



**UPDATE**  
**PUBLIC SECTOR COMMITTEE**  
**July 2002**  
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535 Fifth Avenue, 26th Floor  
New York, New York 10017, USA  
Tel: 1 212 286-9344 Fax: 1 212 286-9570

1302/530 Little Collins St., Melbourne, Victoria, Australia  
Tel: 61 3 99097677 Fax: 61 3 99097669

Internet: <http://www.ifac.org>

## **Introduction**

The PSC met in Mauritius in July 2002 in conjunction with annual meetings of the East and Southern African Association of Accountants General (ESAAG) and the Eastern, Central and Southern African Federation of Accountants (ECSAFA). The PSC undertook successful joint seminars with ESAAG and with ECSAFA, and met with the executive committee of ESAAG to discuss matters of mutual interest and to consider mechanisms by which the PSC could further support the development of governmental financial reporting in Africa. The following is an update on that meeting.

The PSC continues to seek the additional funding necessary to support its standard setting program, including support for participation on Steering Committees.

## **PSC Steering Committees and Consultative Group**

### ***Non-Exchange Revenue***

The Steering Committee held its first meeting in June 2002. The Steering Committee will meet again on November 4 and 5, 2002. Attachment 1 to this Update outlines the aims of the project, the outcomes of the first meeting, and identifies the members of the Steering Committee.

### ***Social Policy Obligations***

This Steering Committee will hold its first meeting on July 25 and 26 at the OECD in Paris. The members of the Steering Committee are identified below:

**Kevin Simpkins** – Chair, New Zealand, Deputy Controller and Auditor-General of New Zealand;

**Johan Christiaens** – FEE, Director Ernst & Young Public Sector Accounting Research Centre, University of Ghent, Belgium;

**Brian Donaghue** – IMF, Consultant to IMF;

**Kristina Lundqvist** – Sweden, Head Accounting Development, National Financial Management Authority;  
**Elizabeth Moran** – Australia, Director Risk Management and Performance Review, South Australian Dept of Treasury and Finance;

**Masud Muzaffar** – Pakistan, Financial Advisor, Capital Development Authority of Pakistan;

**Song Qichao** – China, Section Chief, Dept. Social Security;

**Ron Salole** – Canada, Director of Accounting Standards, Canadian Institute of Chartered Accountants; and

**David Watkins** – United Kingdom, Accounting Policy Manager, Whole of Government Accounts Programme, HM Treasury.

## ***Budget Reporting***

The PSC agreed that a paper identifying options for the scope of this project will be prepared for consideration by the PSC at its meeting in November 2002. The PSC intends to agree the scope of the project at that meeting and establish the Steering Committee soon thereafter. Members noted that those who had previously nominated for membership of the Steering Committee had agreed to form a Project Advisory Panel to review and provide input to this “scoping” paper.

## ***Consultative Group***

The PSC continued to make progress on the establishment of its Consultative Group. It confirmed the operating procedures of the Group but expressed concern that, as yet, the proposed membership was not sufficiently representative of all geographic regions and constituent groups. The PSC intends to build broader representation before formally announcing membership of the Consultative Group in late 2002. Those interested in joining the Consultative Group should contact Jerry Gutu at IFAC ([jerrygutu@ifac.org](mailto:jerrygutu@ifac.org)).

## **Documents to be released in the second half of 2002**

- IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*.
- IPSAS 20 *Related Party Transactions*, subject to final approval by the PSC.
- An Occasional Paper on the Modernisation of Government Accounting in France.

The PSC continues to work on the cash basis IPSAS with a view to approving it for issue at the next meeting in November 2002.

## ***IPSAS 19 Provisions, Contingent Liabilities and Contingent Assets***

The PSC considered the amended draft IPSAS and approved the publication of the Standard subject to minor editorial amendments which are to be processed by staff. The Standard is expected to be published in the second half of 2002, together with the IPSAS on Related Parties if approved (see below).

## ***IPSAS 20 Related Party Disclosures (Proposed)***

The PSC considered the amended draft IPSAS and agreed:

The PSC Update is prepared by staff after each meeting of the PSC with the aim of providing a timely report on the progress of PSC projects. The views expressed in this document may not necessarily reflect the final views of the Committee or of individual members.

- to restructure the definitions such that close family members of key management personnel are included in the definition of “related parties”;
- that disclosure requirements should be amended to ensure that disclosures about transactions with close family members of key management personnel are retained where appropriate; and
- to make amendments to the examples in the appendix.

