

# Consolidated financial statement information and group reporting in the central government: a user-oriented approach

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## Abstract

**Purpose** – This study aims to fill the research gap regarding the usability of group reporting information in the central government. It answers the question of how the consolidated information should be formed to benefit the real needs of governmental information users.

**Design/methodology/approach** – The empirical research is based on a survey and interviews among key internal preparers and users in the central government sector in the case country, Finland.

**Findings** – Results show that the private sector approach regarding consolidation is not appropriately transferable to the central government sector. The key stakeholders identified several economic and financial reporting needs that exceed what formal Consolidated Financial Statement (CFS) can offer. Consolidation is needed but not according to the extensive full control approach, but rather following the budgetary approach consolidating units of the legal person of the government, and further using the partial control approach for consolidating by discretion essential special purpose SOEs.

**Research limitations/implications** – Respondents and interviewees represented governmental internal organisations, free experts, auditors and financial managers from the group entities. Politicians and citizens were not directly represented.

**Practical implications** – Research gives applicable insights into central governments planning and developing group reporting for information needs in a favourable cost-benefit ratio. Findings benefit the development of EU's EPSAS (European Public Sector Accounting Standards) project which is still incomplete.

**Social implications** – Research recommends governments to make a thorough analysis before deciding on a new financial reporting system. A critical analysis prevents governments to waste money and resources on a reporting system not fulfilling the real needs of information users.

**Originality/value** – The value of this research is that the private sector approach in consolidation was not taken as granted. This study investigated critically and empirically the real need for consolidated information serving steering and overseeing purposes of the government's group entities.

**Keywords** A user-oriented approach, Consolidation in the central government, Group information needs, Limiting the sphere of consolidation

**Paper type** Research paper

## 1. Introduction

Governments have decentralised and outsourced activities from the budgetary agency format to off-budget entities and to corporations taking care of activities important for the government. Hence, there is a need for group information for steering and evaluating these activities. The government has a responsibility to report to its principals – parliaments and citizens – on how these activities are performing. They need to have a complete picture of the performance of the whole, not only the performance of the on-budget entities (Kankaanpää *et al.*, 2014; Bisogno *et al.*, 2015).



Internationally, there is a general need for accounting research that investigates user needs and the usability of accounting information in the public sector (van Helden, 2016; van Helden and Reichard, 2019). One research interest focuses on the need for and usability of CFS in central governments. In recent years, several studies of consolidation and group reporting at the central government level have been published (Heald and Georgiou, 2000, 2009; Walker, 2009; Grossi and Pepe, 2009; Loughan, 2010; Howieson, 2013; Bergmann *et al.*, 2016; Santis *et al.*, 2018; Chow *et al.*, 2019; Mnif and Gafsi, 2020; Stewart and Connolly, 2021). However, there is still a need for thorough case studies.

It is obvious that the usefulness of information will be enhanced when it is specific to the problems the users face (Ouda and Klischewski, 2019), also regarding the consolidation of information provision. The aim of this case study is to add to the existing research on group reporting information needs and usability in central government. Our research question strives to give answers to questions that, according to Santis *et al.* (2018, p. 243), should be answered: What are the objectives that CFS are supposed to pursue in a particular context? Which information should CFS disclose? Is the control approach coherent with the scope of CFS as well as with the information that they provide to users?

The empirical part of answering the research questions consists of a survey and in-depth interview data in the case country, Finland. Our study makes use of the case-based findings to generalise a reporting approach satisfying the information demand following a user-oriented approach (van Helden and Reichard, 2019; Oulasvirta, 2021). In Section 2, we explain our focused literature and concepts regarding CFS and central government group reporting. In Sections 4 and 5, we analyse the findings and discuss the results.

## 2. Literature review and basic concepts

### 2.1 Group reporting background in the public sector

The GASB (2006) explains carefully why governmental accounting and financial reporting should be different from private-sector reporting. One basic difference is that the state is not owned by shareholders: central government has accountability to parliament, not to shareholders. It does not try to reach surpluses to deliver dividends; rather, it tries to deliver value for the tax money collected. It aims to have a sustainable financial standing and at the same time cost-efficient and effective service activities fulfilling the needs of its citizens and society at large.

In a business group, the parent openly uses its power to steer decision-making and operational activities in the subsidiary companies. In the listed state-owned enterprises (SOEs), the government is often careful not to show politically driven power because it may be a bad sign to private shareholders, conflict with good corporate governance and negatively affect share prices (Kankaanpää *et al.*, 2014). Moreover, the information needs of institutional creditors investing in government bonds can be satisfied with special-purpose tailor-made reports related to the macroeconomic statistical fundamentals of the country.

The government also has societal goals for its special-purpose SOEs (for instance, its broadcasting, alcohol and betting companies) and security of supply motivations for its strategic SOEs (for instance, its flight and energy supply companies). Central government has other effective steering tools in its state-ownership policy toolkit to fulfil its accountability reporting; for instance, published multidimensional annual government plans and reports that analyse SOEs' finances and contributions, liabilities, risks, etc. Based on these differences, it should be clear that the group reporting setting in the government sector is not the same as in the private corporation context. This is not to argue that CFS information is not useful information. The consolidation eliminates internal transactions to show a parent book profit via ostensible economic events (Heald and Georgiou, 2011) and spur enhanced information-gathering and transparent publishing that may prohibit or reveal public money being used inappropriately.

## 2.2 Literature review

The recognised accounting theorist, [Hendriksen \(1984, p. 64\)](#) long ago urged the use of a user-oriented context-based approach for developing accounting frameworks. In the private sector, the user needs emanate primarily from existing and potential investors and creditors ([IASB, 2018](#)). However, it is not an easy task to put user needs into practice and guarantee the relevance of the published consolidated information. According to [Singleton \(2000\)](#), controversies around the requirement for the consolidation of parent and related company financial statements tend to focus on definitions of which groups or units to include in the consolidated entity, the extent of disclosure and the techniques or methods used to prepare the consolidated financial statements.

The practical operationalisation of the decisive perimeter limiter of consolidation is an even more problematic task in the public sector ([Brusca and Montesinos, 2009](#); [Bergmann et al., 2016](#)). Theoretically, from the point of view of the principal-agent approach, the principals of the government (agent) are the citizens (although often more potential than real) and their democratically chosen representatives (politicians). Hence, in the tax-financed public sector, accountability to principals, citizens and their representatives is emphasised. They represent society at large and belong to the wider stakeholder sphere. Furthermore, accountability also involves a transparent and understandable presentation of accounting information for the politicians and decision-makers ([Chan, 2003](#); [Laughlin, 2008](#); [Barton, 2009](#); [Mann et al., 2019](#); [Haustein et al., 2021](#); [Oulasvirta, 2021](#)).

