



UPDATE
PUBLIC SECTOR COMMITTEE
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Introduction

The PSC met in Melbourne, Australia in April 2003. In conjunction with this meeting, PSC Members and staff participated in a symposium organized by CPA Australia and in a round table discussion with key constituents including members of the Australian Accounting Standards Board (AASB) and the Heads Of Treasury Accounting and Reporting Advisory Committee (HOTARAC).

The following summarizes the major features of the meeting.

PSC Steering Committees

The PSC considered first drafts of Invitations to Comment (ITCs) prepared by Steering Committees (SCs) dealing with accounting for Social Policy Obligations and Non-Exchange Revenue. Each SC intends to present a full draft of an ITC for consideration at the next PSC meeting in July 2003. Members noted that while the ITCs would be issued by the PSC, the preliminary views were those of the SC members and not necessarily of the PSC and this should be made clear to interested parties. The PSC's role in reviewing and issuing the ITCs is to ensure that the relevant issues are raised, and the discussion of those issues is full and fair.

Social Policy Obligations

The Chair of the SC reported that there was a high level of agreement amongst SC members that a liability would only be recognized for amounts due and payable in respect of the provision of individual and collective benefits in the form of services and direct transfers. However, the SC held differing views of when a liability should be recognized for aged pension obligations, with a majority of SC members of the view that a liability would arise at a point prior to the amounts being due and payable.

A number of PSC members noted that:

- they did not necessarily agree with the SC majority view on recognition of pension liabilities and similar benefits and this should be made clear in the draft ITC when issued; and
- the ITC should also consider how taxation and other revenues that would fund these pensions would be reported.

The draft ITC is to be further developed for review at the next PSC meeting.

Non-Exchange Revenue

The Chair of the SC reported that the SC had agreed that, in principle, revenue should be:

- recognized when an entity recognizes an increase in

net assets other than as a result of a "contribution from owners" as defined in the IPSASs; and

- should be measured at the fair value of the increase in net assets.

The ITC would also propose guidance on the recognition and measurement of revenue from:

- taxes;
- transfers (including grants and appropriations);
- sale or purchase of subsidized goods;
- below fair interest rate loans;
- donations and pledges;
- fines;
- voluntary services received; and
- a transfer of resources received with restrictions or conditions attached.

The draft ITC is to be further developed for review at the next PSC meeting.

PSC Consultative Group

The PSC agreed that its Consultative Group should be activated. As noted in previous 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 its work program priorities and on specific projects. However, the PSC welcomes the opportunity to meet with Consultative Group members in conjunction with each PSC meeting in their region. An invitation will be issued to interested members of the Consultative Group to meet with the PSC at its next meeting in Vancouver in July 2003.

Work Program

Budget Reporting

Dr Jesse Hughes, Professor Emeritus of Accounting at the College of Business and Public Administration, Old Dominion University, Norfolk, Virginia USA has been engaged to prepare a paper which:

- outlines best practice in budget formulation, presentation and reporting;
- considers whether budget reporting falls within the PSC's mandate; and
- makes recommendations on what, if any, budget reporting matters should be addressed in an IPSAS.

Dr Hughes will provide a draft report for the PSC to consider at its next meeting in July.

During May 2003, the PSC chair and SC chair will finalize membership of the Steering Committee to provide input on

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.

this project. It is anticipated that the Steering Committee will conduct its business electronically during the initial stages of development of this project.

Accounting for Development Assistance

The PSC confirmed the working Project Brief and noted that Charles Coe, former Controller of the Asian Development Bank, had been engaged to lead the development of an Exposure Draft on this topic. During May 2003, a Project Advisory Panel comprising key representatives of donor and recipient groups will be established to provide input to the Exposure Draft development process.