The PSC indicated general support for the proposed IPSAS subject to these revisions and directed that the proposed IPSAS be amended as directed and circulated for final approval out of session.

### ***Occasional Paper on the Modernisation of Government Accounting in France***

The PSC noted that the French delegation and staff were finalizing this paper and its issuance late in the third quarter of 2002 was anticipated.

### **Translation of IPSASs**

The PSC and the International Accounting Standards Board (IASB) have agreed a process to deliver high quality translations of IPSASs. French and Spanish are the first languages to be subject to this process. It is anticipated that the translated IPSASs will be available in the first quarter of 2003. The PSC encourages professional bodies and other organisations contemplating translating IPSASs to consider application of the IASB process to their translation. For more information, contact Kurt Ramin, IASB Commercial Director at [kramin@iasb.org.uk](mailto:kramin@iasb.org.uk).

### **Work in Progress**

#### ***ED 9 Financial Reporting under the Cash Basis of Accounting***

The PSC confirmed decisions made at its previous meeting (see PSC Update 5) regarding the simplified requirements and additional flexibility of the IPSAS on the Cash Basis of Accounting. The PSC identified additional technical issues to be resolved prior to finalisation of the IPSAS. The draft IPSAS is to be amended and circulated to PSC members for comment out of session with the intention of ensuring that the IPSAS will be agreed at the PSC’s next meeting in November 2002.

#### ***Impairment of Assets***

The PSC considered papers on potential indicators of impairment, “safe harbors” intended to prevent premature triggering of the impairment test and a number of issues related to impairment measurement. The PSC agreed that a sub-committee of PSC members should meet before the next meeting to consider principles that could underpin a

“value in use” test for non-cash-generating assets. The subcommittee will report to the next PSC meeting.

#### ***Employee Benefits***

The PSC noted that IAS 19 *Employee Benefits* was included in the initial core set of IASs to be dealt with by the PSC’s standards program, that the pension provisions sections of the IAS was to be the subject of major review by the IASB, and that a number of respondents to ED 21 *Provisions, Contingent Liabilities and Contingent Assets* had encouraged the PSC to commence work on the development of an IPSAS dealing with employee benefits. The PSC considered differing approaches to the implementation of this project and agreed that the project be implemented in two parts as follows:

- the first part dealing with employee benefits other than post-employment benefits would become an active project on the work program. A first draft of an exposure draft for this part will be considered by the PSC at its November 2002 meeting; and
- the second part dealing with post-employment benefits will be developed when the IASB has completed its review of the pension provisions of IAS 19. The PSC directed that staff should monitor the work of the IASB from a public sector perspective so that it is positioned to develop a draft exposure draft of an IPSAS when the IASB has completed its review.

#### ***Accounting for Development Assistance***

The PSC noted that the project brief proposing preparation of an IPSAS on the disclosure of information about development assistance in the general purpose financial statements of governments and their agencies had been provided to constituents from the donor community and the multilateral development banks who had requested that the PSC consider such a project. The PSC intends to await a response from these constituents before actioning a project on this topic.

#### **Next PSC meeting: Hong Kong, November 21-23, 2002**

*For further information please contact:*

**Ian Mackintosh, Chairman PSC** ([imackintosh@worldbank.org](mailto:imackintosh@worldbank.org))

**Paul Sutcliffe, Director Public Sector Accounting Standards**

([psutcliffe@ifac.org](mailto:psutcliffe@ifac.org))

**Jerry Gutu, PSC Technical Manager** ([jerrygut@ifac.org](mailto:jerrygut@ifac.org))

## ATTACHMENT 1: NON-EXCHANGE REVENUE STEERING COMMITTEE

The Steering Committee was established by the PSC with the ultimate objective of developing an IPSAS on non-exchange/non-reciprocal revenues for application when the accrual basis of accounting is adopted. Non-exchange/non-reciprocal revenues are those revenues, such as taxes and grants, that do not arise from exchange transactions. Revenues from exchange transactions are addressed in IPSAS 9 *Revenue from Exchange Transactions*. The Steering Committee agreed that as the first stage in the project it produce an Invitation to Comment (ITC) for the PSC to issue.

