



IPSASB Update 2

August 2005

Introduction

The International Public Sector Accounting Standards Board (IPSASB) met in New York, USA on July 25-28, 2005.

This update summarizes the major features of the meeting. Agenda papers for IPSASB meetings are made available on the IPSASB page of the IFAC web site before the meeting.

Work Program

Revenue from Non-Exchange Transactions (Comprising Taxes and Transfers)

The IPSASB reviewed a proposed exposure draft (ED) and provided directions for its further development, particularly in respect of the:

- Structure of the ED;
- Characteristics that conditions must possess to give rise to a present obligation, and the relationship between conditions and liabilities; and
- Basis for measurement of goods and services received in a non-exchange transaction and its implications for other IPSASs.

A process for further development and finalization of the ED was agreed. An updated draft will be considered by the IPSASB at its next meeting in November 2005, with a view to its approval for issue.

Accounting for Social Policies of Governments

The IPSASB considered a first draft ED addressing social benefits of governments other than age pensions and age related social benefits. The focus of the IPSASB's discussion was on the circumstances that would give rise to a present obligation. The IPSASB confirmed the scope of the project and further developed its approach to a number of key issues, including:

- Definition of social benefits;
- Identification of the obligating event and the present obligation;
- The nature and key characteristics of eligibility criteria.

The draft ED will be revised for consideration at the next meeting of the IPSASB. At that time, the relationship between the ED and the pension components of the IPSASB's broader social policy obligations project will also be revisited.

The IPSASB also continued its exploration of the government pensions components of this project. The IPSASB noted potential developments relating to the

System of National Accounts (SNA) and will further consider these in materials being prepared for consideration at its next meeting.

The IPSASB also confirmed its intention to consider the applicability of IAS 19, "Employee Benefits" to the public sector as resources permit.

Budget Reporting

The IPSASB approved the issue of an ED dealing with the reporting of budget and actual financial information in general purpose financial statements, subject to amendments to reflect decisions made at the meeting and final review by the IPSASB members out of session.

Major features of the ED include proposed requirements to disclose the original and final approved budgets and actual financial information on a comparable basis to the budget. The ED also proposes that a reconciliation to the general purpose financial statements be disclosed. The ED will be amended and circulated to IPSASB members for review in the third quarter of 2005. Issue early in the fourth quarter of 2005 is anticipated.

Accounting for Heritage Assets

The IPSASB in conjunction with the UK Accounting Standards Board (ASB) is developing a Discussion Paper on accounting for heritage assets. The ASB has identified issues of particular concern to UK constituents and is currently developing a paper which deals with those issues. A subcommittee of IPSASB members is working with the ASB to provide additional input from an international perspective for inclusion in the joint Discussion Paper.

At this meeting, the IPSASB received an update on the development of the Discussion Paper, considered papers identifying the principles and issues of particular relevance in the UK, and additional international issues that the IPSASB subcommittee had identified as necessary for inclusion in a ASB-IPSASB paper. The IPSASB welcomed the progress being made on this project and agreed to include a full draft of the Discussion Paper on its agenda for review at its next meeting.

Convergence with International Financial Reporting Standards (IFRSs) issued by the IASB

The IPSASB has a long-term objective of converging IPSASs with IASs/IFRSs issued by the IASB, where the requirements of the IASs/IFRSs are relevant for the public sector. In pursuit of that objective, the IPSASB has been developing an omnibus ED to update eleven existing IPSASs to reflect amendments to the IFRSs issued by the IASB in

December 2003 as a result of its (the IASB's) General Improvements Project.

The IPSASB has been reviewing proposed improvements to its IPSASs at meetings in 2004 and early 2005. At this meeting, the IPSASB reviewed, and approved the issue of, an omnibus ED comprising the eleven improved IPSASs, subject to final amendments to reflect decisions made at the meeting. It is anticipated that the ED will be finalized and issued late in the third quarter of 2005.

At this meeting the IPSASB also confirmed its commitment to fully progress all aspects of the IASs/IFRSs convergence program as resources allow, and approved a statement to reflect that commitment and to update constituents on the current status of that program. That statement will be released together with the omnibus improvements ED.

The IASB has specified that the black and grey letter text of the IFRSs, including those on which a number of IPSASs are based, will have equal authority. This policy is adopted for all IASs previously issued, as well as for newly issued IFRSs.

The IPSASB has reviewed and considered the authority of the text of all IPSASs currently on issue, and has agreed that it should also adopt this approach, subject to comments from constituents. An ED proposing amendments to the Preface to IPSASs to reflect that all paragraphs in IPSASs have equal authority will also be issued with the omnibus improvements ED.

Convergence of IPSASs with Statistical Bases of Financial Reporting

The IPSASB's work program includes consideration of projects directed at converging IPSASs and statistical bases of financial reporting, where such convergence is appropriate.

As part of this program, the IPSASB has been developing an ED dealing with the disclosure of information about the general government sector (GGs) in whole-of-government general purpose financial statements. At this meeting, the IPSASB considered and approved the issue of the ED, subject to amendments to reflect decisions made at the meeting and final review by IPSASB members out of session.

