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IPSAS IMPLEMENTATION AND PERSPECTIVES FOR EPSAS IMPLEMENTATION AT THE EUROPEAN UNION LOCAL GOVERNMENT LEVELS

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ABSTRACT. Nowadays, the implementation of the IPSAS (International Public Sector Accounting Standards) and the perspectives for EPSAS (European Public Sector Accounting Standards) implementation at the European Union level is a severe problem. The implementation of IPSAS could be the earliest step in the EPSAS implementation that is considered beneficial to the particular needs of the European Union. Within the present paper, in order to assess the level of harmonization at the local level, the Herfindahl index was used. For our study, we considered the European Union cities with a population larger than 300,000 inhabitants, using the financial reports published by these municipalities on their websites. The results of the study indicate a high degree of dispersion regarding the items disclosed by the local governments in their financial statements, taking IPSAS 1 and IPSAS 2 as a benchmark. On the other hand, the results reveal the fact that the English municipalities disclose to the greatest extent the items requested by IPSAS 1 and IPSAS 2.

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Introduction and Literature Review

The globalization is a social phenomenon that was the subject of growing concerns in a broad range of academic disciplines since the 70s. The accounting was also influenced by globalization and, in terms of literature, the research of impact of globalization on accounting is focused on liberalization of financial markets and accounting harmonization, to encourage the spread of some standard practices (Aghimien, 1999; Ashbaugh, 2011; Cooke, 2001; Voleker, 2000; Cong Phuong & Khoi Nguyen, 2012).

Transforming public institutions in entrepreneurial entities generates in literature much controversy about whether the introduction of private sector management and accounting technique into the public sector is suitable (Roje, 2012). A response to this debate can be given by the reforming of the financial information system, an essential element of the management and decision-making of government institutions, which is also called New Public Financial Management (Guthrie et al., 1999). The purpose is to adapt private sector practices to the public sector, and appeared in the 80's, under the name of New Public Management or NPM (Bellanca & Vandernoot, 2013).

Supporting these changes, International Public Sector Accounting Standards (IPSAS) is in focus, being the link that creates a bridge between public and private spheres by promoting more accurate information about government solvency, patrimonial goods and the costs of public services (Pina & Torres, 2003). The aim is to make financial statements comparable from one period to another and from one public entity to another. Compliance with IPSAS is seen as the earliest step that was taken by all countries involved in beginning a process of modernisation in their executive information systems (Fuertes, 2008).

Consequently, the general trend in European Union countries is an attempt to unify the accounting and reporting of the public sector on an accrual basis, so the European Commission recommends the implementation of international accounting standards for the public sector (Štangová and Víghová, 2013).

To increase accountability and transparency, the concept of administrative modernization, the web service portals offer the opportunities for use interaction and the dialog between the state and the citizens (Pina et al., 2010). Thereby, the financial information disclosure for public administration is a guarantee for the usage of public resources and answerability of local government to the public to meet stated performance objectives (Pattaro, 2009).

The central goals of IPSAS are the increase of comparability, reliability and transparency of public accounts. Also, IPSAS could be a chance for the European Union Member States to improve their existing accounting systems (Bellanca & Vandernoot, 2014).

Some countries use their accounting standards that are significantly consistent with IPSAS requirements and keep their national sovereignty to apply national accounting standards. Other countries prepare their financial statements in a manner according to IPSAS, and other countries are in the process of adopting IPSAS (Roje et al., 2010).

The IPSAS implementation is not mandatory. The governments and national standard-setters have the power to set accounting standards and guidelines for reporting in their jurisdictions, but, at the same time, IPSASB (IPSAS Board) suggests that IPSAS may be helpful for standard-setters in the development of new standards to contribute to a greater comparability (Tiron-Tudor, 2010).

In the light of the above literature review, our study captures how the financial statements specific to the European Union local governments are harmonized with IPSAS provisions, considering that countries declare that they use IPSAS. The purpose of the study is to determine to which extent the financial statements issued by the European Union municipalities with a population larger than 300,000 inhabitants follow the disclosure recommendations of two of the most important public sector accounting standards: IPSAS 1 Presentation of Financial Statements and IPSAS 2 Cash Flow Statements.