The Steering Committee met at the offices of the Canadian Institute of Chartered Accountants in Toronto, Canada on June 17 and 18, 2002 and discussed issues relating to the recognition and measurement of revenue arising from non-exchange/non-reciprocal transactions including:

- how to account for and disclose various types of revenue (e.g. taxes, transfers, grants);
- whether the amount of revenue recognized reflects all the amounts legally due to the government during the period or whether, for example, allowance should be made for tax evasion;
- whether appropriations constitute revenue for a government agency in all jurisdictions;
- how to account for and disclose sponsorships, voluntary services, third party settlements, development assistance; and
- whether revenue should be shown net or gross of “tax expenditures” in those jurisdictions where they occur.

The Steering Committee also discussed issues relating to distinguishing between exchange transactions and non-exchange/non-reciprocal transactions, classification of revenue, redefinition of jurisdictional borders, and accounting at the agency/departmental level as well as at the whole-of-government level, in particular for administered versus controlled transactions.

The Steering Committee agreed that at its next meeting in November 2002, it would consider a draft ITC which:

- establishes broad principles, derived from the definitions in the current IPSASs;
- outlines two approaches to the recognition and measurement of revenue: firstly, the risks and

rewards approach adopted in IPSAS 9, and secondly, recognizing revenue when the associated increase in an asset (or decrease in a liability) is recognized; and

- includes commentary on the issues raised by the steering committee members, including those outlined above.

The Steering Committee also considered whether or not the second approach outlined above could or should be applied to revenue from exchange transactions. The Steering Committee agreed that the question could be usefully posed in the draft ITC to seek respondent views.

The next meeting of the Steering Committee will be at the offices of the Governmental Accounting Standards Board on November 4 and 5 in Norwalk, USA.

### Steering Committee Members

**David Rattray:** Chair – Canada, Assistant Auditor-General of Canada, Member of the PSC;

**David Bean:** United States of America, Director of Research and Technical Activities, Governmental Accounting Standards Board;

**Marianne Brown:** South Africa, Consultant to South African Institute of Chartered Accountants, and the Institute for Public Finance and Auditing (South Africa);

**Ian Carruthers:** United Kingdom, Head of Whole-of-Government Accounts Programme, HM Treasury;

**Natalie Dolezalova:** Czech Republic, Specialist, Accounting Department, Ministry of Finance;

**Curt Johansson:** Sweden, Senior Analyst, National Financial Management Authority;

**Caroline Mawhood:** FEE, Assistant Auditor-General, United Kingdom;

**Phillip Prior:** Australia, First Assistant Secretary, Budget Group, Australian Department of Finance and Administration;

**Teng Xianguang:** People’s Republic of China, Staff, Treasury Department, Ministry of Finance;

**Lionel Vareille:** France, Administrateur des postes et télécommunications, Ministère de l’Economie, des Finances et de l’Industrie;

**Ken Warren:** New Zealand, Chief Accounting Advisor, NZ Treasury.

## **ATTACHMENT 2: IPSASs, Exposure Drafts and Other Standards Program Documents**

### **BACKGROUND PAPER and TRANSITIONAL GUIDANCE**

**IFAC PSC Study 11 *Governmental Financial Reporting: Accounting Issues and Practices*** aims to assist governments in the preparation of their financial reports and contains a detailed description of the common bases of accounting used by governments: cash accounting (including modified cash accounting) and accrual accounting (including modified accrual accounting). The Study also provides examples of financial statements prepared under each basis.

**IFAC PSC Study 14 *Transition to the Accrual Basis of Accounting – Guidance for Public Sector Entities*** identifies key issues to be addressed and alternate approaches that can be adopted in implementing the accrual basis of accounting in an efficient and effective manner in the public sector.

### **INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS (IPSASs)**

**IPSAS 1 *Presentation of Financial Statements*** sets out the overall considerations for the presentation of financial statements, guidance for the structure of those statements and minimum requirements for their content under the accrual basis of accounting.

**IPSAS 2 *Cash Flow Statements*** requires the provision of information about the changes in cash and cash equivalents during the period from operating, investing and financing activities.

**IPSAS 3 *Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies*** specifies the accounting treatment for changes in accounting estimates, changes in accounting policies and the correction of fundamental errors, defines extraordinary items and requires the separate disclosure of certain items in the financial statements.

**IPSAS 4 *The Effect of Changes in Foreign Exchange Rates*** deals with accounting for foreign currency transactions and foreign operations. IPSAS 4 sets out the requirements for determining which exchange rate to use for the recognition of certain transactions and balances and how to recognize in the financial statements the financial effect of changes in exchange rates.

**IPSAS 5 *Borrowing Costs*** prescribes the accounting treatment for borrowing costs and requires either the immediate expensing of borrowing costs or, as an allowed alternative treatment, the capitalization of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset.

