



**UPDATE**  
**PUBLIC SECTOR COMMITTEE**  
**August 2003**  
Issue No 9

545 Fifth Avenue, 14th 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>

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## **Introduction**

The PSC met in Vancouver, Canada in July 2003. In conjunction with this meeting, PSC Members and staff participated in a round table discussion with key constituents including members of the PSC Consultative Group, senior accounting professionals from the governments of British Columbia and Vancouver, and academics from universities in British Columbia.

This update summarizes the major features of the meeting.

### **PSC Steering Committees**

The PSC considered drafts of Invitations to Comment (ITCs) prepared by Steering Committees dealing with accounting for Social Policy Obligations and Non-Exchange Revenue. Working drafts of these ITCs can be viewed on the PSC page of the IFAC web (Background Papers, July 2003 meeting).

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

The Chair of the Steering Committee (SC) reported on the work of the SC since the last meeting, noting that:

- the draft ITC had been restructured and revised to respond to comments made by the PSC at its April 2003 meeting; and
- the SC had not met since the last PSC meeting, but SC members had reviewed the draft ITC out of session and were broadly supportive of the changes made, subject to additional redrafting to reduce its length.

The PSC undertook a page by page review of the draft ITC and identified a number of areas that could be further strengthened, particularly in respect of the broad characteristics of disclosures that would be necessary to support fiscal analysis and sustainability assessments.

It was noted that some SC members were of the view that pension obligations were to be recognized on an accruing basis. A number of PSC members noted that while they supported many of conclusions reached by the SC, they continued to have reservations about the recognition of pension liabilities and similar benefits on an accruing, rather than on a "due and payable", basis. It was agreed that the ITC should make it clear that the views of the SC were not necessarily those of the PSC. The draft ITC will be updated and presented to the PSC at its next meeting for approval to issue.

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

The Chair of the Non-Exchange Revenue Steering Committee (SC) reported that although the SC had not met

since the April PSC meeting:

- the draft ITC had been completed and the SC had had an opportunity to review the draft; and
- SC members had indicated that further refinements were required in respect of, for example, sections dealing with stipulations and subsidized sales.

The PSC considered the draft in detail and identified a number of areas which needed modifying to ensure internal consistency. It was agreed that the draft would be updated and presented at the November PSC meeting for approval to issue.

### **PSC Consultative Group**

The PSC Consultative Group has been activated. The current Consultative Group membership can be viewed on the PSC page of the IFAC web (Background Papers, July 2003 meeting). The Group will conduct its activities primarily using e-mail and the internet. However, local area Group members are invited to meet with the PSC in conjunction with each PSC meeting in their region.

Consultative Group members from Canada, China and USA met with the PSC in conjunction with this PSC meeting and discussed a range of issues with the PSC including work program priorities.

### **Work Program**

Draft papers related to these projects were considered by the PSC at this meeting. They can be viewed on the PSC page of the IFAC web (Background Papers, July 2003 meeting).

#### ***Budget Reporting***

The consultant, Dr Jesse Hughes, reported on the current status of the Research Report on best practice in budget formulation, presentation and reporting. PSC members noted that the report appeared to be developing very well.

Ron Points, the Chair of the Steering Committee (SC), reported that the composition of the SC was nearing finalization and it was intended that:

- the draft Research Report would be reviewed by the SC prior to the November 2003 PSC meeting, and
- a revised Research Report, updated for SC comments, be presented to the PSC for approval to issue at the PSC's November 2003 meeting.

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

The consultant, Charles Coe, presented for PSC discussion a Key Decisions Questionnaire (KDQ) which identified issues for consideration in the development of an Exposure Draft

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.

on this topic, and staff views on how those issues should be resolved. Members noted that it was anticipated that a Project Advisory Panel (PAP) which included representatives of donor and recipient groups would be finalized during August 2003, and would be chaired by the PSC Chair.

