates that entities are restricted to using a common accounting method even in situations where an idiosyncratic method is more informative to users. In this situation, comparability potentially can decrease the usefulness of financial statements for users’ decision making (Fang, Iselin, & Zhang, 2017). The net benefits of comparability depend on the trade-off between the information gains and losses.

In regard to substantive comparability of the intergovernmental organizations included in this paper, this is either lacking in some respects, which is on the one hand due to e.g. different terms used for classes of assets and liabilities as well as the different exercise of overt options. One reason for the different exercise of overt options in IPSAS could be that preparers of financial statements come from different "accounting cultures". This is not a hindrance as long as users are in a position to assess the consequences of the different exercise of options according to information given in the notes. Moreover, overt options give freedom to preparers in choosing the most adequate accounting and presentation method according to the specific circumstances. On the other hand, in many cases it was not possible to assess whether information is presented on a comparable basis due to the lack of disclosures on the exercise of covert options contained in IPSAS. Covert options include judgments, estimations, as well as predictions margins and are necessary in any accounting system. Due to the lack of interpretations of IPSAS, preparers are given more margins than e.g. under IFRS.

In order to be able to achieve a substantial level of comparability for users of IPSAS financial statements, firstly overt options in IPSAS would need to be reviewed according to their necessity. In cases where the benefits of comparability are higher than the cost of the options given, the option should be eliminated. Secondly, in order to improve comparability when regarding the exercise of covert options, it is necessary to enhance transparency as to how covert options are exercised. One way to achieve this would be to issue interpretations to guide preparers in making judgments and estimations, and to require specific disclosures on the exercise of covert options in the notes.

References