**IPSAS 6 *Consolidated Financial Statements and Accounting for Controlled Entities*** requires all controlling entities to prepare consolidated financial statements which consolidate all controlled entities on a line by line basis. The Standard also contains a detailed discussion of the concept of control as it applies in the public sector and guidance on determining whether control exists for financial reporting purposes.

**IPSAS 7 *Accounting for Investments in Associates*** requires all investments in associates to be accounted for in the consolidated financial statements using the equity method of accounting, except when the investment is acquired and held exclusively with a view to its disposal in the near future in which case the cost method is required.

**IPSAS 8 *Financial Reporting of Interests in Joint Ventures*** requires proportionate consolidation to be adopted as the benchmark treatment for accounting for such joint venturers entered into by public sector entities. However, IPSAS 8 also permits – as an allowed alternative – joint ventures to be accounted for using the equity method of accounting.

**IPSAS 9 *Revenue from Exchange Transactions*** establishes the conditions for the recognition of revenue arising from exchange transactions, requires such revenue to be measured at the fair value of the consideration received or receivable and includes disclosure requirements.

**IPSAS 10 *Financial Reporting in Hyperinflationary Economies*** describes the characteristics of a hyperinflationary economy and requires financial statements of entities which operate in such economies to be restated.

**IPSAS 11 *Construction Contracts*** defines construction contracts, establishes requirements for the recognition of

revenues and expenses arising from such contracts and identifies certain disclosure requirements.

**IPSAS 12 Inventories** defines inventories, establishes measurement requirements for inventories (including those inventories which are held for distribution at no or nominal charge) under the historical cost system and includes disclosure requirements.

**IPSAS 13 Leases** establishes requirements for the accounting treatment of operating and finance leasing transactions by lessees and lessors.

**IPSAS 14 Events After the Reporting Date** establishes requirements for the treatment of certain events that occur after the reporting date, and distinguishes between adjustable and non-adjustable events.

**IPSAS 15 Financial Instruments: Disclosure and Presentation** establishes requirements for the presentation of on-balance-sheet financial instruments and identifies the information that should be disclosed about both on-balance-sheet (recognized) and off-balance-sheet (unrecognized) financial instruments.

**IPSAS 16 Investment Property** establishes the accounting treatment, and related disclosures, for investment property. It provides for application of either a fair value or historical cost model.

**IPSAS 17 Property, Plant and Equipment** establishes the accounting treatment for property, plant and equipment, including the basis and timing of their initial recognition, and the determination of their ongoing carrying amounts and related depreciation. It does not require or prohibit the recognition of heritage assets.

**IPSAS 18 Segment Reporting** establishes requirements for the disclosure of financial statement information about distinguishable activities of reporting entities.

*Glossary of Defined Terms (IPSAS 1-IPSAS 18)* identifies the terms defined in IPSASs on issue at 30 June 2002.

**IPSAS 19 Provisions, Contingent Liabilities and Contingent Assets** proposes requirements for the recognition of provisions, and the disclosure of contingent liabilities and contingent assets. *Issue in third quarter 2002 is anticipated.*

**IPSAS 20 Related Party Disclosures** proposes requirements for the disclosure of transactions with parties that are related to the reporting entity including: Ministers, senior management, and their close family members. *Subject to final approval of PSC, issue in third quarter 2002 is anticipated.*

**EXPOSURE DRAFTS/INVITATION TO COMMENT – COMMENT PERIOD EXPIRED – UNDER CONSIDERATION BY PSC**

**ED 9 Financial Reporting Under the Cash Basis of Accounting** proposes requirements for the preparation and presentation of the cash flow statement and supporting accounting policy notes under the cash basis of accounting. It includes requirements relating to the identification of the reporting entity and the structure and the minimum content of the cash flow statement. *The comment period closed: November 30, 2000.*

**ITC Impairment of Assets** – In addition to exposure drafts, the PSC has published an Invitation to Comment (ITC) on *Impairment of Assets*. The purpose of the ITC is to seek comments on the appropriate accounting treatment for the impairment of assets. It reflects the tentative position of the PSC that an impairment test should be applied to all assets but that the cash flow test required by IAS 36 *Impairment of Assets* is not appropriate for assets held by public sector entities for the delivery of goods and services rather than the generation of positive cash flows for the entity. *The comment period closed: January 30, 2001.*

*Copies of all these documents are available free of charge at [www.ifac.org](http://www.ifac.org)*