



**UPDATE**  
**PUBLIC SECTOR COMMITTEE**  
**November 2003**  
**Issue No 10**

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>

### **Introduction**

The PSC met in Berlin, Germany in November 2003. This update summarizes the major features of the meeting. Background papers for this meeting, including draft Invitations to Comment, Consultative Group papers, and the draft Research Report on Budget Reporting are available on the PSC page of the IFAC web site.

In conjunction with this meeting, PSC Members and staff participated in a symposium organized by the Institut Der Wirtschaftsprüfer (IDW). The PSC also met with members of the Consultative Group.

### **Chair and Membership of the PSC**

This was the last meeting of Ian Mackintosh (Australia), PSC Chair from 2000 to 2003, and Kevin Simpkins (New Zealand) who have completed their terms. New members from Australia and New Zealand have been appointed.

The IFAC Board has appointed Philippe Adhémar (France) as the new PSC Chair and Mike Hathorn (United Kingdom) as the PSC Deputy Chair.

In addition to these appointments, Hong Kong has completed its term, and new members have been appointed from Israel, Japan and Malaysia. This brings membership of the PSC to fifteen.

### **PSC Steering Committees**

The PSC considered drafts of Invitations to Comment (ITCs) prepared by Steering Committees dealing with *Accounting for Social Policies of Governments and Revenue from Non-Exchange Transactions (Including Taxes and Transfers)*. The PSC cleared these ITCs for publication, subject to updating for final substantive and editorial amendments. The PSC agreed that the two ITCs would be published simultaneously, and would use the same format as PSC Studies to clearly distinguish them from exposure drafts and standards. It is intended that they be finalized during December 2003, and issued for comment in late January 2004. The comment period will close on 30 June 2004. The PSC will then review comments received and begin the process of developing Exposure Drafts dealing with the issues.

### **PSC Consultative Group**

The PSC Consultative Group has been formed and activated, although additional members from the Middle East and Latin America are still being sought. The current Consultative Group membership can be viewed on the PSC page of the IFAC web (Background Papers, November 2003 meeting). The Group will conduct its activities primarily by electronic means. 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 the Fédération des Experts Comptable Européen (FEE), the European Union, Spain, Italy, Finland, Poland, Switzerland, the UK and Canada met with the PSC in conjunction with this PSC meeting.

### **Work Program**

Draft papers related to the following projects were considered by the PSC at this meeting.

#### **Budget Reporting**

The PSC has initiated a project to provide input on:

- whether the published budgets of public sector entities are presented as general purpose financial statements and fall within the scope of the PSC's mandate; and if so
- whether an IPSAS should be issued on budget reporting.

The first stage of this project involves the preparation of a Research Report detailing best practice in budget formulation, presentation and reporting.

The consultant on this project presented a draft Research Report to the PSC for discussion at the meeting. Ron Points, the Chair of the Steering Committee (SC), appointed to provide input to this project, reported that the SC had reviewed the draft Research Report and provided valuable input to this draft.

The PSC undertook a page-by-page review of the Research Report and identified a number of changes to the document. The PSC will consider an updated draft of the Report at its meeting in March 2004.

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

A Project Advisory Panel (PAP) has been formed to assist the PSC in the development of an Exposure Draft. The PAP has recently been established. It includes members of the OECD-DAC Working Party on Aid Effectiveness and Harmonization and members of the Multi-Lateral Development Banks (MDB) Financial Management Harmonization Working Group. The PAP is chaired by Ian Mackintosh. The Key Decisions Questionnaire (KDQ) approved at the last PSC meeting will be dispatched to the PAP by the end of November/early December 2003 with responses due by 31 January 2004. The PAP is being provided with background materials by the PSC consultant on this project. It is not intended that the PAP will meet formally. Rather, the PAP will provide its responses to the KDQ by electronic means.

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.

### Study 14

The PSC considered and approved an update of Study 14 *Transition to the Accrual Basis of Accounting*. The updated Study will be published in electronic form on the IFAC web site in late January 2004. The Study has been updated for IPSASs and certain other relevant documents published since April 2002 (when Study 14 was first issued), including:

- IPSAS 18 *Segment Reporting*;
- IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*;
- IPSAS 20 *Related Party Disclosures*; and
- ED 23 *Impairment of Assets*.

