



## IPSASB Update 3

December 2005

### Introduction

The International Public Sector Accounting Standards Board (IPSASB) met in Cape Town, South Africa from November 29 – December 1, 2005.

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

### Work Program

#### *Revenue from Non-Exchange Transactions (Including Taxes and Transfers)*

The IPSASB dedicated a large part of its Cape Town meeting to reviewing the draft Exposure Draft (ED) on revenues from non exchange transactions and approved for issue, subject to confirmation of final editorial and other amendments, an ED on this topic. The ED will be issued in late 2005 or early 2006, with a five month exposure period.

#### *Accounting for Social Policies of Governments*

The IPSASB considered a draft ED addressing the social benefits of governments other than pensions and similar social benefits and extracts of a draft ED addressing basic/welfare pensions. The IPSASB examined the effects of implementation of interim decisions made at its July 2005 meeting on:

- Definitions of social benefits;
- Crystallization of present obligations; and
- The nature and key characteristics of eligibility criteria.

The IPSASB agreed to further refine these decisions and explore an approach which focused on recognition of present obligations on a due and payable basis, supported by an additional supplementary statement to provide information on the longer term financial consequences of obligations related to current beneficiaries of such benefits.

Materials on these matters and on contributory social security pensions will be further developed for consideration at the next meeting of the IPSASB.

The IPSASB will also continue to monitor proposals for the development of revised treatments for contributory social security schemes and post-employment benefits in the System of National Accounts (SNA) and consider their implications for financial reporting.

The IPSASB also considered a range of key issues related to the development of an IPSAS based on IAS 19, "Employee Benefits" for application in the public sector

where appropriate and agreed to initiate a project to develop an ED based on IAS 19 as resources allow.

#### *Accounting for Heritage Assets*

The IPSASB approved a research paper on accounting for heritage assets. The paper has a focus on museum and art collections, but raises issues and approaches with much broader implications. This paper comprises at its core a UK discussion paper recently approved by the UK Accounting Standards Board (ASB). An IPSASB sub-committee provided input to the development of the UK paper, including the provision of comparative data on international practice.

The IPSASB's objective in issuing this paper is to highlight, for a global audience, innovative approaches to a number of issues that will be encountered internationally in dealing with these assets and to obtain the views of constituents as input to IPSASB when it develops its own project on heritage assets. It is anticipated that the paper will be published in early 2006.

Readers should be aware that the paper does not necessarily reflect the views of the IPSASB itself.

#### *Impairment of Cash Generating Assets*

A sub-committee of the IPSASB is developing an ED on accounting for impairment of cash generating assets to complement IPSAS 21, "Impairment of Non-Cash Generating Assets". The IPSASB provided directions to the sub-committee on a number of key issues related to the development of the ED. The IPSASB agreed that materials for consideration at the next meeting will be developed on the basis that IPSAS 21 will be extended to deal with cash generating assets, and this decision will be reviewed going forward if necessary. A draft ED will be further developed by the sub-committee for consideration at the next meeting.

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

At this meeting, the IPSASB received a report from the chair of the sub-committee monitoring progress of the International Financial Reporting Interpretations Committee (IFRIC) project on accounting for service concessions (public – private partnerships). Members noted that it appeared that accounting by grantors was not to be dealt with in the draft Interpretations being developed and agreed to communicate with national standard setters to explore the potential for coordinating national and international guidance on accounting by public sector entities involved in such service concession arrangements.

The IPSASB also received a report from the chair of the sub-committee monitoring the work of the national standard

setters reviewing the development of the International Accounting Standards Board's (IASB) "Framework for the Preparation and Presentation of Financial Statements". The work of the national setters will provide valuable input for the IPSASB when it progresses its own project on the development of a conceptual framework for the public sector and provides the potential for development work to be coordinated on a national and international level.

*ED 24 "Financial Reporting Under the Cash Basis of Accounting - Disclosure of External Assistance"*

The IPSASB issued ED 24 in February 2005, for comment by June 15, 2005. Responses to the ED provided mixed messages about the practicality and onerous nature of some of the proposed requirements. At its July 2005 meeting the IPSASB agreed that it would benefit from further input, including field testing by donors and recipients, if possible, before developing a final IPSAS.

At this meeting the IPSASB reaffirmed the importance of developing an IPSAS dealing with reporting external assistance in general purpose financial reports under the cash basis of accounting. Members noted that some additional input had already been received and initiatives for field testing ED 24 were being pursued. The IPSASB agreed that it would allow time for the results of this testing to be reported before further developing the IPSAS.

In conjunction with this meeting, the IPSASB and its Consultative Group undertook an extensive discussion of this project and how it might develop in the future. That discussion provided valuable input to the IPSASB's deliberations.

The IPSASB considered approaches that may be adopted in the preparation of the final IPSAS including an approach that mirrors that in the Cash Basis IPSAS – a mandatory requirements section with additional disclosures encouraged which could then be activated as appropriate in different jurisdictions in consultation between recipients and donors of external assistance.

The process for further developing the IPSAS will be reactivated at the next meeting based on input received from respondents to the ED and the results of the field testing.

*Special Report: The Road to Accrual Accounting in the United States of America*

The IPSASB reviewed, and approved for publication a paper which outlined the development of public sector accrual financial reporting in the USA. The IPSASB considers that the paper provides valuable insights into the

challenges and the responses in the development of accrual accounting.

*United Nations Systems Task Force on Accounting Standards Recommends Adoption of IPSASs by United Nations System Organizations*

The United Nations Systems Task Force on Accounting Standards has recommended the adoption of IPSASs by United Nations System Organizations. The recommendation comes after a full review of a range of options including adoption of IFRSs and/or national standards for not for profit entities and was made because of "the high quality of IPSAS Standards and their applicability to international not-for-profit organizations." The recommendation has been endorsed by the UN Budget and Finance Network and the Chief Executive Board's High Level Committee on Management.

IPSAS adoption for all UN organizations will now be referred to the UN General Assembly for approval in June 2006. If approved, the UN will join other international organizations such as the OECD, NATO, the European Commission and IFAC in adopting IPSASs for their financial reports.

*IPSASB Membership 2006*

In 2006, a number of changes in the composition of the IPSASB will occur. The IPSASB will be augmented by the addition of three public members. In addition, Germany has completed its term as a member and the Netherlands has been appointed as a member.

**Consultative Group**

During this meeting, the IPSASB met with Consultative Group members from South Africa, Ghana, Switzerland and Canada. Members of the South African government, standard setting and broader financial community also joined in the discussion. The discussion focused on specific issues identified by the IPSASB and constituents in respect of accounting for social policies of government; revenue from non-exchange transactions (including taxes and transfers); external assistance and other aspects of the work program. Consultative Group members provided valuable input on these issues.

**Next IPSASB Meeting:** Tokyo, Japan, March 21 – 24, 2006.  
For further information please contact:  
Paul Sutcliffe, IPSASB Technical Director  
[psutcliffe@ifac.org](mailto:psutcliffe@ifac.org) or  
Matthew Bohun, IPSASB Technical Manager  
[matthewbohun@ifac.org](mailto:matthewbohun@ifac.org)

## **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**

**2<sup>nd</sup> 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."



#### **International Federation of Accountants**

545 Fifth Avenue, 14th Floor, New York, NY 10017 USA

Tel +1 (212) 286-9344 Fax +1 (212) 286-9570 [www.ifac.org](http://www.ifac.org)

530 Little Collins Street, Suite 1302, Melbourne Victoria Australia

Tel +61 (3) 9909-7677 Fax +61 (3) 9909-7669