According to [Hepworth \(2017, p. 141\)](#), those encouraging the application of IPSAS pay little attention to context. According to him ([Hepworth, 2017, p. 145](#)), the capacity of civil society as well as parliamentarians to independently assess GPFs (General Purpose Financial Reports) is limited. The private-sector rules (IFRS) for consolidating financial accrual-based statements are very complex – their preparation, reading and auditing require special knowledge normally possessed only by highly professional accountants and auditors. In our own survey, one-fifth of the respondents (financial management experts, key economy planners, etc.) answered “Cannot say” to our question (“If the state undertook a CFS, what accounting principles should be followed?”).

[Bergmann et al. \(2016\)](#) produced an overview of consolidation approaches in several OECD countries. The control criterion was the dominant principle used to define the scope of consolidation. However, the control term originating from private-sector accounting standards was adapted differently by public-sector institutions. In the USA, financial accountability, stewardship and the control of financially dominated entities were the leading principles used to define the scope of consolidation. In Sweden, the organisational perspective was followed ([Bergmann et al., 2016, pp. 778-779](#)).

[Chow et al. \(2019\)](#) remarked that studies on consolidated government account mainly explicate the potential (normative) benefits of adoption. They recognised the rhetorical advantages of using the control in consolidation, as it can discourage hiding transactions in off-balance sheet financing and obscuring real economic substances. They concluded that GAAP-based consolidated government accounts as a policy tool face substantial competition from other systems, such as government statistics and budgets. Their international comparative study showed that, given the ambiguity over CFS usefulness, heavy costs and weak political support in many countries, the main use of consolidated accounts is limited to accountability reporting for legislative compliance purposes. In addition, CFSs may spur improvements elsewhere in the public sector ([Chow et al., 2019, p. 183](#)).

[Santis et al. \(2018, p. 243\)](#) concluded in their literature review that the usefulness of CFS seems to be taken for granted, with the risk of overestimating it despite the actual use of CFS in decision-making processes. [Chow et al. \(2019\)](#) in their comparative study of the usefulness of consolidated government accounts in five advanced countries showed many differences in consolidation methods. They concluded that NPM-led government accounting reforms still

struggle to identify actual users and adequately articulate the real usefulness of consolidated government accounts (Chow *et al.*, 2019, p. 184).

The all-embracing whole-of-government (central, regional and local governments included) reporting and hence IPSAS 22 (Disclosure of Financial Information About the General Government Sector) approach is nearer the statistical approach than the accrual-based CFS. The findings of a UK case research (Stewart and Connolly, 2021) indicated that the supposed benefits of central government accounting reforms had not been realised to the extent supposed. They found that the departmental interviewees were unconvinced about whole-of-government accounting (WGA), although WGA was seen to have the potential to support longer-term fiscal analysis (Stewart and Connolly, 2021, pp. 583–584). Chow *et al.* (2009, p. 258) observed that MPs discussed WGA-related topics very little when the related bill was in the UK Parliament, which could suggest a widespread lack of interest in a centralising consolidation process (Chow *et al.*, 2009, p. 259).

Accrual-based CFS releases financial information to both internal and external stakeholders of a group of entities that form one factual economic entity. Although CFS are not mutually exclusive from other kinds of financial reporting, some scholars say that to avoid too-fragmented information, it is necessary to have an IPSAS style CFS. CFS according to IPSAS would increase accounting homogeneity in consolidation across countries (Heald and Georgiou, 2000; Grossi and Pepe, 2009; Polzer *et al.*, 2022). However, the possible benefits must be compared to the costs of implementation, such as personnel, training and consulting and ICT costs (Grossi and Pepe, 2009; Heald and Georgiou, 2000; Hepworth, 2017). In addition to resource and knowledge barriers (Wang and Miraj, 2018; Adebisi *et al.*, 2019), institutional barriers (Robb and Newberry, 2007; Oulasvirta, 2014) must also be anticipated.

The IPSASB (1996, p. 29) in its Study 8 presented two main distinct views about how to determine the boundaries of the government financial reporting entity. One is reporting on the basis of the authorised allocation of public funds, the budget sector (as opposed to the non-budget sector that encompasses, for instance, government-owned or controlled business companies and commercial entities) that includes those entities and transactions that are funded wholly or predominantly by authorised allocations of public funds. This concept includes government departments, ministries and possibly other administrative entities established under legislation and transactions relating to the allocation of public funds to non-government entities, such as privately managed medical or educational entities (IPSASB, 1996, p. 9).

An alternative view according to the study suggested reporting on the basis of all the resources for which the government is responsible, using control or ownership as a criterion. The IPSASB suggested that the reporting should use control as a criterion, as any other basis for determining the boundaries of the government financial reporting entity would not meet the objective of the provision of information for accounting and decision-making purposes (IPSASB, 1996, p. 29). Carini and Teodori (2021) argued for an even larger consolidation of all entities economically and financially dependent on the central government budget.

However, it is often reasoned that financial dependency alone is not a sufficient criterion for the inclusion of entities in the consolidation sphere. Extensively interpreted, the financial dependency argument would mean the inclusion of organisations such as universities and local governments, which are economically associated with, but not totally dependent on, central governments, as they have discretion over whether to accept government resources and how those resources are utilised (Howieson, 2013, p. 37). Bisogno *et al.* (2015, p. 322) concluded that the CFS should include entities that are completely or substantially funded by public money and also exercise functions of a public nature, according to the budgetary approach. In the budgetary approach, budgetary influence sets the perimeter. Its consolidation scope is smaller than that adopted in IPSAS (Grossi, 2015, p. 69).

Loughan called for flexibility in defining the borderlines of federal government consolidation: great care must be taken to ensure professional judgement and materiality when assessing entities against the various principles forming the boundaries, as there is a risk of visualising the field as much larger than it actually is (Loughan, 2010, p. 48).

Newberry and Pont-Newby (2009) and Walker (2009) concluded that the application of the control criterion in the public sector is not necessarily aligned with the purpose of financial reporting, which is public accountability. However, in the case of financial crises and governments taking over banks, Bergmann (2014) showed how the government not providing consolidated information may lead to a substantial loss of accountability.