It is anticipated that the Study will be revised periodically to ensure that it remains up to date.

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

As part of its general improvements project the International Accounting Standards Board (IASB) is anticipating issuing a number of improved IASs by the end of 2003. The PSC decided that it would consider at its March 2004 meeting whether it should amend IPSASs to harmonize with the improved IASs, and the process to be adopted if such amendments are to be made.

The IASB has also issued IFRS 1 *First-Time Adoption of IFRSs*. The PSC decided that the content of this IFRS is largely included within the transitional provisions of existing IPSASs. Consequently it is not necessary for there to be an IPSAS on first-time adoption. However, IFRS 1 contains more generous transitional provisions in respect of cumulative translation differences (IAS 21 *The Effects of Changes in Foreign Exchange Differences*) and changes in estimates made under previous GAAP after the reporting date (IAS 10 *Events After the Balance Sheet Date*) than the respective IPSASs (4 and 14). The PSC decided that these additional transitional provisions should, in principle, also be made available to entities in the public sector and directed staff to include these changes in draft amended IPSASs to be considered at its meeting in March 2004.

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

In October 2003, the Steering Group of the OECD Taskforce on Harmonization of Public Sector Accounting held its first meeting in Paris, France. The Steering Group comprises representatives of the PSC, IMF, OECD, Eurostat, European Central Bank, Australian Accounting Standards Board, UK Treasury and UK Office of National Statistics. The meeting was chaired jointly by the PSC Chair and the IMF. The purpose of the Taskforce is to promote convergence of the requirements of IPSASs, GFSM 2001 and ESA 95 where appropriate, and make recommendations for the revision of SNA (scheduled for 2008).

The IMF will chair the Taskforce. The Taskforce will have two Working Groups. Working Group I will be chaired by the PSC (Ian Mackintosh) and will focus on convergence of IPSASs, GFSM 2001 and ESA 95, and will provide input to

the SNA review from this perspective. Working Group II will be chaired by the OECD and will focus on a number of specific issues to be addressed in the revision of SNA. The OECD will provide the secretariat for the Task Force and Working Groups.

### **COMMENTS REQUESTED**

The PSC currently has one document released for comment and two about to be released. Comments should be submitted by the due date. The documents are:

- ED 23 *Impairment of Assets* (Issued September 2003, comments due 31 January 2004);
- ITC *Accounting for Social Policies of Governments* (To be issued in January 2004, comments due 30 June 2004); and
- ITC *Revenue from Non-Exchange Transactions (Including Taxes and Transfer)* (To be issued in January 2004, comments due 30 June 2004).

### **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 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. **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: Buenos Aires, Argentina, 24– 26 March 2004.**

For further information please contact:

**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 Governments and Government 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. (Study 14 is being updated for issue in early 2004.)

### **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**

**ED 23 *Impairment of Assets*** proposes the procedures that an entity should apply to determine whether an asset is impaired and to ensure that impairment losses are recognized. The ED also contains proposals on when an entity should reverse an impairment loss and what disclosures should be made in respect of impaired assets. ***The comment period closes 31 January 2004.***

#### **INVITATIONS TO COMMENT (Approved for Issue – Anticipated to be published in January 2004)**

**ITC *Accounting for Social Policies of Governments*** deals with accounting for social policies of governments. The ITC proposes a conceptual model for the recognition and measurement of social policy obligations derived from concepts implicit in existing IPSASs, particularly IPSAS 19. This conceptual model is then applied to a variety of social policy obligations, including the provision of health care, education, social welfare benefits and aged pensions. The ITC also proposes disclosure requirements for social policy obligations. ***The comment period closes 30 June 2004.***

**ITC *Revenue from Non-Exchange Transactions (Including Taxes and Transfers)*** deals with the recognition and measurement of revenue from non-exchange transactions including taxes of various kinds, and transfers including grants, appropriations, gifts, bequests and fines. The ITC proposes an “assets and liabilities” model for the recognition of revenue from non-exchange transactions based on the definition of revenue already provided in IPSASs. The ITC demonstrates the application of this model to different classes of revenue. ***The comment period closes 30 June 2004.***

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