



## Public Sector Committee Update 12

July 2004

### Introduction

The Public Sector Committee (PSC) met in New York, USA on July 5-7, 2004. This update summarizes the major features of the meeting. Agenda papers for PSC meetings are made available on the PSC page of the IFAC web site before the meeting. In conjunction with this meeting, the PSC met with members of its Consultative Group and held a round table meeting with representatives from the United Nations on International Public Sector Accounting Standards (IPSASs) and reform of financial reporting in the United Nations. The Chair of the US Governmental Accounting Standards Board (GASB) also joined the PSC for discussion of certain items.

### IPSAS Approved: Impairment of Non-Cash-Generating Assets

The PSC reviewed a draft IPSAS that was prepared after consideration of the responses to ED 23 *Impairment of Assets*. The PSC approved the draft as IPSAS 21 *Impairment of Non-Cash-Generating Asset*, subject to final review of editorial revisions by a sub-committee of the PSC and approval by the Chair, and confirmation of the application date of this IPSAS. Because of the linkages between this IPSAS and the IPSASs being revised as part of the PSC's improvements project (see below), the PSC intends to co-ordinate the application date of this IPSAS and the improved IPSASs.

The PSC noted that respondents to ED 23 had agreed that the impairment of cash-generating assets should be dealt with in accordance with IAS 36 *Impairment of Assets*. Accordingly, the PSC agreed to develop an IPSAS *Impairment of Cash-Generating Assets* reflecting the requirements of IAS 36 without change, but with the inclusion of public sector examples. The PSC appointed a sub-committee to develop a draft document for consideration at the next PSC meeting in November 2004.

### PSC External Review

The PSC received and discussed the *Report of the Externally Chaired Review Panel on the Governance, Role and Organisation of the IFAC-PSC*. The Panel was chaired by Sir Andrew Likierman, former Head of the UK Accountancy Service of HM Treasury.

Members discussed each recommendation in detail, noting that: they supported the majority of recommendations and were of the view that the report was comprehensive and balanced; and that the survey results generated as part of the review process were very supportive of the PSC's standards setting activities. Members also discussed the PSC's work program and agreed that the PSC should address the public sector specific issues on its work

program as its first priority, that convergence with IFRSs/IASs would be its second priority and convergence with statistical reporting models its third priority.

The Chair attended the IFAC Board meeting following the PSC meeting and presented the PSC views on each recommendation. It is anticipated that the IFAC Board will consider an action plan for implementing the Panel's Recommendations at its next meeting in November 2004.

### PSC Consultative Group

PSC met with Consultative Group members from Canada, the Association of Accounting Bodies of West Africa (AABWA), the North Atlantic Treaty Organization (NATO) and USA, including the Executive Director of the Financial Accounting Standards Advisory Board (FASAB) in the USA.

The Consultative Group noted the PSC's proposed work program, noting that guidance on key public sector issues should be a priority but that there was also a need to keep existing IPSASs up to date and that it was important for the PSC, and IFAC generally, to support initiatives for the education of public sector accountants in developing countries. The Consultative Group then discussed:

- the PSC's strategy for convergence of IPSASs with IASs/IFRSs where appropriate, noting that the convergence strategy agreed at this meeting appeared appropriate (see below for a discussion of that strategy); and
- the Research Report *Budget Reporting*, noting support for the development of an IPSAS on the comparisons of actual to budget as a priority. The Consultative Group also noted that developing an IPSAS on ex-ante reporting of budget information was a longer term project which could benefit from further research including consideration of the role of a management discussion and analysis in communicating budget information.

Written submissions from Consultative Group members on these topics were also considered.

### Work Program

#### *Budget Reporting*

The Research Report *Budget Reporting* was published in May 2004. The Report which can be downloaded free of charge from the PSC page of the IFAC web site represents the views of Dr Jesse Hughes, the consultant who had prepared the Report, and not necessarily the PSC. The PSC

discussed the process for the ongoing development of this project and agreed that it should be developed in two components as follows:

- The development of an IPSAS on the comparison of budget and actual (“ex-post” budget reporting) should be actioned as a priority project. A first draft of an Exposure Draft (ED) is to be prepared for consideration by the PSC at its next meeting; and
- The development of an ED on the “ex-ante” reporting of budget information at the time the budget is approved is a longer term project and should be progressed after the PSC has considered a detailed project brief which outlines specific matters to be addressed. It is anticipated that project brief will be prepared for consideration at the PSC’s first meeting in 2005.

#### *Accounting for Development Assistance Under the Cash Basis of Accounting*

Mr. Ian Mackintosh, Chair of the Project Advisory Panel (PAP) and Mr. Charles Coe, consultant, were present at the meeting and advised the PSC that the draft ED had been circulated to PAP members, that responses received to date were included in the PSC’s Agenda and identified key issues raised in those and an additional response.