The ED does not require disclosure of GGS information in general purpose financial statements, but prescribes reporting requirements that must be adopted by governments which elect to make such disclosures. It is anticipated that the ED will be issued together with the budget reporting ED (see above) in the final quarter of 2005.

Disclosure of External Assistance

The IPSASB commenced its consideration of responses to ED 24 "Financial Reporting Under the Cash Basis of

Accounting – Disclosure Requirements for Recipients of External Assistance". The ED was issued in early February 2005 for comment by 15 June 2005. Members noted that responses were still being received but it appeared that field testing promoted by individual IPSASB members and the OECD-DAC Joint Venture on Financial Management had not been as successful as had been anticipated. Members noted that while a number of the responses received had commented favorably on the proposed disclosures, a number had also expressed concern that they may be too onerous, particularly where information is not available from donors.

The IPSASB expressed the view that without further input, including the results of field testing the ED it was not in a position to finalize an IPSAS. It was agreed that the IPSASB would seek the participation of both donors and recipients in field testing the ED and that progress would not be made until such tests had been undertaken. It was also agreed that the IPSASB would reach out to donor organizations in IPSASB member countries, its consultative group and the IFAC Developing Nations Task Force for assistance in promoting field tests.

Responses to ED 24 can be downloaded from the IFAC website.

Consultative Group

During this meeting, the IPSASB met with Consultative Group members from China, Switzerland, South Africa, Ghana and United States of America. Members of the government standard setting community in the USA and international bodies also joined in the discussion of specific issues identified by the IPSASB and constituents in respect of accounting for pensions and other social policies of government; revenue from non-exchange transactions (including taxes and transfers); budget reporting and external assistance. Consultative Group members provided valuable input on these issues.

Next IPSASB Meeting: Cape Town, South Africa, November 29-December 2, 2005. **For further information please contact:**
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IPSASB MEMBERS 2005

FRANCE – Philippe Adhémar (Chair), Conseiller Maître à la Cour des Comptes. **UNITED KINGDOM** – Mike Hathorn (Deputy Chair), Partner, Moore Stephens, United Kingdom. **ARGENTINA** – Carmen Palladino, Consultant InterAmerican Development Bank. **AUSTRALIA** – Wayne Cameron, Auditor-General, State of Victoria. **CANADA** – Richard J. Neville, Vice-President and Chief Financial Officer, Royal Canadian Mint. **GERMANY** – Norbert Vogelpoth, Partner, PwC Deutsche. **INDIA** – Pankaj Jain – Partner, Khandelwal Jain & Co. **ISRAEL** – Ron Alroy, Chief Accountant, Accountant General, Ministry of Finance. **JAPAN** – Ryoko Shimizu, Partner, PwC Japan. **MALAYSIA** – Mohd. Salleh Mahmud, Deputy Accountant-General, Malaysia. **MEXICO** – Alejandro Luna Rodríguez, Controloria de la Funcion Publica. **NEW ZEALAND** – Greg Schollum, Assistant Auditor-General (Accounting and Auditing Policy) of New Zealand. **NORWAY** – Tom Olsen, Partner, PwC Norway. **SOUTH AFRICA** – Erna Swart, Chief Executive Officer, Accounting Standards Board of South Africa. **UNITED STATES OF AMERICA** – Ron Points, Consultant, World Bank.

IPSASB OBSERVERS 2005

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 Cooperation And Development (OECD), United Nations/United Nations Development Programme (UN/UNDP) and the World Bank.

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.

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.

IPSAS 21 Impairment of Non-Cash-Generating Assets establishes requirements for determining whether an asset is impaired, for the recognition and reversal of impairment losses, and for the disclosures to be made in respect of impaired assets.

Glossary of Defined Terms (IPSAS 1-IPSAS 21) identifies the terms defined in IPSASs on issue at 31 December 2004.

CASH BASIS IPSAS AND TRANSITIONAL GUIDANCE

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.

Study 14 Transition to the Accrual Basis of Accounting: Guidance for Governments and Government Entities 2nd Edition (December 2003): 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.

EXPOSURE DRAFTS

Exposure Draft (ED) 24 Financial Reporting Under the Cash Basis of Accounting – Disclosure Requirements for Recipients of External Assistance proposes the disclosure of information about external assistance, including development assistance under the cash basis of accounting. *The comment period closed 15 June 2005*

INVITATIONS TO COMMENT and RESEARCH REPORTS

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 closed 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 closed 30 June 2004.*

Budget Reporting (May 2004): The primary objective of this Research Report is to determine if an IPSAS should be issued on budget reporting.

International Public Sector Accounting Standards (IPSASs) and Statistical Bases of Financial Reporting: An Analysis of Differences and Recommendations for Convergence (January 2005): This Research Report details the differences between financial reporting in accordance with IPSASs and statistical reporting in accordance with the International Monetary Fund's "Government Finance Statistics Manual 2001," Eurostat's "European System of Accounts 1993" and "ESA95 Manual on Government Deficit and Debt," and the UN's "System of National Accounts 1993."



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