The paper is structured as follows: the first part consists of a brief introduction, the next part reviews the academic literature regarding the IPSAS and the potential implementation of EPSAS within the European Union Member States. The third part covers issues related to research methodology and data used; the fourth part includes the results of the study, and the final part of the paper concludes, presenting also the study limitations, and research perspectives.

IPSAS and EPSAS

IPSAS – promoter of changes in local government financial statements

Since 1977 Watts argues that financial statements are a product of the market and political processes. This approach is of paramount actuality to the public sector, given the fact that modernization trend of financial reporting in this sector is likely to continue during subsequent years (Christiaens et al., 2014; Luder & Jones, 2003) by promoting IPSAS principles through accrual reporting, sometimes through a supranational pressure exercised by the European Union and Eurostat (Manes Rossi et al., 2014). However, it is shown that despite the promotion and acceptance of accrual principles, the financial information system in the public sector is still relatively divergent (Benito et al., 2007).

Some authors (Chan, 2003; Jones, 2007; Bergmann, 2009) argue that one of the most relevant examples of private sector influence over the public sector is the development of International Public Sector Accounting Standards (IPSASs), mostly based on applicable standards for the private sector (IASs-IFRSs). However, accounting, budgeting and reporting system adopted in public administration present a series of particularities up against private sector, but also among countries (Luder & Jones, 2003) whose reflection has become an accountability tool utile for financial resources collected and spent, or for relationship between public administration and citizens (Rossi & Aversano, 2014).

IPSAS 1 Presentation of Financial Statements and IPSAS 2 Cash Flow Statements are relevant examples of harmonization with the private sphere, in contrast with IPSAS 24 Presentation of Budget Information in Financial Statements whose provisions are exclusively for the public sector. Thus, in the IPSAS adaptation, the accounting harmonization could not be avoided, it is self-explanatory and somehow inherent (Christiaens et al., 2014). Nevertheless, the particular issues of public accounting reporting system remain the same at least four reasons: the first reason targets the main characteristic of public entities (Christiaens & Rommel, 2008), the second reason focuses on the timing of the adoption process (Christiaens et al., 2014), the third reason points the different takeover degree of IPSAS provisions within national regulations (Carvalho et al., 2007; Christiaens et al., 2010) and, not lastly, the used accounting system (Van der Hoek, 2005; Benito et al., 2007).

Regarding the implementation of IPSAS within the local governments, the academic literature includes a series of studies that investigate that issue. The study of Benito et al. (2007) reveals that, regarding the local governments, the countries with the highest compliance degree with IPSAS are New Zealand, Sweden, Australia, USA, Mexic, Netherlands, and the United Kingdom. Related to the disclosure, New Zealand has a compliance degree with IPSAS of 100%, and also a compliance degree of 96.97% regarding the valuation practices, resulting in an overall compliance level of 98.55% (Benito et al., 2007).

Also, numerous studies emphasize on the implementation of IPSAS at the some public accounting systems. Some authors explore the implementation of IPSAS at some national accounting systems, such as Belgium (Bellanca & Vandernoot, 2013), Slovenia, Croatia, Bosnia & Herzegovina (Roje et al., 2010), Czech Republic (Otavova, 2011) or Spain (Brusca et al., 2013). Also, a series of authors explore the implementation of IPSAS in some not-European countries, such as Zimbabwe (Mhaka, 2014), Irak (Ajshujairi, 2014), Nigeria (Ijeoma, 2014) or Mexic (Sour, 2012). As well, some authors explore the implementation of IPSAS in some economic communities, such as the European Union (Bellanca & Vandernoot, 2014) or MERCOSUR (Caba-Perez & Lopez-Hernandez, 2009). The results of the most studies reveal that the accounting systems of the Anglo-Saxon countries meet the recommendations and principles of IPSAS mostly.

EPSAS – European Public Sector Accounting Standards

The IPSAS framework is considered as an “indisputable reference point for EPSAS” (Makaronidis, 2012). Considering the difficulties generated by IPSAS implementation and expressed through public consultations, it is obvious that these standards cannot be easily implemented at the level of EU Member States in their actual form. In this context, the development of a set of European accounting standards for public sector called EPSAS and based on IPSAS in different bases, would give the European Union the ability to meet his needs.