Tagesson and Grossi (2012) showed that in Sweden, where consolidated reporting was already exercised in the 1980s and became mandatory for municipalities in 1992, municipalities had several differences compared to the IPSASB standards for consolidation (Grossi and Tagesson, 2008). The fundamental difference was that the IPSASB standards are based on a decision-making approach while the municipal standard is based on an accountability approach.

Furthermore, the coexistence of another accounting system must be included in our deliberation. The System of National Accounts (SNA), in Europe the European System of Accounts (ESA 2010), and governmental financial statistics (GFS) together make up a harmonised accounting system that takes care of the macroeconomic policy and supranational fiscal surveillance needs. It is highly debatable how important it is that the accrual microdata information must be harmonised and complement the macroeconomic data that has its own purposes, selective criteria for input data and surveillance practices (Dabbicco, 2015; Oulasvirta and Bailey, 2016; Columbano *et al.*, 2022). According to Jones and Caruana (2014, p. 267), the development of the concepts and measurement rules of the SNA have played no role in the development of accrual accounting; nor vice versa. Anyway, the construction of fiscal aggregates needs its own adjustment policies on input data, even if the public sector were to adopt a certain accrual basis of accounting (Daffin and Hobbs, 2011; Columbano *et al.*, 2022).

Bond investors and rating institutions do not have to rely on accrual-based governmental general-purpose financial statements because they get budgetary reports, fundamental macroeconomic sustainability forecasts and other special-purpose reports tailored to their own needs (Oulasvirta, 2014). Rating institutions seem to be able to rate governments irrespective of their chosen accounting models (whether cash-based, modified basis or pure accrual-based) and whether they present accrual-based CFSs.

The EU's EPSAS (European Public Sector Accounting Standards) project has not yet taken a definite stand on the consolidation matter, but it has ordered an issue paper and a screening report on consolidation from PwC. The key conceptual question is whether consolidated accounts should be prepared based solely on the notion of control or based on both the notion of control and the nature of the activities of the entities. International accounting frameworks such as IPSAS and IFRS require the inclusion of all entities under the control of the controlling entity in the consolidation scope (EPSAS WG, 2018, pp. 43–44). PwC concluded in its screening report that the IPSAS 35 scope of consolidation, based on the notion of control, is the right choice (PwC, 2021, pp. 26–27). Section 3 explains how our case country, after careful preparation, concluded that it is not wise to consolidate according to IPSAS 35.

### 3. Empirical part and analysis

#### 3.1 The case country

Our case country, Finland, is a unitary republic with a central government and a local government sector, and 5.6 million inhabitants. It has been a member of the EU since 1995.

The Finnish Government accounting institution possesses modern accounting technologies and trained accounting professionals. Its accrual financial accounting is based on the revenue-expense approach, emphasising prudence and realisation principles and historical costs rather than the balance sheet approach with fair values (Monsen and Oulasvirta, 2008; Oulasvirta, 2015).

Finland offers a particularly interesting research object for the following reasons. Both the local and central government sectors moved to modern accrual accounting during 1997–1998 (Oulasvirta, 2015). The central government accounting reform was carefully prepared during the 1990s, but an important difference prevailed compared to local governments. Local governments began to undertake accrual-based CFSs after the 1997 accounting reform. The central government did not include in its accounting reform consolidated financial statements covering SOEs or other controlled separate entities outside the budget organisation. But in summer 2019, the State Treasury began in cooperation with Tampere University a research project considering the useful content of a possible CFS and, more broadly, how to form optimum group reporting, also including other kinds of financial and non-financial information. The Audit Committee of the Parliament and the State Audit Office of Finland had in several contexts uttered a wish to get more systematic information on channelled funds, investments, risks and obligations that the government is liable for.

### 3.2 Data and methods

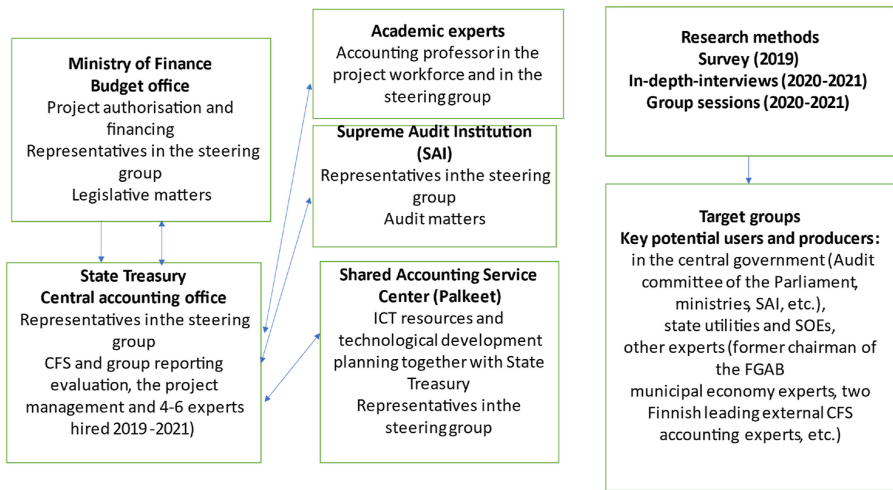
The State Treasury of Finland-led research project represented user needs and usability accounting research (van Helden and Reichard, 2019). If the specific user needs are followed, this leads to usability, and when usability is in place, this leads to use (Budding and van Helden, 2022, p. 137). Our empirical data consists of a survey and interviews collected from purposively selected Finnish governmental key officials and experts, information preparers and users, auditors and some prominent account experts in Finland (Table A1).

The empirical data was collected during the research project led by the State Treasury during 2019–2021 [1]. The survey was sent in autumn 2019 to 140 respondents representing preparers, potential users and some prominent Finnish key experts, auditors and consultants on CFS content (Figure 1). Information providers and users in central government, ministries, the State Treasury, the Shared Service Centre in Accounting (SSC), other budget entities, audit bodies, government enterprises, etc. were involved systematically in the research project. The respondents and interviewees were carefully mapped in the research steering group in a way that guaranteed the opinions of key stakeholders inside the government and in several off-budget entities and SOEs. Some of the interviewees were the same as in the survey, but interviewees were purposively identified separately to enlarge the opinions to give the best possible coverage serving the research objectives.