Members reviewed the draft ED focusing on issues raised by the PAP, particularly in respect of: key definitions; whether the scope of the project should be extended to deal with external assistance, what separate disclosures should be required; and practical issues related to the availability of information to satisfy the disclosure requirements.

Members noted that Mr. Coe would make a presentation on the draft ED to a meeting of the OECD Joint Venture on Public Financial Management, which comprises all OECD countries, developing countries, and the Multi-lateral Development Banks (MDBs). Mr. Coe advised that the ED would be further developed following input from that meeting and ongoing consultation with the PAP, and an updated draft ED would be presented to the PSC for approval to issue at the PSC’s next meeting.

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

The PSC considered a staff paper on a proposed strategy for the PSC’s IAS/IFRS convergence program. Major features of the proposed strategy included establishment of a stable platform of IPSASs for the medium term, adopting without change key IASs/IFRSs for which there were no public sector reasons to depart, developing new IPSASs where the requirements of an IAS/IFRS needed amendment for application to the public sector, and issuing English, French and Spanish versions of the second generation IPSASs at the same time. To ensure the PSC’s due process was complied with, and that linkages with the PSC’s public sector specific projects were recognized, the paper proposed that the full suite of “second generation” IPSASs

would not be on issue until January 2008, for application on January 2009.

The PSC undertook a substantive discussion of its strategy for IAS/IFRS convergence and the relative priority of this component of its work program. The PSC confirmed that dealing with the public sector specific issues on its work program should be its first priority and expressed concern that the resources involved in the proposed IAS/IFRS convergence program would limit its ability to deal with those priority projects.

Considering the uncertainty of its resources, the PSC did not adopt the proposed strategy but agreed to continue with its existing IAS/IFRS convergence program directed at improving eleven existing IPSASs. The PSC also agreed it would consider “refreshing” the remaining nine existing IPSASs and dealing with other IASs/IFRSs as resources allowed.

As part of its IPSAS improvements project, the PSC reviewed and approved an ED to amend IPSAS 1 *Presentation of Financial Statements*. This ED will be included as a component of the “omnibus” IPSAS Improvements ED to be issued in 2005.

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

The PSC considered a project brief for the development of an IPSAS encouraging disclosure of information about the General Government Sector in whole-of-government general purpose financial statements. The PSC discussed key features of the project brief and directed staff to further develop the project brief following input from the Project Advisory Panel. An updated project brief is to be presented to the PSC’s next meeting.

The PSC noted that staff were developing a project brief for the development of an IPSAS on a comprehensive report of financial performance that distinguished between transactions and other economic flows. The PSC confirmed that the project brief should be developed after consultation with the IASB on their project on reporting financial performance/comprehensive income.

**Next PSC Meeting: New Delhi, India, November 1-4 2004.** For further information please contact:  
Paul Sutcliffe, PSC Technical Director [psutcliffe@ifac.org](mailto:psutcliffe@ifac.org)  
OR Matthew Bohun, PSC Technical Manager  
[matthewbohun@ifac.org](mailto:matthewbohun@ifac.org)

## **PSC MEMBERS 2004**

**FRANCE** – Philippe Adhémar (Chair), Conseiller Maître à la Cour des Comptes. **UNITED KINGDOM** – Mike Hathorn (Vice Chair), Partner, Moore Stephens, United Kingdom. **ARGENTINA** – Carmen Palladino, Consultant InterAmerican Development Bank. **AUSTRALIA** – Wayne Cameron, Auditor-General, State of Victoria. **CANADA** – Rick Neville, Vice-President and Chief Financial Officer, Royal Canadian Mint. **GERMANY** – Norbert Vogelpoth, Partner, PwC Deutsche. **ISRAEL**– Zvi Chalamish, Deputy Accountant General, Ministry of Finance. **JAPAN** – Ryoko Shimizu, Partner, PwC Japan. **MALAYSIA** – Mohd. Salleh Mahmud, Deputy Accountant-General, Malaysia. **MEXICO** – Javier Pérez Saavedra, Subdirector de control de Calidad, Petroleos Mexicano. **NETHERLANDS** – Peter Bartholomeus, Director, Government Audit Policy Department, Ministry of Finance. **NEW ZEALAND** – Greg Schollum, Chief Financial Officer, Greater Wellington Regional Council. **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 STATES OF AMERICA** – Ron Points, Manager, Financial Management for East Asia and Pacific Region, World Bank.

## **PSC OBSERVERS 2004**

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.

### *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. *(The application date is still to be finalized)*

**Glossary of Defined Terms (IPSAS 1-IPSAS 20)** identifies the terms defined in IPSASs on issue at 31 December 2003.

#### *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.

**IFAC PSC 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.

#### *INVITATIONS TO COMMENT (Issued 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 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.***

*RESEARCH REPORT (Issued May 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 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