



UPDATE
PUBLIC SECTOR COMMITTEE
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Introduction

The PSC met in Hong Kong in November 2002 following the World Congress of Accountants. The PSC Chair, Members and staff made presentations at the World Congress and at a seminar arranged by the Hong Kong Hospital Authority following the Congress.

The following summarizes the major features of the meeting.

Documents approved for issue in early 2003

- Cash Basis IPSAS *Financial Reporting under the Cash Basis of Accounting*.
- Occasional Paper 6 *Modernization of Government Accounting in France*.

The IPSAS *Financial Reporting under the Cash Basis of Accounting* is based on Exposure Draft 9 (ED 9) issued in 2000 but has been amended to respond to concerns raised by respondents to the ED and to issues raised in the extended consultation the PSC undertook during 2001. The IPSAS includes requirements for a government and government entity to report all cash receipts, payments and balances that it controls and to disclose information about amounts settled on its behalf by third parties. It allows more flexibility in reporting format than was proposed in ED 9 and encourages note disclosure of additional information about, for example, assets, liabilities, transactions administered on behalf of others and whether budgeted amounts have been exceeded. The final amendments agreed at the meeting will be processed during December 2002. It is intended that the IPSAS be posted on the PSC's website in early January 2003 and hard copies be available soon thereafter.

Occasional Paper 6: Modernization of Government Accounting in France.

This Occasional Paper will be published in early 2003. It describes the major reform program for the public sector accounting system being implemented by the French Government. The paper highlights some of the key arguments influencing the decision to move from the current system to an accrual basis for financial reporting in France. It traces the development and implementation of accrual accounting since 1999 in the central government financial statements, and the evolution of the public sector information system and the institutional arrangements to adapt to the new system.

PSC Steering Committees and Consultative Group

The Chairs of the Social Policy Obligations and Non-Exchange Revenue Steering Committees (SCs) reported to

the PSC on progress. Each SC intends to present a draft Invitation to Comment (ITC) for the consideration at the next PSC meeting in April 2003, with a recommendation that both ITCs be issued at the same time in mid 2003. Major points made by the Chairs of each SC were:

Re Social Policy Obligations: The ITC will deal with a wide range of social benefits, including age and similar pensions, individual or household transfers and individual and collective consumption. Consistent with the terms of reference of the Steering Committee, the ITC will not deal with pensions provided as employee benefits (which are dealt with by IAS 19 *Employee Benefits*) or other pensions which arise from an exchange transaction. The ITC will apply definitions, recognition criteria and any relevant guidance on measurement and disclosure in IPSASs to each category of benefit, and will consider the implications of this approach for provisions and expenses that will be recognized under the accrual basis. If Steering Committee members did not have a unanimous view on the consequences of application of the definitions or recognition criteria, the different views will be identified in the ITC.

Re Non-Exchange Revenue: The ITC will propose general principles for recognition and measurement of a wide range of revenue classes, including taxes, grants and transfers. The SC has tentatively decided that revenues should be recognized on a gross basis, that the same recognition criteria should be adopted for both exchange and non-exchange revenue, and that these criteria should be based on the recognition of the corresponding increase in net assets. The ITC will illustrate how the general principles will be applied to major classes of revenue.

Re: Budget Reporting: The PSC considered a paper which canvassed options for the scope of the budget reporting project. The PSC agreed that a research paper identifying best practice in budget formulation, presentation and reporting under differing budget models and government administrative arrangements should be prepared by a Steering Committee during 2003. That paper was also to consider the relationship of the project with the PSC's mandate and make recommendations on the budget reporting matters that should be addressed by an IPSAS. To reflect the change in focus and timing of the project, the PSC will reconstitute its Steering Committee. Individuals interested in serving on the Steering Committee should contact Jerry Gutu at jerrygutu@ifac.org. Those who have previously nominated for membership of the Steering Committee are invited to re-nominate.

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.

Consultative Group

The PSC agreed a proposed membership profile which is representative of the broad geographical regions and interest groups that make up the PSC's constituency. The PSC will now write to those organizations and individuals to confirm their interest in serving on the Consultative Group and outline operating procedures. As previously explained in PSC Updates, it is intended that the Group conduct its business primarily by electronic means and operate as a proactive forum to provide input to the PSC on such matters as its work program priorities and specific exposure drafts or IPSASs that are under development. It is anticipated that the Consultative Group membership will have been confirmed and the Group will be operative by the end of the first quarter of 2003.