Inside the central government are about 60 accounting subunits (budgetary accounting agencies) doing their own financial statements that are consolidated into one central government general-purpose accrual-based financial statement consisting of an income statement, funds flow statement and a balance sheet with extensive notes, and also a budget outturn statement following the structure of the approved budget and including a wide subunit performance reporting section explaining how the activity goals have been achieved. These subunits were well-represented in the survey.

Eleven state funds and two state utilities belong to the government's legal person. They were also represented in our survey and interviews. So far, they must publish separate financial statements and annual reports, but they have been not officially consolidated into the government budget book closure.

A total of 36 persons (26% of 140) answered the questionnaire. In Ouda and Klischewski's (2019) classification, they mostly represented the inner circle, e.g. practitioners/preparers of



**Figure 1.**  
The research project and data collection

financial management in different positions. Compared to the classification of van Helden and Reichard (2019) consisting of politicians, managers, employees, creditors and investors, oversight bodies and inspectorates, citizens and media, our respondents were not directly politicians, media or citizens. Many respondents had both a preparer and a potential user role. That is why it was impossible to create a sharp division between these groups.

The interviewing part of the project ran from January–August 2020. Twenty-three separate interviews were conducted, many of them group interviews. Interviewees were from the same organisations and some were the same persons as in the survey. The interviews were made either by team visits to sites or via remote technology (Teams). The in-depth interviews lasted from half an hour to over two hours. The interview themes were sent in advance to some interviewees via email. Interviews were recorded and transcribed by an external service enterprise (Tutkimustie Ltd). One interview is based on a telephone interview not recorded, and one is on an answer via email. During the interview process, researchers noticed in many themes that saturation points were reached regarding finding new information.

For each transcribed document, the main points were gathered according to the themes in the interviews. The organisations of all 40 interviewees are shown in an Annex Table. The condensing and summarising of the main points were discussed between the project researchers (two to four researchers, and one author of this article participated in all interviews except one).

The group sessions of 2020–2021 were facilitated by the Treasury project for some key informants who were also participating in the interviews. These sessions were for technically advanced discussions about the proper ways of doing CFS calculations – these are not described in this article. These sessions did not change the interpretations based on the other materials.

### 3.3 Survey results

The survey questions were prepared during summer and autumn 2019 (see Table A3).

**3.3.1 Wider group calculations.** The first interview question resulted in two-thirds of the respondents (24) seeing wider calculations as appropriate. The CFOs (14) in the budgetary

accounting preparing entities mainly answered negatively to the need for wider calculations than present showing only the financial statement of the budget government (Table 1).

The majority of yes answers were not a surprise because the question was more general regarding the need for wider governmental financial calculations: we did not ask a detailed question in the style of, “Do you want the state to begin to prepare an accrual-based consolidated financial statement with the control criterion?”

Almost all respondents mentioned in the open sphere after the closed questions that a wider enhanced view of the whole government sphere, its incomes, expenditures, property, debts, obligations, etc. would be useful. Many yes answers mentioned the need to gain a transparent view of the wider sphere of the government economy.

Regarding the opposing opinions, in addition to nine CFOs who had a preparer role in the budgetary accounting entities and answered no, one respondent from the state holding company, one from a state-owned company (listed) and one from the national insurance institution answered no to the question. This opinion is understandable because CFOs in budgetary accounting agencies are not keen on doing additional accounting tasks that satisfy user needs located at external and upper governmental levels and maybe even supranational (EU, etc.) information needs.

3.3.2 *The sphere of consolidating and the array of calculations.* The way in which the Finnish respondents (31 answered this question) defined the scope is summarised in Table 2. Several choices by each were possible regarding the question, “What entities should be merged into the state CFS?”

The majority of respondents saw it as necessary to consolidate budgetary accounting entities, the state juristic person consisting of the government funds (11 funds) and the two state utilities.

Government group calculations wider than present (budget government)

Answer	Users and preparers All respondents (36)	Mainly prepare role CFOs of budget accounting offices	Mainly user role – 8 persons government organisations, one in state holding company	Other persons (role mixed) Governmental experts, other experts like auditors and consultants, one academic, one from SOE, one from state utility and one from a state insurance institution
Yes	24	5	8	11
No	12	9	1	2

**Table 1.**  
Do you think that it is appropriate to make government group calculations wider than present (budget government financial statement)?

The sphere of the group calculations

All that answered 31 persons

State budget economy	31
State funds	25
State utilities	25
Majority-owned state companies, all or some	17
State-associated companies, all or some	10
Universities	14
Bank of Finland	11
Finnish Social Insurance Institution	19
Other social security funds	3
Other corporations	6

**Table 2.**  
What should be included to the sphere of the group reporting

The respondents saw it as the next most important to include state majority-owned enterprises, state universities and the Finnish Social Insurance Institution in the CFS.

As summary, the budgetary approach mostly gained support, which means that respondents wanted to include the core budget in the government CFS. Furthermore, the respondents were in large part unanimous about the content of the group calculations. The consolidated group income statement, balance sheet, cash flow statement and notes should be included. Different information regarding state liabilities and obligations were considered the most important to be included in the notes.

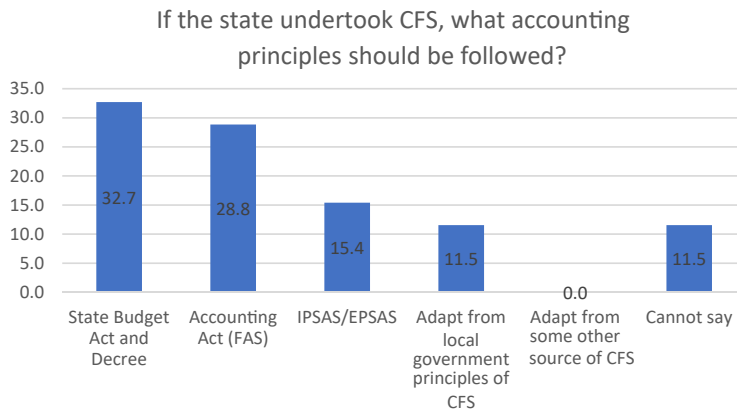
CFOs in the budgetary accounting agencies that had preparer and not user roles regarding CFS information were more reluctant about a new CFS preparation process than others. This finding reflected their self-interest, as they were mainly in preparer roles and responsible for budget and accounting processes at the subunit level.