The EU Commission Report (EC Eurostat, 2013a) draws attention to the fact that a set of harmonized EPSAS on their own are not the solution to guarantee the quality of accounting data (Jones and Caruana, 2015). Thus, our study asserts through the assessment of the extent to which the financial reporting specific to local government meets the IPSAS requirements; it being the first step in the development and successful adoption of EPSAS referential.

The creation and implementation of EPSAS would generate some strong governance structures. Consequently, that fact generates some significant questions such as (Aggestam-Pontoppidan, 2013): 1. What is the body responsible for developing EPSAS?, 2. How will be selected and nominated the members of that body? 3. Will these members be independent of the European Union and the European Commission? Otherwise, how will be the independence protected? 4. What will be the funding source for this body?

The proposal for the creation and development of EPSAS belonged to Eurostat and originated in 2011 when EU Member States were requested to adopt IPSAS. That request turned later into a mission for the European Commission, which is to analyse the opportunity to implement IPSAS within the European Union Member States accounting systems. Thus, the proposal for the IPSAS adoption became the proposal for the EPSAS adoption. The logic of proposal for the EPSAS development would be the following: the Eurozone was gravely affected by the economic crisis in 2008, and some Eurozone countries experienced serious fiscal problems. An inherent weakness of the Eurozone is the fact that the government of each state – and not the European Union – has sovereignty over fiscal policies they issue. Thus, a surveillance of fiscal policies issued by each government would be necessary to avoid generating new crises in the future (Jones & Caruana, 2014).

Furthermore, the potential implementation of EPSAS at the European Union level comes with some significant costs involved in the modernization of accounting such as (Manes Rossi et al., 2016): - investments in technology of communication; - retraining civil servants; - some costs regarding the identification and valuation of assets under accrual accounting; - consultation costs.

Regarding the public sector accounting harmonization, the overall situation indicates that there is a long way to go both before internal harmonization within the specific countries and from a widespread adoption of a set of international accounting standards. Concisely, the main challenges that should be considered to assess the readiness for the adoption of some common accounting principles within Europe are the following (Brusca et al., 2015): accounting education level, information systems adequacy, maturity of accounting systems, political support, clarity of legislation, implementation costs and, not last, consulting needs.

Materials and Methods

The purpose of the article is to establish the extent to which the financial statements issued by local governments of European Union disclose the elements presented in the provisions of IPSAS 1 Presentation of Financial Statements and IPSAS 2 Cash Flow Statements, standards related to the content of the financial statements. For our study, we use a methodology similar to Sour (2012), who's study aims to determine the extent to which the Mexican accounting system take IPSAS 1 and IPSAS 2 as a benchmark. For structuring our sample, the first criterion is the number of city inhabitants. We took into consideration all the European Union cities with a population greater than 300,000 inhabitants. The second criterion is the issuance of the financial statements on the city councils' websites. From 142 cities and municipalities, only 49 issued their annual report or financial statements on the sites. The municipalities included in our sample are: Helsinki (Finland), Sheffield, Leeds, Birmingham, Liverpool, London, Manchester, Glasgow, Bradford, Edinburgh, Bristol, Southwark, Cardiff, Leicester, Portsmouth, Wakefield, Barnet, Sandwell, Reading, Cheshire West and Chester, Brent, Bromley, Croydon, Ealing, Enfield, Newham, Wandsworth, Kirklees, Nottingham, North Lanarkshire, Wigan, Doncaster, Lambeth, Dudley, Coventry, and Wirral (United Kingdom), Marseille and Saint-Etienne (France), Riga (Latvia), Dublin (Ireland), Tallinn (Estonia), Stockholm, Goteborg and Malmo (Sweden), Warsaw (Poland), Bucharest, Cluj-Napoca, Timisoara, Galati, Iasi, Craiova, Constanta (Romania), Madrid, Sevilla, Barcelona, Zaragoza, Malaga, Murcia, Alicante, Las Palmas, Palma de Mallorca (Spain), Bratislava (Slovakia), and Brno (Czech Republic). It is important to mention that we included some of London boroughs in our sample, taking into account the fact that they are considered as distinct municipalities. Also, it is crucial that the financial statements to be published in English, Spanish, French or Romanian, that being the last criteria for structuring the sample on which study is based.