Work Program

Impairment of Assets

The PSC continued its consideration of key issues related to the development of an Exposure Draft on impairment of public sector assets. At this meeting, the PSC revisited the responses it received to the Invitation To Comment on *Impairment of Assets* and provided directions to staff for the preparation of a first draft of an exposure draft for consideration at the next PSC meeting. The PSC confirmed the two step approach to identification of an impairment and that all impairment losses should be recognized as was proposed in the ITC. However, the PSC also agreed that the indicators of impairment should include "safe harbor" conditions to ensure that full impairment assessments were only required when appropriate. Other tentative decisions made by the PSC include: an impairment loss should be determined by comparing the carrying amount of the asset with the higher of net selling price and value in use. This reflects the approach adopted in IAS 36. However, because public sector assets were not held for their cash generating ability, their value in use is to be determined by reference to the present value of their remaining service potential, rather than by reference to the present value of the cash flows as required by IAS 36. The PSC also agreed that IAS 36 should apply to the commercial assets of public sector entities.

Accounting for Development Assistance

The PSC intends to develop this project in two stages. The first stage dealing with the disclosures necessary when the cash basis of accounting is adopted will be actioned early in 2003. It will link to the cash basis IPSAS agreed at this meeting. The second component will deal with accounting under the accrual basis and will be developed at a later stage to take account of the work currently being undertaken by the Steering Committee on non-exchange revenues.

Financial Reporting by Government Business Enterprises (GBEs)

The PSC agreed that Guideline 1 *Financial Reporting by Government Business Enterprises*, is unnecessary and should be withdrawn. The Preface to International Public

Sector Accounting Standards (IPSASs) and the Scope section of each IPSAS clarifies that GBEs are to apply International Accounting Standards (IASs and International Financial Reporting Standards) issued by the IASB or its predecessor.

Conceptual Framework

Some members and constituents had advocated that the PSC develop and issue for comment an explicit statement of its conceptual framework. The PSC noted that such a statement would be useful, but agreed that given the current demands on staff time and resources it would not be possible to action such a project at this point in time. However, the PSC also agreed it would review its decision in one year's time and, as a precursor to that review, the PSC will consider a staff paper which draws out the concepts and definitions that are currently included in the extant IPSASs at its next meeting.

Harmonization with Government Finance Statistics and the European System of National Accounts 1995

The PSC agreed the desirability of harmonizing IPSASs, the IMF Government Financial Statistics (GFS) and the European System of National Accounts 1995 (ESA 95). It was noted that the PSC had discussed this with the IMF during 2002. It was agreed that the PSC would establish a technical committee comprising members from IMF, Eurostat and the PSC to identify differences in the existing requirements of each set of standards, consider whether these differences can be reduced and, where not, develop a statement to reconcile the financial statements prepared under the different frameworks. It was also agreed that the PSC would attempt to initiate the establishment of a "strategy committee" of relevant organizations to consider mechanisms for harmonizing any additions or variations to the requirements of the different systems in the future and ensuring that any improvements in harmonisation were maintained and built on over the long term.

Employee Benefits

IAS 19 *Employee Benefits* was included in the initial core set of IASs to be dealt with by the PSC's standards program. The IASB is currently reviewing IAS 19. The PSC had previously agreed to consider the development of an IPSAS based on IAS 19 in two stages: stage one dealing with employee benefits other than post-employment benefits and stage two dealing with post-employment benefits. However, the PSC noted that the review of post-employment benefit provisions of IAS 19 may also affect other requirements of the IPSAS and agreed the project should not be further developed until the IASB has completed its review of IAS 19.

Next PSC meeting: Melbourne, April 9-11, 2003

For further information please contact:

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ATTACHMENT 1: 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 – Accrual Basis)

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 adjusting and non-adjusting 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* establishes requirements for the recognition of provisions, and the disclosure of contingent liabilities and contingent assets.

IPSAS 20 *Related Party Disclosures* establishes requirements for the disclosure of transactions with parties that are related to the reporting entity including: Ministers, senior management, and their close family members.

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS (IPSASs – Cash Basis)

CASH BASIS IPSAS *Financial Reporting Under the Cash Basis of Accounting* is a comprehensive IPSAS on financial reporting under the cash basis. It establishes requirements for the preparation and presentation of a statement of cash receipts and payments and supporting accounting policy notes. It also includes encouraged disclosures which enhance the cash basis report. *(IPSAS approved. To be issued in first quarter of 2003)*

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

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 for 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