**3.3.3 Accounting principles of CFS.** The majority of respondents saw it as appropriate to prepare the CFS according to the national general Bookkeeping Act (FAS) and/or according to the principles or modified principles of the Budgetary Act and Decree of the Government (Figure 2). IPSAS/EPAS had some mentions. The Finnish FAS is at several points less complex than the IFRS regarding consolidation. The same is true concerning the consolidation rules of Finnish local governments. The State Budget Act and Decree apply accounting rules that represent the modified accrual basis (Oulasvirta, 2015).

Some of the respondents considered the balance sheet, income statement and cash flow statement as equally important. Some considered the consolidated balance sheet more important than the consolidated income statement because of the different purposes and earnings policies between tax-financed and non-market entities versus market-financed for-profit entities. Liabilities and risks were commonly considered essential information to present in the notes. Supranational commitments and contingent liabilities were also mentioned.

**3.3.4 Users and usage and decision-making events of CFS.** The open questions (Who would be the information users of the group reporting? What are the concrete decision-making events that the group reporting would serve?) gave further insights. Most often users were named as decision-makers, ministries, parliament, politicians, taxpayers, media, creditors and rating institutions.

Regarding concrete decision-making situations, some respondents wrote that group reporting and CFS may be useful background information for many economic decisions, economic planning, organising governmental operations, decisions concerning liabilities, and



**Figure 2.**  
Accounting principles  
in consolidation

evaluation of the whole of the economy. They typically did not locate situations specifically with their own decision-making needs, instead writing in more general terms.

In several cases, the respondents expressed the need to gain the whole picture, which should be understandable and transparent. One respondent crystallised their ideas as follows: “More important than separate information is an up-to-date database, from which can be taken out flexibly different kinds of information for current decision-making needs and events.”

*3.3.5 Reporting frequency.* Regarding the frequency question, most respondents thought that once a year would be enough. The State Treasury, which is responsible for undertaking the consolidating, brought forward the opinion that it is capable of this, although it needs some additional resources.

### 3.4 Interviews

The interviewees were selected in the research steering group from both preparers and potential users covering the government sector. Prominent and leading CFS experts in Finland were also interviewed. The interview results take into consideration both the respondents’ own organisational information needs and the wider needs of the whole of the government, hence surpassing their own organisation and its needs. The results are organised in [Table A2](#).

*3.4.1 Need for consolidation information.* Few respondents saw the direct added value of formal CFS information to themselves, but on the other hand, saw value in information-gathering regarding the larger economic sphere if customised information could be offered to them for their own special purposes.

It was common for interviewees to emphasise the importance of a transparent and overall view of the state economy, of its debts, commitments and contingent liabilities, risks and, if risks are realised, the consequences for the state economy. Some of the interviewees emphasised the linkage of the economic side with the activity side in the wider accountability reporting that must cover both the money process as well as the activity process, so that value-for-money reporting can be done reliably.

Those who represented government ownership steering entities, whether in the Prime Minister’s Office or in offices in the line ministries, did not see a special need to perform a state CFS for their own information needs, although such a CFS may satisfy some important information needs external to them.

*3.4.2 Reporting and consolidation methods.* Many interviewees were open to the best ways of undertaking enhanced comprehensive reporting of state liabilities, commitments, risks and so on, and could not precisely outline the best reporting model or models. Some of the interviewees emphasised that in parallel with or instead of complex accrual CFS calculations, clear and understandable reporting is needed that serves budget preparation, planning and accountability reporting, in ways that satisfy MPs’ and parliamentary decision-making needs.

Not all interviewees took explicit stands on the accounting principles for the technical merging methods in the consolidation. Those who had opinions said that consolidation methods in the public sector should not take on without amendments to the consolidation methods stipulated in the Finnish Accounting Act (30.12.1997/1336). They expressed that the consolidation methods should be as simple as possible. This opinion was often justified with wishes for understandability and worries that the costs should be kept reasonable compared to the benefits of preparing CFS. Some interviewees considered the nominal, pair-value method as an appropriate alternative method, contrary to the Finnish Accounting Act stipulating that a subsidiary is merged according to the purchase method. The less complex pair-value method does not create goodwill or negative goodwill on consolidation.

This method has been adapted for municipal consolidation in Finland and has functioned well for municipal group reporting purposes (interview 27.3.2020 with two experts in the economy department of the Association of Local and Regional Authorities in Finland).

*3.4.3 Consolidation information serving decision-making situations.* We could also observe wishful thinking on the benefits of CFS. Some interviewees suspected that maybe the concrete possibilities may reveal themselves when the CFS calculations are systematically provided and available for them. Few of the interviewees were able to point out concrete decision-making situations in which the formal CFS would bring necessary data directly for their own decision-making. The inability of the users to determine their financial information needs may lead to those needs being determined by others than the users themselves (Ouda and Klischewski, 2019, p. 504).

The differences between interviewees were between CFOs in the budgetary accounting agencies seeing less benefits of a new CFS accounting process than others. Moreover, representatives from the government ownership steering functions and state-owned entities saw less benefits in a new CFS accounting process than others.

## 4. Discussion and elaboration of the findings

### 4.1 Consolidation sphere

The IPSASB has taken the principles for CFS from parent company theory (Bergmann *et al.*, 2016). However, Bisogno *et al.* (2015) concluded that the entity concept of group theory seems to be more valid regarding information needs of public-sector organisations and their stakeholders. The entity perspective in the public-sector context is condensed into a budgetary perspective, in which the borders of the budget organisation steer the accounting consolidation.

In our case study an approach based on the central government legal person supplemented with a partial control approach in limiting the sphere of off-budget entities mostly got support. The core of the group sphere is the government budget organisation and all its ministries and other budget subunit entities that are merged into the government financial statement. They are supplemented with state utilities and state funds belonging to the government's legal person.

The next circle in the sphere consists of special-purpose state-owned enterprises like the postal, broadcasting, railway, state computer service, military maintenance and national electric grid companies. Many of these were previously entities belonging to the budget organisation and were corporatised from their previous agency format (for instance, the national post and railway). The government steers these special-purpose SOEs by specific laws enacted for them, by ownership policy decisions and, furthermore, by articles of incorporation that contain societal goals (Kankaanpää *et al.*, 2014; Oulasvirta *et al.*, 2014).