Impairment of Assets

The PSC considered a first draft Exposure Draft (ED) on *Impairment of Assets*. As agreed at the last PSC meeting, the ED reflected a “two step” approach to the identification of an impairment. At this meeting, the PSC agreed that the amount by which the carrying amount of an asset exceeded the greater of the net selling price of the asset or its value in use would be recognized as an impairment loss. The PSC also agreed that:

- the value in use of a non-cash flow asset should be determined using depreciated replacement cost, restoration cost, or value of remaining service units methodologies; and
- property, plant and equipment carried at fair value in accordance with the allowed alternative basis of measurement in IPSAS 17 *Property, Plant And Equipment* will not be subject to an impairment test.

The PSC will consider an amended draft ED at the next PSC meeting.

Conceptual Framework

The PSC considered a staff paper which set out the definitions and concepts employed by IPSASs and identified differences from the IASB framework. The PSC noted that concepts of assets, revenues, expenses and liabilities and the qualitative characteristics of financial information included in IPSASs broadly reflected those in the IASB Framework, except that the IPSASs explicitly acknowledged that an asset provides future economic benefits or service potential. Staff will continue to monitor developments in IASB.

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

A technical committee chaired by the PSC Chair and comprising representation from the PSC, IMF, EU, UK and Australia will meet in early June 2003 to consider mechanisms to enhance harmonization/convergence of GFS-ESA95-IPSASs.

PSC staff made a submission to the first meeting of a National Accounts Task Force considering the treatment of military expenditures. The PSC staff paper argued that

expenditures on the acquisition of resources (including military equipment) that provided ongoing service potential should be initially recognized as an asset (capitalized) and recognized as an expense as that service potential is consumed. This approach is consistent with the treatment of all other assets.

PSC MEMBERS 2003

AUSTRALIA – Ian Mackintosh (Chair), Manager, Financial Management for South Asia, World Bank

ARGENTINA – Carmen Giachino Palladino, Consultant – InterAmerican Development Bank

CANADA – Richard Neville, Deputy Comptroller General, Canada. *Chair of PSC Steering Committee dealing with Non-Exchange Revenue*

FRANCE – Philippe Adhémar, Conseiller Maître à la Cour de Comptes

GERMANY – Norbert Vogelpoth, Partner, PwC Deutsche

HONG KONG – Man-to Shum, Director, Accounting Services, Hong Kong Special Administrative Region

MEXICO – Javier Pérez Saavedra, Subdirector de control de Calidad, Petroleos Mexicano

THE NETHERLANDS – Peter Bartholomeus, Director, Government Audit Policy Department, Ministry of Finance

NEW ZEALAND – Kevin Simpkins, Deputy Controller and Auditor General of New Zealand. *Chair of PSC Steering Committee dealing with Social Policy Obligations*

NORWAY – Tom Olsen, Partner, PwC, Norway

SOUTH AFRICA – Terence Nombembe, Deputy Auditor-General of South Africa and CEO of the Office of the Auditor-General of South Africa

UNITED KINGDOM – Mike Hathorn, Partner, Scott-Moncrieff, Scotland

UNITED STATES OF AMERICA – Ron Points, Manager, Financial Management for East Asia and the Pacific Region, World Bank. *Chair of PSC Steering Committee dealing with Budget Reporting*

PSC OBSERVERS 2003

The PSC also includes Observers from the following organisations who have full rights of the floor.

Asian Development Bank (ADB), European Union (EU), International Accounting Standards Board (IASB), International Monetary Fund (IMF), International Organisation Of Supreme Audit Institutions - Committee on Accounting Standards (INTOSAI-CAS), Organisation For Economic Co-Operation And Development (OECD), United Nations/United Nations Development Programme (UN-UNDP), World Bank.

Next PSC meeting: Vancouver, 16-18 July 2003

For further information please contact:

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ATTACHMENT : IPSASs, Exposure Drafts and Other Standards Program Documents

BACKGROUND PAPER AND TRANSITIONAL GUIDANCE

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 Effects 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.

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.*** The PSC is currently preparing an Exposure Draft on this topic.

Copies of all these documents are available free of charge at www.ifac.org