The method that we used for our study is the content analysis. More specific, we analyze the presence or the absence of the following items from the reports of the financial statements included in the sample: current assets, non-current assets, current liabilities, non-current liabilities, net assets/equity, property, plant and equipment, investment property, intangible assets, financial assets, inventories, cash and cash equivalents, taxes and transfers payable, provisions, financial liabilities, revenue, finance costs, share of the surplus or deficit of associates, depreciation and amortization, employee benefits, dividends, surplus or deficit, each item or revenue and expense, total revenue and expense, the effects of changes in accounting policies and corrections of errors, information about the basis for preparation of the financial statements, specific accounting policies used, a statement of compliance with IPSAS, contingent liabilities, unrecognized contractual commitments, non-financial disclosures (e.g. the financial risk management objectives and policies), the key assumptions concerning the future, other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, domicile and legal form of the entity, jurisdiction within which it operates, a description of the nature of the entity's operations and principal activities, and a reference to the relevant legislation governing the entity's operations.

All these listed items are included in IPSAS 1. Also, we assess the presence or absence of the cash flows from operating activities, cash flows from investing activities, cash flows from financing activities, cash flows from interest and dividends or similar distributions, cash flows from taxes or net surplus, cash flows arising from acquisitions and disposals of controlled entities or other operating units, and components of cash and cash equivalents. These items are related to the cash flow statement so, to IPSAS 2. Thus, we consider 36 items from IPSAS 1 and 7 items from IPSAS 2. The presence or absence of the elements is determined using tha values 0 for absence and 1 for presence. These values are frequently used in the literature in a series of study based on the determination on disclosure index, such as Singhania & Gandhi (2015), Karim et al. (2013), Bokpin (2013), and Abdifatah & Mohd Ghazali (2012). Besides, we use the Herfindahl index to evaluate the harmonization level for the financial reports taken into consideration. That coefficient was used by Sour (2012) for measuring the harmonization level of the Mexico governmental accounting.

According to Taplin (2003), the Herfindahl Index measures the harmony of accounting practices by summarizing the extent to which companies use the same accounting practice. Also, the Herfindahl Index is suggested by international bodies such as the U.K. Accounting Standards Committee, the U.S. Financial Accounting Standards Board, the International Accounting Standards Committee, and the European Union as a tool for quantifying the degree of harmony of financial reporting practices. In our case, the Herfindahl Index is given by the following formula:

$$H = \sum_{i=1}^{k} p_i^2$$

Where p is the number of items that appear in the reports of the municipality (i) taking IPSAS 1 and IPSAS 2 as a benchmark, and k is the number of municipalities analysed. We analyse a number of 63 European Union Municipalities. All of them published the financial reports on the city councils' websites. It is important to mention that for our analysis we used the most recent set of financial statements published on each municipality website. The oldest financial statements that we analysed are from 2009, and the most recent set of reports is from 2014.

Results and Discussions

Firstly, we analyse how many financial statements are published in the financial statement by the municipalities included in the sample, taking IPSAS 1 and IPSAS 2 as a benchmark. As it can be seen, most of the municipalities publish the financial statements for 2014, five municipalities publish the financial statement for 2013, one municipality (Warsaw) publishes the financial statements for 2012, another municipality (Tallinn) publishes the financial statements for 2011, the municipality of Brno issues the financial statements for 2010 and Las Palmas issues the financial statements for 2009. We present the stage of that publication in Table 1.

As Table 1 shows, 60 municipalities (95.24%) of our sample issue the balance sheet on the website. All the municipalities included in our sample issue the statement of financial performance. Regarding the statement of changes in net assets, only 45 of the municipalities included in our sample (71.43%) publish that report. 49 municipalities (77.78%) issue the cash flow statement, and 53 of them (84.13%) issue the notes to the financial statements. Another significant issue that can be seen in the table above is that all the considered municipalities from the UK publish all the financial reports required by IPSAS 1 and IPSAS 2. Also, it is important to determine the number of municipalities that publish each of the 43 items from IPSAS 1 and IPSAS 2; the data are presented in Table 2.