The next circle includes commercial SOEs with special strategic interests. Then comes the circle of pure commercial SOEs, in which the state has mainly or only a financial interest. Commercial SOEs follow general laws concerning the line of business and are not steered by company-specific laws like special-purpose SOEs. These should be merged with discretion on how "far" this merging is useful for consolidated group reporting purposes besides separate obligatory reporting; that is, entity-specific separate financial statements and non-financial activity reports paralleled with the ownership steering office's own separate analysis for central government for government ownership steering information purposes.

### 4.2 Presentation methods

The choices of CFS accounting presentation methods can be based on general theoretical concepts of CFS. The parent company approach emphasises the parent company's

shareholders' interests and favours line-by-line full consolidation based on the control criterion. This approach has also gained particular support in the local government sector, less in the central government sector (Chow *et al.*, 2007; Grossi, 2009; Grossi and Newberry, 2009; Wise, 2010; Tagesson, 2009; Tagesson and Grossi, 2012; Grossi and Steccolini, 2015; Cirstea *et al.*, 2017).

The decision of the steering group of the research as well as the decision of the State Treasury was to merge the funds and utilities belonging to the government's legal person with a full line-by-line method. They will be part of the new official State Extended Financial Statements from the financial year 2025.

Not all, but the most important, special-purpose SOEs were selected for the experimental calculations with both the full line-by-line and one-line equity methods. It was left to a later phase then to decide which is the better method. Some SOEs with commercial purposes were also merged with the one-line equity method in the project's trial calculations.

In this equity method, the shares of an entity are initially recognised at cost and subsequently adjusted for the post-acquisition change in the reporting entity's share of the net assets/equity of the entity. The equity method has been raised as a relevant alternative to the complex line-by-line full consolidation method. According to Bergmann *et al.* (2016), in many countries, entities with a strong balance sheet and significant revenues from market activities are consolidated according to the equity method.

More business-like organisations in particular may be presented with the equity method in the primary government's separate financial statement. The IPSASB rejected feedback that it received arguing for the equity method (IPSASB, 2015, pp. 53–55). On the other hand, Sweden has, after careful consideration, chosen to use the simple equity method in state financial statement consolidation. This means that the pro rata share of the enterprise's result is yearly added to the investment in the (parent) primary government assets (showing the net property share belonging to the government comes from the proprietary concept) (ESV, 2013).

Entities not merged may still be separately presented, in the notes and in other reporting modes. Furthermore, it should be recalled that all separate financial statements and annual reports of SOEs are needed for government ownership policy steering and surveillance purposes.

#### 4.3 *The decision based on the project*

The State Treasury in Finland concluded based on this research project (State Treasury of Finland, 2022) the following: (1) It is not appropriate to take IPSAS 35 as a rule on how to do state CFS, (2) the budgetary approach, in which the state legal person produces a combined separate financial statement, is an appropriate solution, and (3) wide-government group information and presentations shall be developed separately and not incorporated into the official and auditable legal state financial statement. The Finnish State Treasury is planning to incorporate its funds and the utilities in the State Extended Financial Statements from 2025 (audited in Spring, 2026).

## 5. Conclusions and discussion

Our contribution comes from answering the following research questions.

- (1) What are the objectives that CFS are supposed to pursue in the particular context of a central government? The CFS information should give a consolidated view of the budget finances consisting of several subunits responsible for the usage of budget money authorised by the parliament. The wider consolidation information beyond the central government legal organisation, especially concerning SOEs, should satisfy the ownership steering and surveillance information needs of the parliament.

- (2) Which information should be disclosed and how in CFS provide useful and useable information for users? Our survey and interviews show that it is necessary to have information and reporting on the whole of the government economy. This necessity can only partly be satisfied with accrual-based CFS. Both the survey and the interviews showed that the usability wishes were front and most connected to such information that benefits the overall policies and management of the state economy, its risks and sustainability, etc., and that formal state CFS information alone is insufficient regarding these information needs. Many interviewees had wishes connected to these wider matters and less precisely to CFS matters. However, CFS can add value indirectly via forcing the state to take a wider view of information-gathering.

Both the activity and financial performances of the group around the legal budget entity are needed. Interviewees that had steering functions for SOEs emphasised the need for specific separate financial and activity performance information on SOEs. These results justify suggesting that the intertwined whole CFS, separate financial statements and other reporting modes should be planned systematically, and not just parts of them separately.

For instance, in Finland, the government budget explains the government's ownership steering policy and encompasses headings and items separately for government funds, state-owned public utilities and SOEs. Furthermore, the accountable central government reports its off-budget activities and ownership steering performance in its annual report to the parliament, both in aggregate and in detail, enterprise by enterprise.

- (3) Is the control approach coherent with the scope of CFS as well as with the information that it provides to users? The government's steering and surveillance information needs should modify the perimeter according to the differing characteristics and significance of its agents. We conclude that merged group accounting information in the form of CFS is needed, but not according to the extensive full control approach, but rather following the budgetary approach consolidating units of the legal person of the government, and further using the partial control approach for consolidating by discretion essential special-purpose SOEs. With the partial control approach, we mean that only those controlled and essential special-purpose SOEs taking care of activities of a governmental nature are consolidated, not minor ones not bringing any material information for the government. The user information needs are in this way better satisfied than following the IPSAS method of full consolidation with control criteria without exceptions. When the government controls entities that have dissimilar operations compared to its own operations, divergence from full consolidation (Canada uses the equity method) or refraining totally from including such entities in the consolidation are reasonable solutions ([Haustein and Lorson, 2019, p. 324](#)).

Answering the above questions forms our first contribution. Our case study shows how to limit a group and modify the CFS information from the user and usability points of view. It encourages avoiding complex group reporting so as not to get caught up in a situation of weak usability and under-usage of group reporting ([Chow \*et al.\*, 2009](#); [Stewart and Connolly, 2021](#)). Our user-oriented findings include a consolidation solution with a better cost-benefit ratio and more useable accounting information compared to solutions slavishly taking for granted external international standards.

Accounting scholars and standard setters have concentrated on normative reasoning and assumptions regarding CFS. IPSASB admitted in its consolidation standard that it had limited availability of evidence, particularly, on the usefulness of consolidated financial information with respect to specific types of controlled entities ([IPSASB, 2015, p. 54](#)).

The need for empirical usability and usage studies is apparent (Walker, 2009; van Helden, 2016; Ouda and Klischewski, 2019; Haustein and Lorson, 2019; etc.). According to Walker (2009), the users of CFS should be identified first to calculate the appropriate CFS solutions. Herein lies our second contribution: we made an in-depth exploratory case analysis of user-oriented needs regarding central government group consolidation.

