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Implementing IFRS in Local Government: Institutional Isomorphism as NPM Goes Mad?

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Abstract

The impact the International Financial Reporting Standards (IFRS) has on business has been considered by various authors, such as Jones and Higgins (2006). However, there has not been the same research conducted with respect to local government. As Australia and New Zealand are leading the world by being the first to introduce IFRS into local government financial reporting, this study is timely in order to determine the impact of compliance on local government. With the New Public Management (NPM) introduced in the late 1970s, accrual accounting and the desire to enhance transparency became embedded in financial reporting across the world. The paper adds to the growing literature on institutional theory with results of the study suggesting that a form of coercive isomorphism is present in regards to local government compliance with IFRS. It also suggests that the philosophy behind NPM –

especially that espousing the benefits of public sector reporting in a private sector vein—may not be as relevant to Australian local government as the policy makers would have us believe. The thrust to implement IFRS may have finally pushed local government into a world they struggle to cope with. For example, findings indicate that there is now, more than ever, a perception in the community that the bottom line is an important indicator of a council's performance. Results reported here determined that the implementation process was time-consuming and costly with, in general, very little perceived benefit. Councils are conforming to the coercive pressure from legislative bodies, but they are not converging as part of the 'transaction-neutral' reporting regime.

Key Words:

IFRS local government transaction-neutral NPM institutional theory

Notes

Reference can be made here to Alchian's 'survival of the fittest'.

This paper reports on the interview stage that provided the most in-depth analysis of perceptions of the implementation of IFRS.

AASB 1031 (2009), Para 15. 'Quantitative thresholds used as guidance for determining the materiality of the amount of an item or an aggregate of items shall, of necessity, be drawn at arbitrary levels. Materiality is a matter of professional judgement influenced by the characteristics of the entity and the perceptions as to who are, or are likely to be, the users of the financial statements, and their information needs. Materiality judgements can only be properly made by those who have the facts. In this context, the following quantitative thresholds may be used as guidance in considering the materiality of the amount of items included in the comparisons referred to in paragraph 13 of this Standard:

(a) an amount that is equal to or greater than 10 per cent of the appropriate base amount may be presumed to be material unless there is evidence or convincing argument to the contrary; and

(b) an amount that is equal to or less than 5 per cent of the appropriate base amount may be presumed not to be material unless there is evidence, or convincing argument, to the contrary.

A FiscalStar rating is a publicly available, independent assessment of the financial sustainability of a council's existing policy settings, indicated by reference to a number of categories and the assigning of up to five stars.

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