Table 1. The financial reports published according to IPSAS 1 and IPSAS 2

Municipality	Year	Balance sheet	Statement of financial performance	Statement of changes in net assets/equity	Cash flow statement	Notes
Brno	2010	1	1	0	0	1
Tallinn	2011	1	1	0	1	0
Dublin	2013	1	1	0	1	1
Madrid	2013	1	1	0	1	1
Barcelona	2014	1	1	0	1	1
Sevilla	2014	1	1	0	0	0
Zaragoza	2014	1	1	0	0	0
Málaga	2014	1	1	1	0	1
Murcia	2014	1	1	1	1	1
Las Palmas	2009	1	1	0	0	1
Palma de Mallorca	2014	1	1	0	0	1
Alicante	2013	1	1	1	0	1
Saint-Etienne	2014	0	1	0	0	1
Marseille	2014	0	1	0	0	1
Riga	2014	1	1	0	0	1
Warsaw	2012	1	1	1	0	1
Bucuresti	2014	1	1	1	1	1
Cluj-Napoca	2014	1	1	1	1	0
Timisoara	2014	1	1	0	0	0
Craiova	2013	1	1	1	1	0
Constanta	2014	1	1	1	1	0
Iasi	2014	1	1	1	1	0
Galati	2014	1	1	1	1	1
Bratislava	2014	0	1	0	0	0
Helsinki	2014	1	1	0	1	0
Stockholm	2014	1	1	0	1	1
Göteborg	2014	1	1	0	1	1
Malmö	2013	1	1	0	0	1
London	2014	1	1	1	1	1
Birmingham	2014	1	1	1	1	1

Municipality	Year	Balance sheet	Statement of financial performance	Statement of changes in net assets/equity	Cash flow statement	Notes
Leeds	2014	1	1	1	1	1
Glasgow	2014	1	1	1	1	1
Bradford	2014	1	1	1	1	1
Liverpool	2014	1	1	1	1	1
Edinburgh	2014	1	1	1	1	1
Manchester	2014	1	1	1	1	1
Cardiff	2014	1	1	1	1	1
Sheffield	2014	1	1	1	1	1
Bristol	2014	1	1	1	1	1
Leicester	2014	1	1	1	1	1
Portsmouth	2014	1	1	1	1	1
Coventry	2014	1	1	1	1	1
Nottingham	2014	1	1	1	1	1
Wirral	2014	1	1	1	1	1
Barnet	2014	1	1	1	1	1
Brent	2014	1	1	1	1	1
Bromley	2014	1	1	1	1	1
Croydon	2014	1	1	1	1	1
Ealing	2014	1	1	1	1	1
Enfield	2014	1	1	1	1	1
Lambeth	2014	1	1	1	1	1
Newham	2014	1	1	1	1	1
Southwark	2014	1	1	1	1	1
Wandsworth	2014	1	1	1	1	1
Kirklees	2014	1	1	1	1	1
North Lanarkshire	2014	1	1	1	1	1
Wakefield	2013	1	1	1	1	1
Dudley	2014	1	1	1	1	1
Wigan	2014	1	1	1	1	1
Doncaster	2014	1	1	1	1	1
Sandwell	2014	1	1	1	1	1

Municipality	Year	Balance sheet	Statement of financial performance	Statement of changes in net assets/equity	Cash flow statement	Notes
Reading	2014	1	1	1	1	1
Cheshire West and Chester	2014	1	1	1	1	1
TOTAL		60	63	45	49	53

Source: Authors' compilation

Table 2. The disclosure compliance with IPSAS 1 and IPSAS 2 items

Item	Municipalities	Percent of municipalities
Current assets	60	95,24%
Non-current assets	60	95,24%
Current liabilities	60	95,24%
Non-current liabilities	60	95,24%
Net assets/equity	62	98,41%
Property, plant and equipment	60	95,24%
Investment property	59	93,65%
Intangible assets	59	93,65%
Financial assets	60	95,24%
Inventories	60	95,24%
Cash and cash equivalents	59	93,65%
Taxes and transfers payable	47	74,60%
Provisions	60	95,24%
Financial liabilities	60	95,24%
Revenue	62	98,41%
Finance costs	54	85,71%
Share of the surplus or deficit of associates	37	58,73%
Depreciation and amortization	62	98,41%
Employee benefits	42	66,67%
Dividends	27	42,86%
Surplus or deficit	62	98,41%
Each item or revenue and expense	62	98,41%