The third contribution is to give guidance for CFS implementation rules at supranational levels, especially now in Europe because the development of the EU's EPSAS project is still incomplete. Our user-oriented case study advises consolidating in a diverging way from IPSAS 35. If the EU issues a mandatory EPSAS copying IPSAS 35, this would compel Finland, also Sweden [2], to abandon their carefully planned choices of doing their consolidation in a simpler and less confusing manner compared to IPSAS 35. Our case study results give support to a recommendation that the EU should recognise its own subsidiarity principle and not force member states to follow the unsatisfactory IPSAS 35 method of consolidation.

Fourthly, our case study gives insights into the positivist theory of accounting. Our case shows how a developed country with good accounting skills free from coercive institutional forces chooses another approach than that ruled in the IPSAS standards. This gives some case-based evidence on how international harmonising forces may have a weak impact on national accounting solutions (DiMaggio and Powell, 1983; Oulasvirta, 2014; Christiaens *et al.*, 2015). Furthermore, agency and stakeholder theories may help to explain why an accountable government (like the Finnish one) prepares a certain kind of consolidation report (Santos *et al.*, 2018) in its overall setting of interlinked financial and non-financial reports serving the principal's (the parliament's) needs for surveillance information of its off-budget activities and entities (Oulasvirta *et al.*, 2014; Mnif and Gafsi, 2020).

### 5.1 Further research and limitations

Our strength was that we had both multiple data collection and investigators who constantly discussed the research project. The research group made several test calculations with consolidation figures and discussed them with the steering group. Our investigators in the project had academic education in both public-sector accounting and private-sector accounting, and two of us had not only work experience in the public-sector financial management but also in private-sector financial management in CFO and controller positions. These features were positive factors enhancing the preconditions for research validity and reliability.

Our study was concentrated on internal users and not directly on external stakeholders (citizens, voters, taxpayers, etc.). Respondents and interviewees represented mainly persons from governmental internal organisations: some were free agents, auditors, and financial managers from the group entities, but politicians and citizens were not sufficiently represented.

However, these mentioned limitations were alleviated with the fact that we asked respondents and interviewees not only about their own information needs in their organisations but about what they thought regarding the needs of the government in general, irrespective of their own position. They had in their positions interconnections with both politicians and citizens.

We see this as an important future line of research continuing with case studies anchored in the special context and using in-depth interviews to reveal real user needs.

### Notes

1. The final report of the two-year project was published in February 2022 by the State Treasury, publication 2/2022 (only in Finnish).
2. The Swedish Government consolidates SOEs into the balance sheet using the simple equity method (ESV, 2013).

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(The Appendix follows overleaf)

Special adviser	Ministry of Finance
Senior officer (administrative affairs)	Housing Finance and Development Centre of Finland
Investment manager	State-owned (100%) holding company
State financial accounts expert	Central Statistical Office of Finland
Certified private and public sector auditor	Audit firm
Special adviser	Ministry of Finance
Financial manager	Senate Real Estate
Financial manager	Finnish Immigration Service
Financial manager	Ministry of Interior
Senior accounting adviser	Free agent
Financial manager	Finnish Customs
Financial manager	National Archives of Finland
Financial manager	Ministry of Transport and Communications
Finance and administration manager	Government Institute for Economic Research
Service manager	Government Shared Service Center
Chief specialist	National Land Survey of Finland
Department head	Corporate Governance Unit of the Prime Minister's Office
Financial manager	The Population Register Centre
Financial manager	Police department of Southwest Finland
Financial manager	Emergency Centre
Assistant controller of the government	Ministry of Finance, Controller Office
Financial manager	Ministry of Defence
Director	State Auditor's Office
Director	State Auditor's Office
Financial manager	Ministry of Employment and the Economy
Senior Manager	Audit firm
Legislative Director	Listed state-owned-company (state majority owner)
Chair of the accountancy board section for local governments	Accountancy Board
Senior actuary	Central Statistical Office of Finland
Financial expert	Ministry of Finance
Secretary general	Parliament
Assistant manager	State Treasury
Branch manager	State Treasury
Special adviser	The Prime Minister's Office
Researcher	Hanken School of Economics
Financial manager	The National Insurance Institution

**Table A1.**  
Job positions of survey  
respondents (36)

Main role (office/agency not mentioned to avoid recognizing)	Number of interviewees	Summary of main opinions
<i>User</i> (Central government)	3	<p>Respondents did not see significant usage or added value of CFS, from the point of view of the ownership steering function. They have systematic company-specific information of companies in the portfolio</p> <p>A wider than present knowledge about SOEs may interest the Commerce Committee of parliament. However, the main interest of Members of Parliament is directed to company-specific matters</p> <p>It is difficult to foresee the need or application of CFS information, and in a way, the adopted approach could be in the beginning a supply orientation. If the focus is on an audit-suitable CFS, this may supplant inputs from more useful usage. One information application is to recognize assets for possible balance sheet arrangements. Another is a risk analysis that uses as information sources the balance sheet and the funds flow statement</p> <p>There is no added value in consolidating the financial statement lines of the company into the government statement</p> <p>Information needs of a specialised financing company: (1) Does the government want to invest more capital into state-owned financing company, or (2) what are the commitments that become ripe to pay for the government? This information gives added value, not the summation of the balance sheet with the government balance sheet</p> <p>The line ministry sees companies as separate entities, and less comparable to each other</p> <p>The line ministry looks at its steered companies from the angle of their special-purpose function and from their societal effectivity</p> <p>However, looking at the companies as one whole may be a good tool when the aim is to evaluate how policy aims have been promoted in their entirety</p> <p>It needs information on phenomenon- and goal-related money inflows and outflows for precisely understanding and implementing its audit engagements</p> <p>Comprehensive economics information may improve the management of the whole, knowledge of risks, the extent to which they are state responsibilities and the extent to which they are the responsibilities of external partners, awareness of the comprehensively examined state debts</p> <p>The appropriateness of group and ownership structures should be constantly tracked</p> <p>Contingent liabilities, guarantees and especially state-owned financing company off-balance sheet commitments and reporting of them is at present deficient</p> <p>State Audit Office of Finland emphasised the needs of the parliament, although the parliament (MPs) Probably does not have any strong views on this matter</p>
<i>User</i> (Central government)	1	
<i>Preparer</i> (Specialized financing company)	3	
<i>User</i> (Central government)	1	
<i>User</i> (State Audit Office of Finland)	3	

(continued)

**Table A2.**  
Interviewees'  
information needs  
and usage

Table A2.