The PSC confirmed that this first stage of the project would focus on financial reporting under the cash basis and that it was intended to develop an IPSAS on the topic. The PSC approved the KDQ for forwarding to the PAP for comment, subject to amendments agreed at the meeting. The PSC will consider the views of the PAP at the next PSC meeting.

#### **Impairment of Assets**

The PSC considered the amended draft Exposure Draft (ED) on impairment of assets. The Committee approved the publication of the ED, subject to minor amendments that are to be processed by staff and approved by the PSC Chair. The ED is expected to be published in the 3<sup>rd</sup> quarter of 2003.

#### **Studies 11 and 14**

The PSC noted that the IPSAS *Financial Reporting Under the Cash Basis of Accounting* and a number of accrual basis IPSASs had been issued since the publication of PSC Studies 11 and 14 and discussed the status of the Studies. It was agreed that:

- while financial reporting in the public sector had further developed since the publication of Study 11, the Study continued to provide useful guidance and should not be withdrawn. However, users of the Study should be aware that the standards, guidance and practices used in the Study may have changed since its publication. Advice to this effect will be included on the PSC page of the IFAC web; and
- Study 14 will be updated on an annual basis and as a web-based product. An updated hard copy of Study 14 will be published periodically as demand warrants.

#### **Harmonization with International Financial Reporting Standards (IFRSs) issued by the IASB**

The IASB intends to have in place a “stable platform” of IFRSs by March 2004 arising from its “improvements” and “convergence” projects. The PSC considered staff papers which outlined likely differences between existing IPSASs and their equivalent IFRSs as at March 2004, and identified key IFRSs for which equivalent IPSASs had not yet been developed. The PSC directed staff to prepare for consideration at the next PSC meeting, a paper which outlined alternative mechanisms/approaches to updating IPSASs to ensure they remain harmonised with IFRSs where appropriate for the public sector.

#### **Convergence of IPSASs with GFS and ESA 95**

In June 2003 the PSC hosted a meeting of representatives of the IMF, OECD, Eurostat, Australian Accounting Standards Board, UK Treasury and UK Office of National Statistics to consider mechanisms for the convergence of IPSASs,

GFSM2001 and ESA 95. This “Convergence Group” meeting was chaired by the PSC Chair, and supported by PSC staff.

The PSC Chair reported that the meeting was constructive, with a general acknowledgement that increased co-operation and co-ordination of activities was desirable. It was also agreed that the Convergence Group would meet again in October 2003 to:

- consider future action to progress convergence of IPSASs, GFSM2001 and ESA 95;
- finalize a submission to the InterSecretariat Working Group on National Accounts (ISWGA) on issues to be considered in the 2008 revision of the SNA; and
- make recommendations on the establishment and work program of a larger OECD Task Force to address SNA convergence issues, including recommendations for its Chair and membership.

#### **PSC MEMBERS 2003**

**AUSTRALIA** – Ian Mackintosh (Chair), Manager, Financial Management for South Asia, World Bank. **ARGENTINA** – Carmen Giachino Palladino, Consultant – InterAmerican Development Bank. **CANADA** – Rick Neville, Vice-President and Chief Financial Officer, Royal Canadian Mint. **FRANCE** – Philippe Adhémar, Conseiller Maître à la Cour des Comptes. **GERMANY** – Norbert Vogeloth, 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. **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.

#### **PSC OBSERVERS 2003**

The PSC also includes the following Observers: 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) and the World Bank.

#### **Next PSC meeting: Berlin, 5 – 7 November 2003**

For further information please contact:

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

**Paul Sutcliffe, PSC Technical Director** ([psutcliffe@ifac.org](mailto:psutcliffe@ifac.org))

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

## **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 was to seek comments on the appropriate accounting treatment for the impairment of assets. It reflected the then tentative position of the PSC that an impairment test should be applied to all assets but that the recoverable amount 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 for the ITC closed on January 30, 2001. The PSC has prepared an Exposure Draft on this topic for issue in the third quarter of 2003.***

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