Item	Municipalities	Percent of municipalities
Total revenue and expense	62	98,41%
The effects of changes in accounting policies and corrections of errors recognized in accordance with IPSAS 3	37	58,73%
Information about the basis of preparation of the financial statements	50	79,37%
Specific accounting policies used	50	79,37%
A statement of compliance with IPSAS	6	9,52%
Contingent liabilities	46	73,02%
Unrecognized contractual commitments	0	0,00%
Non-financial disclosures (e.g. The financial risk management objectives and policies)	51	80,95%
The key assumptions concerning the future	42	66,67%
Other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year	40	63,49%
Domicile and legal form of the entity	59	93,65%
Jurisdiction within which it operates	59	93,65%
A description of the nature of the entity's operations and principal activities	54	85,71%
A reference to the relevant legislation governing the entity's operations	59	93,65%
Cash flows from operating activities	50	79,37%
Cash flows from investing activities	50	79,37%
Cash flows from financing activities	50	79,37%
Cash flows from interest and dividends or similar distributions	36	57,14%
Cash flows from taxes or net surplus	53	84,13%
Cash flows arising from acquisitions and from disposals of controlled entities or other operating units	33	52,38%
Components of cash and cash equivalents	50	79,37%

Source: Authors' compilation

As it can be seen in Table 2, most of the municipalities disclosed the items requested by the IPSAS 1 to be published on the balance sheet such as current and non-current assets and liabilities, net assets, property, plant and equipment, financial liabilities, provisions, and inventories. Also, almost all the municipalities included in our sample, except Brno, disclose the surplus or deficit and the components of revenue and expenses. None of the financial reports analysed disclose the information related to unrecognized contractual commitments. Regarding the harmonization index value, this is constructed in Table 3, as follows:

Table 3. The harmonization index value

Municipality	IPSAS items identified	p value	p^2 value
Brno	12	0.00553	0.00003
Tallinn	29	0.01336	0.00018
Dublin	30	0.01382	0.00019
Madrid	34	0.01566	0.00025
Barcelona	34	0.01566	0.00025
Sevilla	21	0.00967	0.00009
Zaragoza	21	0.00967	0.00009
Málaga	26	0.01198	0.00014
Murcia	33	0.01520	0.00023
Las Palmas	25	0.01152	0.00013
Palma de Mallorca	19	0.00875	0.00008
Alicante	27	0.01244	0.00015
Saint-Etienne	15	0.00691	0.00005
Marseille	15	0.00691	0.00005
Riga	26	0.01198	0.00014
Warsaw	24	0.01105	0.00012
Bucharest	35	0.01612	0.00026
Cluj-Napoca	28	0.01290	0.00017
Timisoara	22	0.01013	0.00010
Craiova	29	0.01336	0.00018
Constanta	27	0.01244	0.00015

Municipality	IPSAS items identified	p value	p^2 value
Iasi	27	0.01244	0.00015
Galati	34	0.01566	0.00025
Bratislava	10	0.00461	0.00002
Helsinki	30	0.01382	0.00019
Stockholm	41	0.01889	0.00036
Göteborg	40	0.01842	0.00034
Malmö	35	0.01612	0.00026
London	39	0.01796	0.00032
Birmingham	38	0.01750	0.00031
Leeds	40	0.01842	0.00034
Glasgow	38	0.01750	0.00031
Bradford	41	0.01889	0.00036
Liverpool	40	0.01842	0.00034
Edinburgh	40	0.01842	0.00034
Manchester	41	0.01889	0.00036
Cardiff	40	0.01842	0.00034
Sheffield	40	0.01842	0.00034
Bristol	42	0.01935	0.00037
Leicester	40	0.01842	0.00034
Portsmouth	40	0.01842	0.00034
Coventry	41	0.01889	0.00036
Nottingham	41	0.01889	0.00036
Wirral	41	0.01889	0.00036
Barnet	40	0.01842	0.00034
Brent	42	0.01935	0.00037
Bromley	41	0.01889	0.00036
Croydon	42	0.01935	0.00037
Ealing	41	0.01889	0.00036
Enfield	41	0.01889	0.00036
Lambeth	42	0.01935	0.00037
Newham	41	0.01889	0.00036
Southwark	41	0.01889	0.00036
Wandsworth	41	0.01889	0.00036
Kirklees	41	0.01889	0.00036