Main role (office/agency not mentioned to avoid recognizing)	Number of interviewees	Summary of main opinions
<i>Preparer</i> (A majority state-owned strategic listed company)	1	The interviewee of this listed company did not see added value from a state CFS; rather it would create costs for the company The company prepares and presents its own CFS according to the mandatory accounting rules (IFRS) It is essential for the government to follow the market value of the state-owned portfolio Follow-up of the turnover has less significance: it has significance if one wants to follow the growth of the company Group data would be of use if this data accommodated their sector classification statistical needs. This would Save their data collection work Pure compilation data is of no use because the statistical office needs entity-level data for its statistical examinations
<i>User</i> (National Statistical Office of Finland)	3	
<i>Preparer</i> (Central government)	4	It is enough for them that they provide budget data for the aims of follow-up and budget authority procedures, for accounting purposes and for performance data for state annual activity reporting It has no need itself for any state CFS data
<i>Preparer</i> (The Finnish Social Insurance Institution)	2	The interviewees emphasised the importance of entity-specific data for subsidiaries. The municipal economic crisis measures according to the Local Government Act include metrics that are calculated on the group level
<i>External</i> (The association of Finnish Local and Regional Authorities)	2	In addition to examining the merged group, municipalities in their parent role examine entities separately in their group
<i>Preparer</i> (Finnish Government Shared Services Centre for Finance and HR)	1	The information system as such is technically adaptable to CFS requirements, but it means changes in the information system, takes time and costs The parliament as a political decision-maker may be the widest user of CFS

(continued)

Main role (office/agency not mentioned to avoid recognizing)	Number of interviewees	Summary of main opinions
<i>User</i> (Central government)	1	An overall view is needed in the budget and framework preparation and related to economic policy planning in the ministry The overall picture is now too dependent on "manual digging" for data from different sources: it would be helpful to have one united and comprehensive database The department as such does not have a need for a state CFS, except if it serves national accounts and public sector macroeconomics planning purposes Knowledge benefits macroeconomics if the data helps to understand the figures in the national accounts and helps to plan with the numbers This above would be served by data organised according to the national accounts sector classification criteria in the CFS
<i>User</i> (Central government)	1	A comprehensive knowledge of state debts and other liabilities benefits the department The usage and usefulness of state CFS is unclear Knowledge about risks and commitments concerning the wider whole than the budget organisation faces
<i>User</i> (Central government)	1	A comprehensive balance sheet may help to consider the ownership structures, but this purpose can be satisfied without a state CFs, and actually all these matters are already observed all the time It has no knowledge needs itself related to a state CFS. It has a functioning communication process and dialogue with the ownership steering office in the ministry with no problems The state consolidated balance sheet would help to understand the cumulative debt, contingent liabilities and risks of the state
<i>Preparer</i> (Government-owned lottery and pooling corporation)	1	SOEs deliver dividends that are registered as incomes in the state budget, so this information is in the budget The CFS would show how much from the consolidated balance sheet gets property from the subsidiaries
<i>Preparer</i> (Central government)	1	Government needs knowledge about activities that government has reasons to keep and about activities that can be outsourced, keeping in mind that outsourced activities are difficult to internalise back Knowledge about state wealth and indebtedness supplemented with knowledge about liabilities and commitments are important Income statement information regarding big money flows is important, especially in situations in which some other actor implements governmental tasks on behalf of the government, the Finnish insurance institution is one example of this

(continued)

Main role (office/agency not mentioned to avoid recognizing)	Number of interviewees	Summary of main opinions
<i>User</i> A big leading audit firm	2	The owner should use its ownership power irrespective of the community form. When doing a CFS, it is important for the citizens that the reconciliation statements are done in a transparent way so that the citizens can see what the different statements tell. There must be bridge calculations between the budget statement and the accrual-based financial statement.
<i>Expert 1</i>	1	On the business side, the CFS is justified because of the need to calculate the result and the distributable retained profit. The balanced economy requirement calculated from the CFS is not valid in the case of the central government.
<i>Expert 2</i>	1	Foreign creditors' information needs must be served. Assessed from their needs, the consolidated balance sheet containing all liabilities and commitments is important.
<i>User</i> Audit Committee of the Parliament	1	In the business world, the parent company strongly steers and coordinates subsidiaries so that it can be sure that the same operating principles are followed everywhere.
<i>User</i> (Central government)	1	The consolidated public sector income statement has severe problems because the result is totally differently formulated in a business subsidiary than in a budget entity.
<i>User</i> (Central government)	1	SOEs are handled in the Audit Committee as separate matters and not included in any comprehensive calculations. There may be a latent need for such calculations, but so far this has not more specifically manifested itself.
<i>User</i> (Central government)	1	Parliament needs a comprehensive picture for its decision-making on the wider economy than the budget economy.
<i>User</i> (Central government)	1	The wider picture is important for the parliament to be able to follow the fulfilment of accountability. The mode of the presentation must be understandable and clear, not too complex.
<i>User</i> (Central government)	1	The Department participates in the work of compiling and developing the state annual report.
<i>User</i> (Central government)	1	A new kind of accountability report of the overall picture of the government economy and activities can be developed on the grounds of present reporting or be completely new.
<i>User</i> (Central government)	1	An overall picture is needed of the property, debts, net wealth, contingent liabilities and commitments risks and of the money outflows of realised risks.
<i>User</i> (Central government)	1	The group examination should be done multidimensionally, for instance, on the continuum from budget organisation, government funds public corporations, public financial institutions etc.
<i>User</i> (Central government)	1	This means that there should be balance sheets on different points according to this cumulative continuum.
<i>User</i> (Central government)	1	Needs of analysis of wide-government investments.
<i>User</i> (Central government)	1	One solution is to gather subsidiaries to separate groups according to their nature and show them as separate subgroups (not consolidated).

- Do you think that it is appropriate to make wider group calculations for the state?
- Which corporations should be consolidated into state group calculations?
- What calculations and information should be included in state group reporting?
- Who would be the information users of group reporting?
- What are the concrete decision-making events that group reporting would serve?
- If the government prepared a CFS, what consolidation principles should be followed?
- How often should the CFS be published?
- What would be the capabilities in your organisation to steer, do or check CFS calculations and reporting?
- Do you have any other views on CFS that you want to express?

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