Municipality	IPSAS items identified	p value	p^2 value
North Lanarkshire	41	0.01889	0.00036
Wakefield	42	0.01935	0.00037
Dudley	40	0.01842	0.00034
Wigan	41	0.01889	0.00036
Doncaster	40	0.01842	0.00034
Sandwell	41	0.01889	0.00036
Reading	40	0.01842	0.00034
Cheshire West and Chester	42	0.01935	0.00037
TOTAL	2171	1	**0.01687**

Source: Authors' compilation

Thus, the value of H-Index is 0.01687. According to methodology used by Sour (2012), for interpretation goals, the index can be normalized (H_n) as follows:

$$Hn = \frac{H - \left(\frac{1}{k}\right)}{1 - \left(\frac{1}{k}\right)}$$

According to Sour (2012), H_n takes values between 0 and 1. In this case, zero indicates a total lack of harmonization, and one indicates that all financial statements analysed are in complete harmony with the principles and recommendations of IPSAS 1 and IPSAS 2. For our study, H_n is calculated as follows:

$$Hn = \frac{0.01687 - \frac{1}{63}}{1 - \frac{1}{63}} = 0.00027$$

In the case of financial statements issued by the European Union municipalities with a population greater than 300,000 inhabitants, the value of H_n indicates that governmental accounting is dispersed. In our case, the value of H_n is below 1 (0.001) and shows the dispersion of the use of the accounting practices. That fact is justified because it can be noticed that the British municipalities have a greater degree of disclosure according to IPSAS 1 and IPSAS 2 than the rest of municipalities included in the sample.

Conclusions

The creation and development of IPSAS is the earliest step that the public entities should take to modernize and improve their financial reporting systems and increase the accountability and transparency. Also, the IPSAS should be taken as a significant reference for EPSAS. However, it is very important to take into consideration the costs involved by the implementation of these standards such as investments in technology and communication and the training of personnel.

Regarding the European Union local administrations, it can be noticed that the financial statements issued by United Kingdom municipalities have the highest harmonization degree, taking IPSAS 1 and IPSAS 2 as a benchmark. The financial statements issued by municipalities such as Bristol, Brent, Croydon, Lambeth, Wakefield, and Cheshire West and Chester have the highest degree of disclosure according to IPSAS 1 and IPSAS 2 (97.67%). All these British municipalities disclose within the financial reports published on their websites 42 of the 43 elements recommended by IPSAS 1, and IPSAS 2. All of them do not disclose information related to the unrecognized contractual commitments. On the other hand, the municipalities whose financial statements have the lowest degree with IPSAS 1 and IPSAS 2 are Bratislava (23.26%), Brno (27.91%).

Regarding the financial reports that municipalities issue, all the reports analyzed include the statement of financial performance. The percent 95.24% of financial statements analysed include the balance sheet, 84.13% of them include the notes to the financial statements and 77.78% of the financial reports include the cash flow statement. The statement of changes in net assets is included in 71.43% of the financial reports that we analyse.

Also, the calculated value of harmonization index reveals a high degree of dispersion regarding the items disclosed by the local governments in their financial statements, taking IPSAS 1 and IPSAS 2 as a benchmark. Thus, by determining the level of actual harmonization regarding the financial statements issued by the local government and two accounting standards - IPSAS 1 and IPSAS 2 – considered essential points of the modern accounting, the objective of our study is achieved.

A significant limitation of the study is the fact that it targets only the cities of the European Union with a population greater than 300,000 inhabitants. Secondly, the study aims only the IPSAS regarding the content of the financial statements: IPSAS 1 Presentation of Financial Statements, IPSAS 2 Cash Flow Statements and IPSAS 24 Presentation of Budget Information in Financial Statements. Also, many of the European cities with a population greater than 300,000 inhabitants do not publicly publish their annual financial statements. Another significant aspect that we observed is the fact that most of the Anglo-Saxon cities from the European Union publish their annual financial statements on the city councils' websites. We can conclude that the Anglo-Saxon city councils are more aware of issued related to transparency than the Continental-European city councils.

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